

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

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013.

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

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

|                                |                                    |
|--------------------------------|------------------------------------|
| Class                          | Outstanding as of November 1, 2013 |
| Common Stock, \$0.01 par value | 49,749,637                         |



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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PORTFOLIO RECOVERY ASSOCIATES, INC.

## CONSOLIDATED BALANCE SHEETS

September 30, 2013 and December 31, 2012

(unaudited)

(Amounts in thousands, except per share amounts)

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Cash and cash equivalents   | \$ 108,705            | \$ 32,687            |
| Finance receivables, net  | 1,256,822             | 1,078,951            |
| Accounts receivable, net  | 12,047                | 10,486               |
| Income taxes receivable   | 2,708                 | —                    |
| Property and equipment, net   | 28,059                | 25,312               |
| Goodwill  | 102,891               | 109,488              |
| Intangible assets, net  | 16,746                | 20,364               |
| Other assets  | 20,007                | 11,668               |
| Total assets  | \$ 1,547,985          | \$ 1,288,956         |
| Liabilities and Equity  |                       |                      |
| Liabilities:  |                       |                      |
| Accounts payable  | \$ 14,446             | \$ 12,155            |
| Accrued expenses and other liabilities  | 33,023                | 18,953               |
| Income taxes payable  | 740                   | 3,125                |
| Accrued payroll and bonuses   | 20,454                | 12,804               |
| Net deferred tax liability  | 200,109               | 185,277              |
| Borrowings  | 452,229               | 327,542              |
| Total liabilities   | 721,001               | 559,856              |
| Commitments and contingencies (Note 10)   |                       |                      |
| Redeemable noncontrolling interest  | 10,336                | 20,673               |
| Stockholders' equity:   |                       |                      |
| Preferred stock, par value \$0.01, authorized shares, 2,000, issued and outstanding shares - 0  | —                     | —                    |
| Common stock, par value \$0.01, 60,000 authorized shares, 49,747 issued and outstanding shares at September 30, 2013, and 50,727 issued and outstanding shares at December 31, 2012 | 498                   | 507                  |
| Additional paid-in capital  | 129,570               | 150,878              |
| Retained earnings   | 683,728               | 554,191              |
| Accumulated other comprehensive income  | 2,852                 | 2,851                |
| Total stockholders' equity  | 816,648               | 708,427              |
| Total liabilities and equity  | \$ 1,547,985          | \$ 1,288,956         |

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

PORTFOLIO RECOVERY ASSOCIATES, INC.  
CONSOLIDATED INCOME STATEMENTS

For the three and nine months ended September 30, 2013 and 2012  
(unaudited)

(Amounts in thousands, except per share amounts)

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2013                                | 2012       | 2013                               | 2012       |
| Revenues:  |                                     |            |                                    |            |
| Income recognized on finance receivables, net                                    | \$ 171,456                          | \$ 135,754 | \$ 494,818                         | \$ 392,566 |
| Fee income   | 26,306                              | 14,765     | 55,464                             | 45,983     |
| Total revenues   | 197,762                             | 150,519    | 550,282                            | 438,549    |
| Operating expenses:  |                                     |            |                                    |            |
| Compensation and employee services   | 52,882                              | 41,334     | 146,081                            | 123,508    |
| Legal collection fees  | 10,206                              | 8,635      | 31,343                             | 25,241     |
| Legal collection costs   | 19,801                              | 15,810     | 63,020                             | 57,705     |
| Agent fees   | 1,404                               | 1,545      | 4,293                              | 4,495      |
| Outside fees and services  | 8,707                               | 10,131     | 24,789                             | 21,575     |
| Communications   | 7,786                               | 6,777      | 24,307                             | 22,037     |
| Rent and occupancy   | 1,950                               | 1,786      | 5,462                              | 5,053      |
| Depreciation and amortization  | 3,753                               | 3,623      | 10,653                             | 10,833     |
| Other operating expenses   | 5,408                               | 3,820      | 14,756                             | 12,027     |
| Impairment of goodwill   | 6,397                               | —          | 6,397                              | —          |
| Total operating expenses   | 118,294                             | 93,461     | 331,101                            | 282,474    |
| Income from operations   | 79,468                              | 57,058     | 219,181                            | 156,075    |
| Other income and (expense):  |                                     |            |                                    |            |
| Interest income  | —                                   | —          | —                                  | 8          |
| Interest expense   | (3,995)                             | ) (2,189)  | ) (9,607)                          | ) (7,223)  |
| Income before income taxes   | 75,473                              | 54,869     | 209,574                            | 148,860    |
| Provision for income taxes   | 26,262                              | 21,742     | 78,432                             | 58,493     |
| Net income   | \$ 49,211                           | \$ 33,127  | \$ 131,142                         | \$ 90,367  |
| Adjustment for income/(loss) attributable to redeemable noncontrolling interest  | 1,873                               | (187)      | ) 1,605                            | (424)      |
| Net income attributable to Portfolio Recovery Associates, Inc.                   | \$ 47,338                           | \$ 33,314  | \$ 129,537                         | \$ 90,791  |
| Net income per common share attributable to Portfolio Recovery Associates, Inc.: |                                     |            |                                    |            |
| Basic  | \$ 0.94                             | \$ 0.66    | \$ 2.56                            | \$ 1.78    |
| Diluted  | \$ 0.93                             | \$ 0.65    | \$ 2.54                            | \$ 1.77    |
| Weighted average number of shares outstanding:                                   |                                     |            |                                    |            |
| Basic  | 50,154                              | 50,643     | 50,571                             | 51,102     |
| Diluted  | 50,660                              | 51,066     | 51,039                             | 51,420     |

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

PORTFOLIO RECOVERY ASSOCIATES, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2013 and 2012

(unaudited)

(Amounts in thousands)

|  | Three Months Ended |          | Nine Months Ended |          |   |
|--|--------------------|----------|-------------------|----------|---|
|  | September 30,      |          | September 30,     |          |   |
|  | 2013               | 2012     | 2013              | 2012     |   |
| Net income   | \$49,211           | \$33,127 | \$131,142         | \$90,367 |   |
| Other comprehensive income:  |                    |          |                   |          |   |
| Foreign currency translation adjustments                                 | 4,425              | 1,792    | 1                 | 2,113    |   |
| Total other comprehensive income   | 4,425              | 1,792    | 1                 | 2,113    |   |
| Comprehensive income   | 53,636             | 34,919   | 131,143           | 92,480   |   |
| Comprehensive income/(loss) attributable to noncontrolling interest      | 1,873              | (187     | ) 1,605           | (424     | ) |
| Comprehensive income attributable to Portfolio Recovery Associates, Inc. | \$51,763           | \$35,106 | \$129,538         | \$92,904 |   |

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 nine months ended September 30, 2013  
(unaudited)  
(Amounts in thousands)

|  | Common Stock |        | Additional | Retained  | Accumulated   | Total         |
|--|--------------|--------|------------|-----------|---------------|---------------|
|  | Shares       | Amount | Paid-in    | Earnings  | Other         | Stockholders' |
|  |              |        | Capital    |           | Comprehensive | Equity        |
|  |              |        |            |           | Income        |               |
| Balance at December 31, 2012                                   | 50,727       | \$507  | \$150,878  | \$554,191 | \$2,851       | \$708,427     |
| Components of comprehensive income:                            |              |        |            |           |               |               |
| Net income attributable to Portfolio Recovery Associates, Inc. | —            | —      | —          | 129,537   | —             | 129,537       |
| Foreign currency translation adjustment                        | —            | —      | —          | —         | 1             | 1             |
| Vesting of nonvested shares                                    | 223          | 2      | (2)        | —         | —             | —             |
| Repurchase and cancellation of common stock                    | (1,203)      | (11)   | (58,500)   | —         | —             | (58,511)      |
| Amortization of share-based compensation                       | —            | —      | 10,209     | —         | —             | 10,209        |
| Income tax benefit from share-based compensation               | —            | —      | 2,742      | —         | —             | 2,742         |
| Employee stock relinquished for payment of taxes               | —            | —      | (4,103)    | —         | —             | (4,103)       |
| Component of convertible debt                                  | —            | —      | 31,308     | —         | —             | 31,308        |
| Deferred taxes on component of convertible debt                | —            | —      | (12,517)   | —         | —             | (12,517)      |
| Purchase of noncontrolling interest                            | —            | —      | 9,162      | —         | —             | 9,162         |
| Adjustment of the noncontrolling interest measurement amount   | —            | —      | 393        | —         | —             | 393           |
| Balance at September 30, 2013                                  | 49,747       | \$498  | \$129,570  | \$683,728 | \$2,852       | \$816,648     |

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

PORTFOLIO RECOVERY ASSOCIATES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the nine months ended September 30, 2013 and 2012  
(unaudited)  
(Amounts in thousands)

|   | Nine Months Ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Cash flows from operating activities:   |                                 |           |
| Net income  | \$ 131,142                      | \$ 90,367 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Amortization of share-based compensation  | 10,209                          | 8,361     |
| Depreciation and amortization   | 10,653                          | 10,833    |
| Impairment of goodwill  | 6,397                           | —         |
| Deferred tax expense/(benefit)  | 2,359                           | (7,377)   |
| Changes in operating assets and liabilities:                                      |                                 |           |
| Other assets  | (1,147)                         | (353)     |
| Accounts receivable   | (1,497)                         | 1,579     |
| Accounts payable  | 2,237                           | (856)     |
| Income taxes  | (5,062)                         | (7,024)   |
| Accrued expenses  | 9,129                           | 931       |
| Accrued payroll and bonuses   | 7,660                           | (2,799)   |
| Net cash provided by operating activities   | 172,080                         | 93,662    |
| Cash flows from investing activities:   |                                 |           |
| Purchases of property and equipment   | (9,913)                         | (5,362)   |
| Acquisition of finance receivables, net of buybacks                               | (546,201)                       | (329,444) |
| Collections applied to principal on finance receivables                           | 368,693                         | 286,907   |
| Business acquisition, net of cash acquired  | —                               | (48,653)  |
| Net cash used in investing activities   | (187,421)                       | (96,552)  |
| Cash flows from financing activities:   |                                 |           |
| Income tax benefit from share-based compensation                                  | 2,742                           | 1,484     |
| Proceeds from line of credit  | 217,000                         | 160,000   |
| Principal payments on line of credit  | (344,000)                       | (130,000) |
| Repurchases of common stock   | (58,511)                        | (22,726)  |
| Cash paid for purchase of portion of noncontrolling interest                      | (1,150)                         | —         |
| Distributions paid to noncontrolling interest                                     | (51)                            | —         |
| Principal payments on long-term debt  | (4,109)                         | (572)     |
| Proceeds from convertible debt, net   | 279,285                         | —         |
| Net cash provided by financing activities   | 91,206                          | 8,186     |
| Effect of exchange rate on cash   | 153                             | (505)     |
| Net increase in cash and cash equivalents   | 76,018                          | 4,791     |
| Cash and cash equivalents, beginning of period                                    | 32,687                          | 26,697    |
| Cash and cash equivalents, end of period  | \$ 108,705                      | \$ 31,488 |
| Supplemental disclosure of cash flow information:                                 |                                 |           |
| Cash paid for interest  | \$ 9,333                        | \$ 7,577  |
| Cash paid for income taxes  | 78,434                          | 71,521    |
| Noncash investing and financing activities:                                       |                                 |           |
| Adjustment of the noncontrolling interest measurement amount                      | \$ 393                          | \$(2,852) |
| Distributions payable relating to noncontrolling interest                         | 1,237                           | 261       |
| Purchase of noncontrolling interest   | 9,162                           | —         |
| Employee stock relinquished for payment of taxes                                  | (4,103)                         | (2,170)   |



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

Table of ContentsPORTFOLIO RECOVERY ASSOCIATES, INC.  
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.

On June 10, 2013, the Company's board of directors declared a three-for-one stock split by means of a stock dividend. The new shares were distributed on August 1, 2013, and the shares began trading on a split-adjusted basis beginning August 2, 2013. As a result of this action, approximately 33.8 million shares were issued to stockholders. The par value of the common stock remains at \$0.01 per share and, accordingly, approximately \$0.3 million was retroactively transferred from additional paid-in capital to common stock for all periods presented. Earnings per share and weighted average shares outstanding are presented in this Form 10-Q after the effect of the stock split. The three-for-one stock split is reflected in the share and per share amounts in all periods presented in this Form 10-Q including Note 7 “Share-Based Compensation,” Note 9 “Earnings per Share,” and Note 12 “Stockholders' Equity.” 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 and nine months ended September 30, 2013 and 2012 and long-lived assets held at September 30, 2013 and 2012 by geographical location (amounts in thousands):

|                | As Of And For The<br>Three Months Ended September 30,<br>2013 |                      | As Of And For The<br>Three Months Ended September 30,<br>2012 |                      |
|----------------|---|----------------------|---|----------------------|
|                | Revenues  | Long-Lived<br>Assets | Revenues  | Long-Lived<br>Assets |
| United States  | \$194,769   | \$26,289             | \$145,585   | \$23,596             |
| United Kingdom | 2,993   | 1,770                | 4,934   | 1,910                |
| Total          | \$197,762   | \$28,059             | \$150,519   | \$25,506             |

  

|                | As Of And For The<br>Nine Months Ended September 30,<br>2013 |                      | As Of And For The<br>Nine Months Ended September 30,<br>2012 |                      |
|----------------|--|----------------------|--|----------------------|
|                | Revenues   | Long-Lived<br>Assets | Revenues   | Long-Lived<br>Assets |
| United States  | \$542,048  | \$26,289             | \$424,434  | \$23,596             |
| United Kingdom | 8,234  | 1,770                | 14,115   | 1,910                |
| Total          | \$550,282  | \$28,059             | \$438,549  | \$25,506             |

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 September 30, 2013, its consolidated income statements and statements of comprehensive income for the three and nine months ended September 30, 2013 and 2012, its consolidated statement of changes in stockholders' equity for the nine months ended September 30, 2013, and its consolidated statements of cash flows for the nine months ended September 30, 2013 and 2012. The consolidated income statements of the Company for the three and nine months ended September 30, 2013 may not be indicative of future results. Certain reclassifications have been made to prior year amounts to conform to the current year

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2012 Annual Report on Form 10-K, filed on February 28, 2013.

## 2. Finance Receivables, net:

Changes in finance receivables, net for the three and nine months ended September 30, 2013 and 2012 were as follows (amounts in thousands):

|  | Three Months Ended<br>September 30, 2013 | Three Months Ended<br>September 30, 2012 |
|--|--|--|
| Balance at beginning of period                       | \$1,236,859                              | \$966,508                                |
| Acquisitions of finance receivables, net of buybacks | 138,854                                  | 100,063                                  |
| Foreign currency translation adjustment              | 1,304                                    | 321                                      |
| Cash collections                                     | (291,651                                 | ) (229,052                               |
| Income recognized on finance receivables, net        | 171,456                                  | 135,754                                  |
| Cash collections applied to principal                | (120,195                                 | ) (93,298                                |
| Balance at end of period                             | \$1,256,822                              | \$973,594                                |
|  | Nine Months Ended<br>September 30, 2013  | Nine Months Ended<br>September 30, 2012  |
| Balance at beginning of period                       | \$1,078,951                              | \$926,734                                |
| Acquisitions of finance receivables, net of buybacks | 546,201                                  | 333,402                                  |
| Foreign currency translation adjustment              | 363                                      | 365                                      |
| Cash collections                                     | (863,511                                 | ) (679,473                               |
| Income recognized on finance receivables, net        | 494,818                                  | 392,566                                  |
| Cash collections applied to principal                | (368,693                                 | ) (286,907                               |
| Balance at end of period                             | \$1,256,822                              | \$973,594                                |

At the time of acquisition, the life of each pool is generally estimated to be between 60 to 96 months based on projected amounts and timing of future cash collections using the proprietary models of the Company. Based upon current projections, cash collections applied to principal on finance receivables as of September 30, 2013 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

|                    |             |
|--------------------|-------------|
| September 30, 2014 | \$442,007   |
| September 30, 2015 | 345,369     |
| September 30, 2016 | 257,244     |
| September 30, 2017 | 150,698     |
| September 30, 2018 | 57,070      |
| September 30, 2019 | 4,434       |
|                    | \$1,256,822 |

During the three and nine months ended September 30, 2013, the Company purchased approximately \$1.79 billion and \$6.83 billion, respectively, in face value of charged-off consumer receivables. During the three and nine months ended September 30, 2012, the Company purchased approximately \$1.26 billion and \$4.24 billion, respectively, in face value of charged-off consumer receivables. At September 30, 2013, the estimated remaining collections ("ERC") on the receivables purchased in the three and nine months ended September 30, 2013, were \$250.4 million and \$895.3

million, respectively. At September 30, 2013, the ERC on the receivables purchased in the three and nine months ended September 30, 2012, were \$140.9 million and \$435.8 million, respectively. At September 30, 2013, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of \$27.8 million; at December 31, 2012, the amount was \$4.2 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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 and nine months ended September 30, 2013 and 2012 were as follows (amounts in thousands):

|   | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|---|----------------------------------|-------------|---------------------------------|-------------|
|   | 2013                             | 2012        | 2013                            | 2012        |
| Balance at beginning of period                      | \$1,400,906                      | \$1,151,653 | \$1,239,674                     | \$1,026,614 |
| Income recognized on finance receivables, net       | (171,456)                        | (135,754)   | (494,818)                       | (392,566)   |
| Additions   | 122,976                          | 102,997     | 472,666                         | 325,165     |
| Net reclassifications from nonaccretable difference | 63,031                           | 45,182      | 201,823                         | 205,997     |
| Foreign currency translation adjustment             | 509                              | (104)       | (3,379)                         | (1,236)     |
| Balance at end of period                            | \$1,415,966                      | \$1,163,974 | \$1,415,966                     | \$1,163,974 |

A valuation allowance is recorded for significant decreases in expected cash flows or a change in the expected timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. In any given period, the Company may be required to record valuation allowances due to pools of receivables underperforming expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently on the overall profitability of purchased pools of defaulted consumer receivables would include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relate to the collection and movement of accounts on both the collection floor of the Company and external channels), as well as decreases in productivity related to turnover and tenure of the Company's collection staff. The following is a summary of activity within the Company's valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands):

|  | Three Months Ended September 30, 2013 |                                    |          | Three Months Ended September 30, 2012 |                                    |          |
|--|---------------------------------------|------------------------------------|----------|---------------------------------------|------------------------------------|----------|
|  | Core Portfolio                        | Purchased Bankruptcy Portfolio (2) | Total    | Core Portfolio                        | Purchased Bankruptcy Portfolio (2) | Total    |
| Valuation allowance - finance receivables: |                                       |                                    |          |                                       |                                    |          |
| Beginning balance                          | \$70,350                              | \$ 23,761                          | \$94,111 | \$75,850                              | \$ 13,419                          | \$89,269 |
| Allowance charges                          | —                                     | 1,500                              | 1,500    | 1,850                                 | 945                                | 2,795    |
| Reversal of previous recorded allowance    | (3,970)                               | (111)                              | (4,081)  | (1,150)                               | (82)                               | (1,232)  |

charges

|                                      |           |            |             |           |            |           |
|--------------------------------------|-----------|------------|-------------|-----------|------------|-----------|
| Net allowance<br>(reversals)/charges | (3,970    | ) 1,389    | (2,581      | ) 700     | 863        | 1,563     |
| Ending balance                       | \$66,380  | \$ 25,150  | \$91,530    | \$76,550  | \$ 14,282  | \$90,832  |
| Finance Receivables,<br>net:         | \$699,742 | \$ 557,080 | \$1,256,822 | \$493,192 | \$ 480,402 | \$973,594 |

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|   | Nine Months Ended September 30, 2013 |  |             | Nine Months Ended September 30, 2012 |  |           |
|---|--------------------------------------|--|-------------|--------------------------------------|--|-----------|
|   | 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                               | \$74,500                             | \$ 18,623  | \$93,123    | \$76,580                             | \$ 9,991   | \$86,571  |
| Allowance charges                               | 300                                  | 6,760  | 7,060       | 4,000                                | 4,620  | 8,620     |
| Reversal of previous recorded allowance charges | (8,420 )                             | (233 )   | (8,653 )    | (4,030 )                             | (329 )   | (4,359 )  |
| Net allowance (reversals)/charges               | (8,120 )                             | 6,527  | (1,593 )    | (30 )                                | 4,291  | 4,261     |
| Ending balance                                  | \$66,380                             | \$ 25,150  | \$91,530    | \$76,550                             | \$ 14,282  | \$90,832  |
| Finance Receivables, net:                       | \$699,742                            | \$ 557,080   | \$1,256,822 | \$493,192                            | \$ 480,402   | \$973,594 |

“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):

|                           | September 30, 2013 | December 31, 2012 |
|---------------------------|--------------------|-------------------|
| Line of credit, revolver  | \$—                | \$127,000         |
| Line of credit, term loan | 196,250            | 200,000           |
| Equipment loan            | 183                | 542               |
| Convertible notes         | 287,500            | —                 |
| Less: Debt discount       | (31,704            | ) —               |
| Total                     | \$452,229          | \$327,542         |

The following principal payments are due on the Company's borrowings as of September 30, 2013 for the twelve month periods ending (amounts in thousands):

|                    |           |
|--------------------|-----------|
| September 30, 2014 | \$8,933   |
| September 30, 2015 | 13,750    |
| September 30, 2016 | 18,750    |
| September 30, 2017 | 35,000    |
| September 30, 2018 | 120,000   |
| Thereafter         | 287,500   |
| Total              | \$483,933 |

## 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”). On August 6, 2013, the Company entered into a First Amendment (the “First Amendment”) to the Credit Agreement. The First Amendment amended and restated certain provisions to clarify the permitted indebtedness basket for the issuance of senior, unsecured convertible notes



in an aggregate amount not to exceed \$300,000,000. On August 21, 2013, the Company entered into a Lender Joinder Agreement and Lender Commitment Agreement, and Consented to a Master Assignment and Assumption (collectively, the “Loan Modification Agreements”), which together modified the Credit Agreement. The Loan Modification Agreements, among other things, increased by \$35.5 million the amount of revolving credit availability under the Credit Agreement. Under the terms of the Credit Agreement as amended and modified,

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the credit facility includes an aggregate principal amount available of \$631.8 million (subject to the borrowing base and applicable debt covenants) which consists of a \$196.3 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. No existing lender is obligated to increase its commitment. The Credit Agreement is secured by a first priority lien on substantially all of the Company's assets. The Credit Agreement contains restrictive covenants and events of default including the following:

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

The revolving credit facility also bears an unused line fee of 0.375% per annum, payable quarterly in arrears.

The Company's borrowings outstanding on its credit facility at September 30, 2013 consisted of \$196.3 million outstanding on the term loan with an annual interest rate as of September 30, 2013 of 2.68%. At December 31, 2012, the Company's borrowings on its credit facility consisted of \$122.0 million in 30-day Eurodollar rate loans and \$5.0 million in base rate loans with a weighted average interest rate of 2.74%. In addition, the Company had \$200.0 million outstanding on the term loan at December 31, 2012 with an annual interest rate as of December 31, 2012 of 2.71%.

**Equipment Loan**

On December 15, 2010, the Company entered into a commercial loan agreement to finance computer software and equipment purchases in the amount of approximately \$1.6 million. The loan is collateralized by the related computer software and equipment. The loan term is 3 years with a fixed rate of 3.69% with monthly installments, including interest, of \$46,108 beginning on January 15, 2011, and it matures on December 15, 2013. The balance of the equipment loan at September 30, 2013 and December 31, 2012 was \$0.2 million and \$0.5 million, respectively.

**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

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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 September 30, 2013, 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.

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):

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Liability component - principal amount    | \$287,500             | \$—                  |
| Unamortized debt discount                 | (31,704               | ) —                  |
| Liability component - net carrying amount | 255,796               | —                    |
| Equity component                          | \$31,308              | \$—                  |

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<br>Ended September<br>30, 2013 | Three Months<br>Ended September<br>30, 2012 | Nine Months<br>Ended September<br>30, 2013 | Nine Months<br>Ended September<br>30, 2012 |
|---|---|---|--|--|
| Interest expense - stated coupon rate               | \$1,150                                     | \$—   | \$1,150                                    | \$—  |
| Interest expense - amortization of<br>debt discount | 525   | —   | 525  | —  |

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|  |         |     |         |     |
|--|---------|-----|---------|-----|
| Total interest expense - convertible notes | \$1,675 | \$— | \$1,675 | \$— |
|--|---------|-----|---------|-----|

The Company was in compliance with all covenants under its financing arrangements as of September 30, 2013 and December 31, 2012.

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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):

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Software                                  | \$33,683              | \$29,467             |
| Computer equipment                        | 16,033                | 14,129               |
| Furniture and fixtures                    | 7,753                 | 7,220                |
| Equipment                                 | 9,742                 | 8,674                |
| Leasehold improvements                    | 8,017                 | 7,231                |
| Building and improvements                 | 7,012                 | 7,014                |
| Land                                      | 1,269                 | 1,269                |
| Accumulated depreciation and amortization | (55,450               | ) (49,692            |
| Property and equipment, net               | \$28,059              | \$25,312             |

Depreciation and amortization expense relating to property and equipment for the three and nine months ended September 30, 2013, was \$2.6 million and \$7.1 million, respectively. Depreciation and amortization expense relating to property and equipment for the three and nine months ended September 30, 2012, was \$2.2 million and \$6.5 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 September 30, 2013 and December 31, 2012, the Company incurred and capitalized approximately \$9.7 million and \$7.8 million, respectively, of these direct payroll costs and external direct costs related to software developed for internal use. Of these costs, at September 30, 2013 and December 31, 2012, approximately \$1.3 million and \$1.3 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 and nine months ended September 30, 2013, was approximately \$0.4 million and \$1.1 million, respectively. Amortization expense for the three and nine months ended September 30, 2012, was approximately \$0.3 million and \$0.9 million, respectively. The remaining unamortized costs relating to internally developed software at September 30, 2013 and December 31, 2012 were approximately \$4.7 million and \$3.9 million, respectively.

## 5. Redeemable Noncontrolling Interest:

In accordance with ASC 810, the Company has consolidated all financial statement accounts of Claims Compensation Bureau, LLC ("CCB") in its consolidated balance sheets and its consolidated income statements. The redeemable noncontrolling interest amount is separately stated on the consolidated balance sheets and represents the 19% and 38% interest in CCB not owned by the Company at September 30, 2013 and December 31, 2012, respectively. In addition, net income/loss attributable to the noncontrolling interest is stated separately in the consolidated income statements.

Effective January 31, 2013, the Company purchased one-half of the then remaining interest in CCB for a purchase price of \$1.1 million. The purchase price was derived from the formula stipulated in the contractual agreement and

was based on prior levels of earnings before interest, taxes, depreciation and amortization ("EBITDA"). The maximum redemption value of the noncontrolling interest, as if it were currently redeemable by the holder of the put option under the terms of the put arrangement, was \$11.4 million at September 30, 2013. The Company has the right through February 28, 2015 to purchase the remaining 19% of CCB at certain pre-determined multiples of EBITDA.

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On September 27, 2013, the Company exercised its right, subject to a review period ended October 15, 2013, to purchase the remainder of the noncontrolling interest for a purchase price of approximately \$4.5 million. The purchase price was derived from the formula stipulated in the contractual agreement and was based on prior levels of EBITDA. The closing occurred on October 31, 2013.

The following table represents the changes in the redeemable noncontrolling interest for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands):

|  | Three Months Ended |          | Nine Months Ended  |          |
|--|--------------------|----------|--------------------|----------|
|  | September 30, 2013 | 2012     | September 30, 2013 | 2012     |
| Balance at beginning of period                                       | \$10,336           | \$19,381 | \$20,673           | \$17,831 |
| Net income/(loss) attributable to redeemable noncontrolling interest | 1,873              | (187)    | 1,605              | (424)    |
| Distributions payable  | (1,235)            | —        | (1,237)            | (261)    |
| Purchase of portion of noncontrolling interest                       | —                  | —        | (10,312)           | —        |
| Adjustment of the noncontrolling interest measurement amount         | (638)              | 804      | (393)              | 2,852    |
| Balance at end of period   | \$10,336           | \$19,998 | \$10,336           | \$19,998 |

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

## 6. Goodwill and Intangible Assets, net:

In connection with the Company's previous business acquisitions, the Company acquired certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements, trademarks and goodwill. Pursuant to ASC 350, goodwill is not amortized but rather is reviewed at least annually for impairment. During the fourth quarter of 2012, the Company underwent its annual review of goodwill. Based upon the results of this review, which was conducted as of October 1, 2012, no impairment charges to goodwill or the other intangible assets were necessary as of the date of that review. During the three months ended September 30, 2013, the Company further evaluated the goodwill associated with one of its reporting units, which had experienced a revenue and profitability decline, recent net losses, and the loss of a significant client during the quarter. In its evaluation, the Company used a present value calculation of future cash flows and earnings to determine the fair value of the reporting unit. Based on this evaluation, the Company recorded a \$6.4 million impairment of goodwill in the third quarter of 2013. This non-cash charge represents the full amount of goodwill previously recorded for the Company's subsidiary PRA Location Services, LLC ("PLS"). All other intangible assets related to PLS were fully amortized as of September 30, 2013.

Total impairment losses during the three and nine months ended September 30, 2013 were \$6.4 million. There were no impairment losses during the three or nine months ended September 30, 2012. The Company expects to perform its next annual goodwill review during the fourth quarter of 2013. At September 30, 2013 and December 31, 2012, the carrying value of goodwill was \$102.9 million and \$109.5 million, respectively. The following table represents the changes in goodwill for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands):

|                                  | Three Months Ended September |          | Nine Months Ended September |          |
|----------------------------------|------------------------------|----------|-----------------------------|----------|
|                                  | 30, 2013                     | 2012     | 30, 2013                    | 2012     |
| Balance at beginning of period   | \$106,953                    | \$99,384 | \$109,488                   | \$61,678 |
| Acquisition of MHH               | —                            | —        | —                           | 34,270   |
| Adjustment to provisional amount | —                            | (549)    | —                           | 2,511    |
| Impairment of goodwill           | (6,397)                      | —        | (6,397)                     | —        |



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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Foreign currency translation adjustment | 2,335     | 1,621     | (200      | ) 1,997   |
| Balance at end of period                | \$102,891 | \$100,456 | \$102,891 | \$100,456 |

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Intangible assets, excluding goodwill, consist of the following at September 30, 2013 and December 31, 2012 (amounts in thousands):

|                                   | September 30, 2013 |                          | December 31, 2012 |                          |
|-----------------------------------|--------------------|--------------------------|-------------------|--------------------------|
|                                   | Gross Amount       | Accumulated Amortization | Gross Amount      | Accumulated Amortization |
| Client and customer relationships | \$40,647           | \$25,540                 | \$40,698          | \$22,516                 |
| Non-compete agreements            | 3,876              | 3,692                    | 3,880             | 3,581                    |
| Trademarks                        | 3,471              | 2,016                    | 3,477             | 1,594                    |
| Total                             | \$47,994           | \$31,248                 | \$48,055          | \$27,691                 |

Total intangible asset amortization expense for the three and nine months ended September 30, 2013 was \$1.2 million and \$3.5 million, respectively. Total intangible asset amortization expense for the three and nine months ended September 30, 2012 was \$1.5 million and \$4.4 million, respectively. The Company reviews these intangible assets for possible impairment upon the occurrence of a triggering event.

## 7. 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 September 30, 2013, 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 \$4.9 million with a weighted average remaining life for all nonvested shares of 1.7 years (not including nonvested shares granted under the LTI program). As of September 30, 2013, 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 \$3.5 million and \$10.2 million for the three and nine months ended September 30, 2013, respectively. Total share-based compensation expense was \$2.8 million and \$8.4 million for the three and nine months ended September 30, 2012, 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 \$0.1 million and \$5.0 million for the three and nine months ended September 30, 2013, respectively. The total tax benefit realized from share-based compensation was approximately \$0.2 million and \$3.0 million for the three and nine months ended September 30, 2012, respectively.

All share amounts presented in this Note 7 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, 2011 through September 30, 2013 (share amounts in thousands):

|                    | Nonvested Shares<br>Outstanding | Weighted-Average<br>Price at Grant Date |
|--------------------|---------------------------------|---|
| December 31, 2011  | 243                             | \$19.77                                 |
| Granted            | 159                             | 22.00                                   |
| Vested             | (102                            | ) 19.79                                 |
| Cancelled          | (12                             | ) 23.31                                 |
| December 31, 2012  | 288                             | 20.84                                   |
| Granted            | 109                             | 37.14                                   |
| Vested             | (138                            | ) 19.47                                 |
| Cancelled          | (26                             | ) 20.73                                 |
| September 30, 2013 | 233                             | \$29.28                                 |

The total grant date fair value of shares vested during the three and nine months ended September 30, 2013, was \$0.2 million and \$2.7 million, respectively. The total grant date fair value of shares vested during the three and nine months ended September 30, 2012, was \$0.2 million and \$1.8 million, respectively.

Long-Term Incentive Program

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, 2011 through September 30, 2013 (share amounts in thousands):

|                                    | Nonvested LTI<br>Shares<br>Outstanding | Weighted-Average<br>Price at Grant Date |
|------------------------------------|--|---|
| December 31, 2011                  | 548                                    | \$17.01                                 |
| Granted at target level            | 197                                    | 20.73                                   |
| Adjustments for actual performance | 121                                    | 18.00                                   |
| Vested                             | (354                                   | ) 12.58                                 |
| Cancelled                          | (15                                    | ) 22.55                                 |
| December 31, 2012                  | 497                                    | 21.71                                   |
| Granted at target level            | 124                                    | 34.59                                   |
| Adjustments for actual performance | 106                                    | 17.87                                   |
| Vested                             | (160                                   | ) 16.24                                 |
| Cancelled                          | (5                                     | ) 25.17                                 |
| September 30, 2013                 | 562                                    | \$25.18                                 |

The total grant date fair value of shares vested during the three and nine months ended September 30, 2013, was \$0.0 million and \$2.6 million, respectively. The total grant date fair value of shares vested during the three and nine months ended September 30, 2012, was \$0.0 million and \$2.0 million, respectively.

At September 30, 2013, total future compensation costs, assuming the current estimated performance levels are achieved, related to nonvested share awards granted under the LTI program are estimated to be approximately \$7.9 million. The Company assumed a 7.5% forfeiture rate for these grants and the remaining shares have a weighted average life of 1.1 years at September 30, 2013.

## 8. 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 September 30, 2013 and 2012.

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The Company was notified on June 21, 2007 that it was being examined by the Internal Revenue Service ("IRS") for the 2005 calendar year. The IRS concluded the audit and on March 19, 2009 issued Form 4549-A, Income Tax Examination Changes, for tax years ended December 31, 2007, 2006 and 2005. The IRS has asserted that 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 they will ultimately be sustained; therefore, a reserve for uncertain tax positions is not required. For domestic income tax purposes, the Company recognizes revenue using the cost recovery method with respect to its debt purchasing business. The Company believes cost recovery to be an appropriate tax revenue recognition method for companies in the bad debt purchasing industry. Under this method, for tax purposes, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any taxable income is recognized. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. On August 26, 2011, the IRS issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006, and 2005. On November 2, 2011, the Company filed a petition in the United States Tax Court. If the Company is unsuccessful in the United States Tax Court, it can appeal to the federal Circuit Court of Appeals. Payment of the assessed taxes and possibly interest and penalties, could have an adverse affect on the Company's financial condition, be material to the Company's results of operations, and 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. 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 September 30, 2013, the tax years subject to examination by the major taxing jurisdictions, including the IRS, are 2003, 2005 and subsequent years. The 2003 tax year remains open to examination because of a net operating loss that originated in that year but was not fully utilized until the 2005 tax year. The examination periods for the 2007, 2006 and 2005 tax years were extended through December 31, 2011; however, because the IRS issued the Notice of Deficiency prior to December 31, 2011, the period for assessment is suspended until a decision of the Tax Court becomes final. The statute of limitations for the 2008, 2009 and 2010 tax years has been extended to September 26, 2014.

ASC 740 requires the recognition of interest if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. No interest or penalties were accrued or reversed in the three or nine month periods ended September 30, 2013 or 2012.

9. 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 September 30, 2013. The Notes were not outstanding during the three or nine months ending September 30, 2012. 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.

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The following tables provide reconciliation between the computation of basic EPS and diluted EPS for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands, except per share amounts):

|   | For the Three Months Ended September 30,<br>2013                           |   |        | 2012   |   |        |
|---|--|---|--------|--|---|--------|
|   | Net Income<br>attributable to<br>Portfolio<br>Recovery<br>Associates, Inc. | Weighted<br>Average<br>Common<br>Shares | EPS    | Net Income<br>attributable to<br>Portfolio<br>Recovery<br>Associates, Inc. | Weighted<br>Average<br>Common<br>Shares | EPS    |
| Basic EPS                                 | \$47,338   | 50,154                                  | \$0.94 | \$33,314   | 50,643                                  | \$0.66 |
| Dilutive effect of nonvested share awards |  | 506                                     |        |  | 423                                     |        |
| Diluted EPS                               | \$47,338   | 50,660                                  | \$0.93 | \$33,314   | 51,066                                  | \$0.65 |

|   | For the Nine Months Ended September 30,<br>2013                            |   |        | 2012   |   |        |
|---|--|---|--------|--|---|--------|
|   | Net Income<br>attributable to<br>Portfolio<br>Recovery<br>Associates, Inc. | Weighted<br>Average<br>Common<br>Shares | EPS    | Net Income<br>attributable to<br>Portfolio<br>Recovery<br>Associates, Inc. | Weighted<br>Average<br>Common<br>Shares | EPS    |
| Basic EPS                                 | \$129,537  | 50,571                                  | \$2.56 | \$90,791   | 51,102                                  | \$1.78 |
| Dilutive effect of nonvested share awards |  | 468                                     |        |  | 318                                     |        |
| Diluted EPS                               | \$129,537  | 51,039                                  | \$2.54 | \$90,791   | 51,420                                  | \$1.77 |

All share amounts presented in this Note 9 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 or nine months ended September 30, 2013 and 2012.

## 10. Commitments and Contingencies:

## Employment Agreements:

The Company has employment agreements, most of which expire on December 31, 2014, with all of its executive officers and with several members of its senior management group. Such agreements provide for base salary payments as well as bonuses which are based on the attainment of specific management goals. At September 30, 2013, the estimated future compensation under these agreements is approximately \$12.9 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 September 30, 2013 total approximately \$29.6 million.

## Forward Flow Agreements:

The Company is party to several forward flow agreements that allow for the purchase of defaulted consumer receivables at pre-established prices. The maximum remaining amount to be purchased under forward flow agreements at September 30, 2013 is approximately \$161.9 million.

## Redeemable Noncontrolling Interest:

In connection with the Company's acquisition of 62% of the membership units of CCB on March 15, 2010, the Company acquired the right through February 28, 2015 to purchase, at a predetermined price, the remaining 38% of the membership units of CCB not held by the Company. Effective as of January 31, 2013, the Company exercised its right to acquire one-half of the then outstanding noncontrolling interest resulting in ownership of 81% of the membership units as of September 30, 2013.

On September 27, 2013, the Company exercised its right to purchase the remainder of the noncontrolling interest for a purchase price of approximately \$4.5 million. The purchase price was derived from the formula stipulated in the contractual agreement and was based on prior levels of EBITDA. The closing occurred on October 31, 2013.



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**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. As of September 30, 2013, the Company has recorded an estimated present fair value amount for this liability of \$9.4 million.

**Finance Receivables:**

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

**Litigation:**

The Company is from time to time subject to routine legal claims and proceedings, most of which are incidental to the ordinary course of its business. The Company initiates lawsuits against customers and is occasionally countersued by them in such actions. Also, customers, either individually, as members of a class action, or through a governmental entity on behalf of customers, may initiate litigation against the Company in which they allege that the Company has violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against the Company. Additionally, the Company receives subpoenas and other requests 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 September 30, 2013. Notwithstanding our attempt to estimate a range of possible losses in excess of the amount accrued based on current information, actual future losses may exceed both the Company's accrual and the range of potential litigation losses disclosed above.

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.

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## Telephone Consumer Protection Act Litigation

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

On October 12, 2012, the United States Court of Appeals for the Ninth Circuit, affirmed the decision of the United States District Court for the Southern District of California in the matter of Meyer v. Portfolio Recovery Associates, LLC, Case No. 11-cv-01008 ("Meyer"), which imposed a preliminary injunction prohibiting the Company from using its Avaya Proactive Contact Dialer to place calls to cellular telephones with California area codes that were obtained through skip-tracing. On December 28, 2012, the United States Court of Appeals for the Ninth Circuit denied the Company's petition seeking a rehearing en banc. Thereafter, the Company filed a Petition for Writ of Certiorari with the United States Supreme Court on March 28, 2013. On May 13, 2013 the United States Supreme Court denied the Company's petition. Meyer is one of the cases included in the MDL action listed above. Both Meyer and the MDL action are ongoing and no final determination on the merits in either has been made.

## Internal Revenue Service Audit

The 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. 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 8 "Income Taxes" for additional information.

## 11. 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 September 30, 2013 and December 31, 2012, under the indicated captions (amounts in thousands):

|                           | September 30, 2013 |                      | December 31, 2012 |                      |
|---------------------------|--------------------|----------------------|-------------------|----------------------|
|                           | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Financial assets:         |                    |                      |                   |                      |
| Cash and cash equivalents | \$ 108,705         | \$ 108,705           | \$ 32,687         | \$ 32,687            |
| Finance receivables, net  | 1,256,822          | 1,757,515            | 1,078,951         | 1,776,049            |
| Financial liabilities:    |                    |                      |                   |                      |

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|                  |         |         |         |         |
|------------------|---------|---------|---------|---------|
| Revolving credit | —       | —       | 127,000 | 127,000 |
| Long-term debt   | 196,433 | 196,433 | 200,542 | 200,542 |
| Convertible debt | 255,796 | 331,809 | —       | —       |

As of September 30, 2013, and December 31, 2012, the Company did not account for any financial assets or financial liabilities at fair value. As defined by FASB ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC 820”), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also requires the consideration of differing levels of inputs in the determination of fair values. Those levels of input are summarized as follows:

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•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.

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.

#### 12. Stockholders' Equity:

On February 2, 2012, the Board of Directors of the Company authorized a share repurchase program of up to \$100 million of the Company's outstanding shares of common stock on the open market. During the three and nine months ended September 30, 2013, the Company repurchased and retired 989,200 and 1,203,412 shares at an average price of \$50.55 and \$48.62 per share (including acquisition costs), respectively. At September 30, 2013, the maximum remaining amount authorized by the Board of Directors of the Company for share repurchases under the plan is approximately \$18.8 million.

#### 13. Recent Accounting Pronouncements:

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" to amend the accounting guidance on intangible asset impairment testing. The ASU

permits entities to perform an optional qualitative assessment for determining whether it is more likely than not that an indefinite-lived intangible asset is impaired. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company adopted ASU 2012-02 in the first quarter of 2013 which had no material impact on its consolidated financial statements. In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income, by component. In addition, entities are required to present, either on the face of

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the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. Generally Accepted Accounting Principles ("U.S. GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. The Company adopted ASU 2013-02 in the first quarter of 2013 which had no material impact on its consolidated financial statements.

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

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

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



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

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

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

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

### Definitions

We use the following terminology throughout this document:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Overview

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

The Company is headquartered in Norfolk, Virginia, and employs approximately 3,223 team members. The Company's shares of common stock are traded on the NASDAQ Global Select Market under the symbol "PRAA."  
Earnings Summary

During the third quarter of 2013, net income attributable to the Company was \$47.3 million, or \$0.93 per diluted share, compared with \$33.3 million, or \$0.65 per diluted share, in the third quarter of 2012. Total revenue was \$197.8 million in the third quarter of 2013, up 31.4% from the third quarter of 2012. Revenues in the recently completed quarter consisted of \$171.5 million in income recognized on finance receivables, net of allowance charges, and \$26.3 million in fee income. Income recognized on

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finance receivables, net of allowance charges, in the third quarter of 2013 increased \$35.7 million, or 26.3%, over the third quarter of 2012, primarily as a result of a significant increase in cash collections. Cash collections, which drives our finance receivable income, were \$291.7 million in the third quarter of 2013, up 27.3%, or \$62.6 million, as compared to the third quarter of 2012. During the third quarter of 2013, \$2.6 million in net allowance charge reversals were incurred, compared with \$1.6 million of net allowance charges in the third quarter of 2012. Our performance has been positively impacted by operational efficiencies surrounding the cash collections process, including the continued refinement of account scoring analytics as it relates to both legal and non-legal collection channels. Additionally, we have continued to develop our internal legal collection staff resources, which enables us to place accounts into that channel that otherwise would have been prohibitively expensive for legal action and to collect these accounts more efficiently and profitably.

Fee income increased to \$26.3 million in the third quarter of 2013 from \$14.8 million in the third quarter of 2012, primarily due to higher fee income generated by Claims Compensation Bureau, LLC ("CCB") largely related to income from a single case. This was partially offset by lower fee income generated in the third quarter of 2013 by Mackenzie Hall Holdings, Limited, ("MHH") and PRA Location Services ("PLS") when compared to the prior year period.

A summary of how our income was generated during the three months ended September 30, 2013 and 2012 is as follows:

| (\$ in thousands)                   | For the Three Months Ended |               |
|-------------------------------------|----------------------------|---------------|
|                                     | September 30,              | September 30, |
|                                     | 2013                       | 2012          |
| Cash collections                    | \$291,651                  | \$229,052     |
| Amortization of finance receivables | (122,776                   | (91,735       |
| Net allowance reversals/(charges)   | 2,581                      | (1,563        |
| Finance receivable income           | 171,456                    | 135,754       |
| Fee income                          | 26,306                     | 14,765        |
| Total revenue                       | \$197,762                  | \$150,519     |

Operating expenses were \$118.3 million in the third quarter of 2013, up 26.6% over the third quarter of 2012, due primarily to increases in compensation expense, legal collection fees and costs, other operating expenses and impairment of goodwill. Compensation expense increased primarily as a result of larger staff sizes in addition to increases in incentive and share based compensation. Compensation and employee services expenses increased as total employees grew 3.9% to 3,223 as of September 30, 2013, from 3,103 as of September 30, 2012. Legal collection costs increased from \$15.8 million in the third quarter of 2012 to \$19.8 million in the third quarter of 2013, an increase of \$4.0 million, or 25.3%. This increase was the result of our continued expansion of the accounts brought into the legal collection process. Legal collection fees increased from \$8.6 million in the third quarter of 2012 to \$10.2 million in the third quarter of 2013, an increase of \$1.6 million, or 18.6%. This increase was the result of an increase in cash collections from outside attorneys from \$39.9 million in the third quarter of 2012 to \$48.3 million for the third quarter of 2013, an increase of \$8.4 million, or 21.1%. Other operating expenses increased primarily as a result of an increase in accrued estimated contingent payments related to a previous acquisition. During the three months ended September 30, 2013, we further evaluated the goodwill associated with one of our reporting units, which had experienced a revenue and profitability decline, recent net losses and the loss of a significant client during the quarter. Based on this evaluation, we recorded a \$6.4 million impairment of goodwill in the third quarter of 2013. This non-cash charge represents the full amount of goodwill previously recorded for our subsidiary PLS.

During the three months ended September 30, 2013, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$1.79 billion at a cost of \$141.9 million. During the three months ended September 30, 2012, excluding the initial investment in the MHH portfolio, we acquired defaulted consumer receivable portfolios with an aggregate face value of \$1.26 billion at a cost of \$103.0 million. During the nine months ended September 30, 2013, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$6.83 billion at a cost of \$557.3 million. During the nine months ended September 30, 2012, excluding the

initial investment in the MHH portfolio, we acquired defaulted consumer receivable portfolios with an aggregate face value of \$4.25 billion at a cost of \$339.4 million. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectability. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. Regardless of the average purchase price and for similar time frames, however, 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.

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## 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 |               | For the Nine Months Ended |               |    |
|---|----------------------------|---------------|---------------------------|---------------|----|
|   | September 30,              | September 30, | September 30,             | September 30, |    |
|   | 2013                       | 2012          | 2013                      | 2012          |    |
| Revenues:   |                            |               |                           |               |    |
| Income recognized on finance receivables, net                                   | 86.7                       | % 90.2        | % 89.9                    | % 89.5        | %  |
| Fee income  | 13.3                       | % 9.8         | % 10.1                    | % 10.5        | %  |
| Total revenues  | 100.0                      | % 100.0       | % 100.0                   | % 100.0       | %  |
| Operating expenses:   |                            |               |                           |               |    |
| Compensation and employee services  | 26.7                       | % 27.5        | % 26.5                    | % 28.2        | %  |
| Legal collection fees   | 5.2                        | % 5.7         | % 5.7                     | % 5.8         | %  |
| Legal collection costs  | 10.0                       | % 10.5        | % 11.5                    | % 13.2        | %  |
| Agent fees  | 0.7                        | % 1.0         | % 0.8                     | % 1.0         | %  |
| Outside fees and services   | 4.4                        | % 6.7         | % 4.5                     | % 4.9         | %  |
| Communication expenses  | 3.9                        | % 4.5         | % 4.4                     | % 5.0         | %  |
| Rent and occupancy  | 1.0                        | % 1.2         | % 1.0                     | % 1.2         | %  |
| Depreciation and amortization   | 1.9                        | % 2.4         | % 1.9                     | % 2.5         | %  |
| Other operating expenses  | 2.7                        | % 2.5         | % 2.7                     | % 2.7         | %  |
| Impairment of goodwill  | 3.2                        | % —           | % 1.2                     | % —           | %  |
| Total operating expenses  | 59.7                       | % 62.0        | % 60.2                    | % 64.5        | %  |
| Income from operations  | 40.2                       | % 38.0        | % 39.8                    | % 35.5        | %  |
| Other expense:  |                            |               |                           |               |    |
| Interest expense  | 2.0                        | % 1.5         | % 1.7                     | % 1.6         | %  |
| Income before income taxes  | 38.2                       | % 36.5        | % 38.1                    | % 33.9        | %  |
| Provision for income taxes  | 13.3                       | % 14.4        | % 14.3                    | % 13.3        | %  |
| Net income  | 24.9                       | % 22.1        | % 23.8                    | % 20.6        | %  |
| Adjustment for income/(loss) attributable to redeemable noncontrolling interest | 0.9                        | % (0.1)       | )% 0.3                    | % (0.1)       | )% |
| Net income attributable to Portfolio Recovery Associates, Inc.                  | 23.9                       | % 22.2        | % 23.5                    | % 20.7        | %  |

## Three Months Ended September 30, 2013 Compared To Three Months Ended September 30, 2012

## Revenues

Total revenues were \$197.8 million for the three months ended September 30, 2013, an increase of \$47.3 million, or 31.4%, compared to total revenues of \$150.5 million for the three months ended September 30, 2012.

## Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was \$171.5 million for the three months ended September 30, 2013, an increase of \$35.7 million, or 26.3%, compared to income recognized on finance receivables, net of \$135.8 million for the three months ended September 30, 2012. The increase was primarily due to an increase in cash collections on our finance receivables to \$291.7 million for the three months ended September 30, 2013, from \$229.1 million for the three months ended September 30, 2012, an increase of \$62.6 million, or 27.3%. Our finance receivables amortization rate, including net allowance charges, was 41.2% for the three months ended September 30, 2013 compared to 40.7% for the three months ended September 30, 2012.

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

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would otherwise require a reduction in the stated yield on a pool of accounts. For the three months ended September 30, 2013, we recorded net allowance charge reversals of \$2.6 million, of which a net charge of \$1.4 million related to purchased bankruptcy portfolios primarily purchased in 2008, offset by reversals of \$4.0 million related to Core portfolios purchased between 2005 and 2008. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and decreases in productivity related to turnover of our collection staff.

**Fee Income**

Fee income increased to \$26.3 million for the three months ended September 30, 2013, from \$14.8 million for the three months ended September 30, 2012, primarily due to higher fee income generated by CCB largely related to income from a single case. This was partially offset by lower fee income generated in the three months ended September 30, 2013 by MHH and PLS when compared to the prior year period.

**Income from Operations**

Income from operations was \$79.5 million for the three months ended September 30, 2013, an increase of \$22.4 million or 39.2% compared to income from operations of \$57.1 million for the three months ended September 30, 2012. Income from operations was 40.2% of total revenue for the three months ended September 30, 2013 compared to 37.9% for the three months ended September 30, 2012.

**Operating Expenses**

Total operating expenses were \$118.3 million for the three months ended September 30, 2013, an increase of \$24.8 million or 26.5% compared to total operating expenses of \$93.5 million for the three months ended September 30, 2012. Total operating expenses were 37.2% of cash receipts for the three months ended September 30, 2013 compared to 38.3% for the three months ended September 30, 2012.

**Compensation and Employee Services**

Compensation and employee services expenses were \$52.9 million for the three months ended September 30, 2013, an increase of \$11.6 million, or 28.1%, compared to compensation and employee services expenses of \$41.3 million for the three months ended September 30, 2012. Compensation expense increased primarily as a result of larger staff sizes in addition to increases in incentive and share based compensation. Compensation and employee services expenses increased as total employees grew 3.9% to 3,223 as of September 30, 2013, from 3,103 as of September 30, 2012. Compensation and employee services expenses as a percentage of cash receipts decreased to 16.6% for the three months ended September 30, 2013, from 17.0% of cash receipts for the three months ended September 30, 2012.

**Legal Collection Fees**

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party attorney network. Legal collection fees were \$10.2 million for the three months ended September 30, 2013, an increase of \$1.6 million, or 18.6%, compared to legal collection fees of \$8.6 million for the three months ended September 30, 2012. This increase was the result of an increase in cash collections from outside attorneys from \$39.9 million in the three months ended September 30, 2012 to \$48.3 million for the three months ended September 30, 2013, an increase of \$8.4 million, or 21.1%. Legal collection fees for the three months ended September 30, 2013 were 3.2% of cash receipts, compared to 3.5% for the three months ended September 30, 2012.

**Legal Collection Costs**

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents received from sellers of defaulted consumer receivables. Legal collection costs were \$19.8 million for the three months ended September 30, 2013, an increase of \$4.0 million, or 25.3%, compared to legal collection costs of \$15.8 million for the three months ended September 30, 2012. Beginning in early 2012 and continuing into 2013, 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

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in significant initial expenses, which may continue to drive additional future cash collections and revenue. Legal collection costs for the three months ended September 30, 2013 were 6.2% of cash receipts, compared to 6.5% for the three months ended September 30, 2012.

Agent Fees

Agent fees primarily represent costs paid to repossession agents to repossess vehicles. Agent fees were \$1.4 million and \$1.5 million for the three months ended September 30, 2013 and 2012, respectively.

Outside Fees and Services

Outside fees and services expenses were \$8.7 million for the three months ended September 30, 2013, a decrease of \$1.4 million, or 13.9%, compared to outside fees and services expenses of \$10.1 million for the three months ended September 30, 2012. The decrease of \$1.4 million was mainly attributable to a decrease in legal reserve accruals and corporate legal expenses.

Communication Expenses

Communication expenses were \$7.8 million for the three months ended September 30, 2013, an increase of \$1.0 million, or 14.7%, compared to communications expenses of \$6.8 million for the three months ended September 30, 2012. 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 70.0%, or \$0.7 million, of this increase, and the remaining 30.0%, or \$0.3 million, was attributable to increases in telephone related charges.

Rent and Occupancy

Rent and occupancy expenses were \$2.0 million for the three months ended September 30, 2013, an increase of \$0.2 million, or 11.1%, compared to rent and occupancy expenses of \$1.8 million for the three months ended September 30, 2012.

Depreciation and Amortization

Depreciation and amortization expenses were \$3.8 million for the three months ended September 30, 2013, an increase of \$0.2 million, or 5.6%, compared to depreciation and amortization expenses of \$3.6 million for the three months ended September 30, 2012. The increase was primarily due to a larger investment in capital expenditures during the first nine months of 2013 when compared to the first nine months of 2012.

Other Operating Expenses

Other operating expenses were \$5.4 million for the three months ended September 30, 2013, an increase of \$1.6 million, or 42.1%, compared to other operating expenses of \$3.8 million for the three months ended September 30, 2012. Of the \$1.6 million increase, \$1.1 million was due to an increase in estimated contingent payments related to a previous acquisition, \$0.2 million was due to an increase in insurance costs and \$0.2 million was due to an increase in certain taxes, fees and licenses. This was partially offset by \$0.3 million of reversals in the provision for doubtful accounts. None of the remaining \$0.4 million increase was attributable to any significant identifiable items.

Impairment of Goodwill

Impairment of goodwill expense was \$6.4 million for the three months ended September 30, 2013, compared to \$0 for the three months ended September 30, 2012. During the three months ended September 30, 2013, the Company evaluated the goodwill associated with one of its reporting units, which had experienced a revenue and profitability decline, recent net losses and the loss of a significant client during the quarter. Based on this evaluation, the Company recorded a \$6.4 million impairment of goodwill in the third quarter of 2013. This non-cash charge represents the full amount of goodwill previously recorded for PLS. All other intangible assets related to PLS were fully amortized as of September 30, 2013.

Interest Expense

Interest expense was \$4.0 million and \$2.2 million for the three months ended September 30, 2013 and 2012, 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, as well as an increase in average borrowings under our variable rate credit facility for the three months ended September 30, 2013 compared to the same prior year period. The average borrowings on our variable rate credit facility were \$286.2 million and \$259.7 million for the three months ended September 30, 2013 and 2012, respectively.



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Provision for Income Taxes

Provision for income taxes was \$26.3 million for the three months ended September 30, 2013, an increase of \$4.6 million, or 21.2%, compared to provision for income taxes of \$21.7 million for the three months ended September 30, 2012. The increase is primarily due to an increase of 37.6% in income before taxes for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, offset by a decrease in the effective tax rate to 34.8% for the three months ended September 30, 2013, compared to an effective tax rate of 39.6% for the three months ended September 30, 2012. The decrease in the effective tax rate is primarily attributable to state revenue apportionment changes and tax credits.

Nine Months Ended September 30, 2013 Compared To Nine Months Ended September 30, 2012

Revenues

Total revenues were \$550.3 million for the nine months ended September 30, 2013, an increase of \$111.8 million, or 25.5%, compared to total revenues of \$438.5 million for the nine months ended September 30, 2012.

Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was \$494.8 million for the nine months ended September 30, 2013, an increase of \$102.2 million, or 26.0%, compared to income recognized on finance receivables, net of \$392.6 million for the nine months ended September 30, 2012. The increase was primarily due to an increase in cash collections on our finance receivables to \$863.5 million for the nine months ended September 30, 2013, from \$679.5 million for the nine months ended September 30, 2012, an increase of \$184.0 million or 27.1%. Our finance receivables amortization rate, including net allowance charges, was 42.7% for the nine months ended September 30, 2013 compared to 42.2% for the nine months ended September 30, 2012.

For the nine months ended September 30, 2013, we recorded net allowance charge reversals of \$1.6 million, of which \$6.5 million of net charges related to purchased bankruptcy portfolios primarily purchased in 2007 and 2008, offset by reversals of \$8.1 million related to Core portfolios primarily purchased between 2005 and 2008.

Fee Income

Fee income increased to \$55.5 million for the nine months ended September 30, 2013, from \$46.0 million for the nine months ended September 30, 2012, primarily due to higher fee income generated by CCB largely related to income from a single case. This was partially offset by lower fee income generated in the nine months ended September 30, 2013 by MHH and PLS when compared to the nine months ended September 30, 2012.

Income from Operations

Income from operations was \$219.2 million for the nine months ended September 30, 2013, an increase of \$63.1 million or 40.4% compared to income from operations of \$156.1 million for the nine months ended September 30, 2012. Income from operations was 39.8% of total revenue for the nine months ended September 30, 2013 compared to 35.6% for the nine months ended September 30, 2012.

Operating Expenses

Total operating expenses were \$331.1 million for the nine months ended September 30, 2013, an increase of \$48.6 million, or 17.2%, compared to total operating expenses of \$282.5 million for the nine months ended September 30, 2012. Total operating expenses were 36.0% of cash receipts for the nine months ended September 30, 2013 compared to 38.9% for the nine months ended September 30, 2012, largely due to improved efficiencies in our Core operations.

Compensation and Employee Services

Compensation and employee services expenses were \$146.1 million for the nine months ended September 30, 2013, an increase of \$22.6 million, or 18.3%, compared to compensation and employee services expenses of \$123.5 million for the nine months ended September 30, 2012. Compensation expense increased primarily as a result of larger staff sizes in addition to increases in incentive and share based compensation. Compensation and employee services expenses increased as total employees grew 3.9% to 3,223 as of September 30, 2013, from 3,103 as of September 30, 2012. Compensation and employee services expenses as a percentage of cash receipts decreased to 15.9% for the nine months ended September 30, 2013, from 17.0% of cash receipts for the nine months ended September 30, 2012.

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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 \$31.3 million for the nine months ended September 30, 2013, an increase of \$6.1 million, or 24.2%, compared to legal collection fees of \$25.2 million for the nine months ended September 30, 2012. This increase was the result of an increase in cash collections from outside attorneys from \$116.2 million in the nine months ended September 30, 2012 to \$146.3 million for the nine months ended September 30, 2013, an increase of \$30.1 million, or 25.9%. Legal collection fees for the nine months ended September 30, 2013 were 3.4% of cash receipts, compared to 3.5% for the nine months ended September 30, 2012.

Legal Collection Costs

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents received from sellers of defaulted consumer receivables. Legal collection costs were \$63.0 million for the nine months ended September 30, 2013, an increase of \$5.3 million, or 9.2%, compared to legal collection costs of \$57.7 million for the nine months ended September 30, 2012. Beginning in early 2012 and continuing into 2013, as a result of the refinement of our internal scoring methodology that expanded our account selections for legal action, we expanded the accounts brought into the legal collection process which resulted in significant initial expenses, which may continue to drive additional future cash collections and revenue. These legal collection costs represent 6.9% and 8.0% of cash receipts for the nine month periods ended September 30, 2013 and 2012, respectively.

Agent Fees

Agent fees primarily represent costs paid to repossession agents to repossess vehicles. Agent fees were \$4.3 million and \$4.5 million for the nine months ended September 30, 2013 and 2012, respectively.

Outside Fees and Services

Outside fees and services expenses were \$24.8 million for the nine months ended September 30, 2013, an increase of \$3.2 million, or 14.8%, compared to outside fees and services expenses of \$21.6 million for the nine months ended September 30, 2012. Of the \$3.2 million increase, \$2.3 million was attributable to an increase in corporate legal expenses and \$0.9 million was mainly attributable to an increase in other outside fees and services.

Communication Expenses

Communication expenses were \$24.3 million for the nine months ended September 30, 2013, an increase of \$2.3 million, or 10.5%, compared to communications expenses of \$22.0 million for the nine months ended September 30, 2012. 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 70.0%, or \$1.6 million, of this increase, and the remaining 30.0%, or \$0.7 million, was attributable to increases in telephone related charges.

Rent and Occupancy

Rent and occupancy expenses were \$5.5 million for the nine months ended September 30, 2013, an increase of \$0.4 million, or 7.8%, compared to rent and occupancy expenses of \$5.1 million for the nine months ended September 30, 2012. The increase was mainly attributable to the expansion of several existing office spaces as well as the additional rental expense incurred as a result of the NCM acquisition in the fourth quarter of 2012.

Depreciation and Amortization

Depreciation and amortization expenses were \$10.7 million for the nine months ended September 30, 2013, a decrease of \$0.1 million, or 1.0%, compared to depreciation and amortization expenses of \$10.8 million for the nine months ended September 30, 2012.

Other Operating Expenses

Other operating expenses were \$14.8 million for the nine months ended September 30, 2013, an increase of \$2.8 million, or 23.3%, compared to other operating expenses of \$12.0 million for the nine months ended September 30, 2012. Of the \$2.8 million increase, \$2.4 million was due to an increase in estimated contingent payments related to a previous acquisition, \$0.5 million was due to an increase in insurance costs and \$0.3 million was due to an increase in certain taxes, fees and licenses. This was offset by a \$1.0 million decrease in our provision for doubtful accounts for the nine months ended September 30, 2013, when



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compared to the nine months ended September 30, 2012. None of the remaining \$0.6 million increase was attributable to any significant identifiable items.

Impairment of Goodwill

Impairment of goodwill expense was \$6.4 million for the nine months ended September 30, 2013, compared to \$0 for the nine months ended September 30, 2012. During the three months ended September 30, 2013, the Company evaluated the goodwill associated with one of its reporting units, which had experienced a revenue and profitability decline, recent net losses and a loss of a significant client during the quarter. Based on this evaluation, the Company recorded a \$6.4 million impairment of goodwill in the third quarter of 2013. This non-cash charge represents the full amount of goodwill previously recorded for PLS. All other intangible assets related to PLS were fully amortized as of September 30, 2013.

Interest Income

Interest income was \$0 and \$8,000 for the nine months ended September 30, 2013 and 2012, respectively.

Interest Expense

Interest expense was \$9.6 million and \$7.2 million for the nine months ended September 30, 2013 and 2012, 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, as well as an increase in average borrowings under our variable rate credit facility for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. The average borrowings on our variable rate credit facility were \$347.9 million and \$262.5 million for the nine months ended September 30, 2013 and 2012, respectively.

Provision for Income Taxes

Provision for income taxes was \$78.4 million for the nine months ended September 30, 2013, an increase of \$19.9 million, or 34.0%, compared to provision for income taxes of \$58.5 million for the nine months ended September 30, 2012. The increase is primarily due to an increase of 40.8% in income before taxes for the nine months ended September 30, 2013, compared to the same period in 2012, offset by a decrease in the effective tax rate to 37.4% for the nine months ended September 30, 2013, compared to an effective tax rate of 39.3% for the nine months ended September 30, 2012. 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    |            |             | Nine Months Ended     |            |             |    |  |
|---|-----------------------|------------|-------------|-----------------------|------------|-------------|----|--|
|   | September 30,<br>2013 | 2012       | %<br>Change | September 30,<br>2013 | 2012       | %<br>Change |    |  |
| <b>EARNINGS (in thousands)</b>  |                       |            |             |                       |            |             |    |  |
| Income recognized on finance receivables, net                         | \$ 171,456            | \$ 135,754 | 26          | % \$ 494,818          | \$ 392,566 | 26          | %  |  |
| Fee income  | 26,306                | 14,765     | 78          | % 55,464              | 45,983     | 21          | %  |  |
| Total revenues  | 197,762               | 150,519    | 31          | % 550,282             | 438,549    | 25          | %  |  |
| Operating expenses  | 118,294               | 93,461     | 27          | % 331,101             | 282,474    | 17          | %  |  |
| Income from operations  | 79,468                | 57,058     | 39          | % 219,181             | 156,075    | 40          | %  |  |
| Net interest expense  | 3,995                 | 2,189      | 83          | % 9,607               | 7,215      | 33          | %  |  |
| Net income  | 49,211                | 33,127     | 49          | % 131,142             | 90,367     | 45          | %  |  |
| Net income attributable to Portfolio Recovery Associates, Inc.        | 47,338                | 33,314     | 42          | % 129,537             | 90,791     | 43          | %  |  |
| <b>PERIOD-END BALANCES (in thousands)</b>                             |                       |            |             |                       |            |             |    |  |
| Cash and cash equivalents   | \$ 108,705            | \$ 31,488  | 245         | % \$ 108,705          | \$ 31,488  | 245         | %  |  |
| Finance receivables, net  | 1,256,822             | 973,594    | 29          | % 1,256,822           | 973,594    | 29          | %  |  |
| Goodwill and intangible assets, net                                   | 119,636               | 121,623    | (2)         | )% 119,636            | 121,623    | (2)         | )% |  |
| Total assets  | 1,547,985             | 1,169,698  | 32          | % 1,547,985           | 1,169,698  | 32          | %  |  |
| Borrowings  | 452,229               | 250,674    | 80          | % 452,229             | 250,674    | 80          | %  |  |
| Total liabilities   | 721,001               | 479,211    | 50          | % 721,001             | 479,211    | 50          | %  |  |
| Total equity  | 816,647               | 670,489    | 22          | % 816,647             | 670,489    | 22          | %  |  |
| <b>FINANCE RECEIVABLE COLLECTIONS (dollars in thousands)</b>          |                       |            |             |                       |            |             |    |  |
| Cash collections  | \$ 291,651            | \$ 229,052 | 27          | % \$ 863,511          | \$ 679,473 | 27          | %  |  |
| Cash collections on fully amortized pools                             | 8,762                 | 6,762      | 30          | % 25,719              | 22,762     | 13          | %  |  |
| Principal amortization without allowance charges                      | 122,776               | 91,735     | 34          | % 370,286             | 282,645    | 31          | %  |  |
| Principal amortization with allowance charges                         | 120,195               | 93,298     | 29          | % 368,693             | 286,906    | 29          | %  |  |
| Principal amortization w/ allowance charges as % of cash collections: |                       |            |             |                       |            |             |    |  |
| Including fully amortized pools                                       | 41.2                  | % 40.7     | % 1         | % 42.7                | % 42.2     | % 1         | %  |  |
| Excluding fully amortized pools                                       | 42.5                  | % 42.0     | % 1         | % 44.0                | % 43.7     | % 1         | %  |  |
| <b>ALLOWANCE FOR FINANCE RECEIVABLES (dollars in thousands)</b>       |                       |            |             |                       |            |             |    |  |
| Allowance (reversal)/charge   | \$(2,581)             | ) \$ 1,563 | (265)       | )% \$(1,593)          | ) \$ 4,261 | (137)       | )% |  |
| Allowance (reversal)/charge to period-end net finance receivables     | (0.2)                 | )% 0.2     | % (228)     | )% (0.1)              | )% 0.4     | % (129)     | )% |  |
| Allowance (reversal)/charge to net finance receivable income          | (1.5)                 | )% 1.2     | % (231)     | )% (0.3)              | )% 1.1     | % (130)     | )% |  |
| Allowance (reversal)/charge to cash collections                       | (0.9)                 | )% 0.7     | % (230)     | )% (0.2)              | )% 0.6     | % (129)     | )% |  |



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PURCHASES OF FINANCE

RECEIVABLES (dollars in thousands)

|                              |           |           |      |              |           |      |    |
|------------------------------|-----------|-----------|------|--------------|-----------|------|----|
| Cash paid - core             | \$89,044  | \$52,703  | 69   | % \$329,309  | \$174,319 | 89   | %  |
| Face value - core            | 1,352,877 | 674,135   | 101  | % 3,930,066  | 2,679,734 | 47   | %  |
| Cash paid - bankruptcy       | 41,794    | 41,277    | 1    | % 210,662    | 151,629   | 39   | %  |
| Face value - bankruptcy      | 215,957   | 341,359   | (37) | )% 2,578,980 | 1,158,050 | 123  | %  |
| Cash paid - UK               | 11,037    | 8,981     | 23   | % 17,305     | 13,489    | 28   | %  |
| Face value - UK              | 218,528   | 248,667   | (12) | )% 318,950   | 408,797   | (22) | )% |
| Cash paid - total            | 141,875   | 102,961   | 38   | % 557,276    | 339,437   | 64   | %  |
| Face value - total           | 1,787,362 | 1,264,161 | 41   | % 6,827,996  | 4,246,581 | 61   | %  |
| Number of portfolios - total | 79        | 107       | (26) | )% 264       | 312       | (15) | )% |

ESTIMATED REMAINING

COLLECTIONS (in thousands)

|   |             |             |    |               |             |    |   |
|---|-------------|-------------|----|---------------|-------------|----|---|
| Estimated remaining collections - core and UK | \$1,794,641 | \$1,346,562 | 33 | % \$1,794,641 | \$1,346,562 | 33 | % |
| Estimated remaining collections - bankruptcy  | 877,722     | 791,018     | 11 | % 877,722     | 791,018     | 11 | % |
| Estimated remaining collections - total       | 2,672,363   | 2,137,580   | 25 | % 2,672,363   | 2,137,580   | 25 | % |

SHARE DATA (7) (share amounts in thousands)

|   |         |         |     |           |         |     |    |
|---|---------|---------|-----|-----------|---------|-----|----|
| Net income per common share - diluted                                   | \$0.93  | \$0.65  | 43  | % \$2.54  | \$1.77  | 44  | %  |
| Weighted average number of shares outstanding - diluted                 | 50,660  | 51,066  | (1) | )% 51,039 | 51,420  | (1) | )% |
| Shares repurchased  | 989     | —       | —   | % 1,203   | 994     | 21  | %  |
| Average price paid per share repurchased (including acquisitions costs) | \$50.55 | \$—     | —   | % \$48.62 | \$22.85 | 113 | %  |
| Closing market price  | \$59.93 | \$34.81 | 72  | % \$59.93 | \$34.81 | 72  | %  |

RATIOS AND OTHER DATA (dollars in thousands)

|   |           |           |      |             |           |      |    |
|---|-----------|-----------|------|-------------|-----------|------|----|
| Return on average equity (1)                  | 23.5      | % 20.3    | % 16 | % 22.4      | % 19.2    | % 17 | %  |
| Return on revenue (2)                         | 24.9      | % 22      | % 13 | % 23.8      | % 20.6    | % 16 | %  |
| Return on average assets (3)                  | 12.5      | % 11.4    | % 10 | % 12.0      | % 10.5    | % 14 | %  |
| Operating margin (4)                          | 40.2      | % 37.9    | % 6  | % 39.8      | % 35.6    | % 12 | %  |
| Operating expense to cash receipts (5)        | 37.2      | % 38.3    | %(3) | )% 36       | % 38.9    | %(7) | )% |
| Debt to equity (6)                            | 55.4      | % 37.4    | % 48 | % 55.4      | % 37.4    | % 48 | %  |
| Number of collectors                          | 2,054     | 1,992     | 3    | % 2,054     | 1,992     | 3    | %  |
| Number of full-time equivalent employees      | 3,223     | 3,103     | 4    | % 3,223     | 3,103     | 4    | %  |
| Cash receipts (5)                             | \$317,957 | \$243,817 | 30   | % \$918,975 | \$725,456 | 27   | %  |
| Line of credit - unused portion at period end | 435,500   | 214,450   | 103  | % 435,500   | 214,450   | 103  | %  |

(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 the line of credit balance plus long-term debt

(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          |             |            |              |               |   |
|---|------------------------|-------------|------------|--------------|---------------|---|
|   | September 30, June 30, |             | March 31,  | December 31, | September 30, |   |
|   | 2013                   | 2013        | 2012       | 2012         | 2012          |   |
| <b>EARNINGS (in thousands)</b>  |                        |             |            |              |               |   |
| Income recognized on finance receivables, net                         | \$ 171,456             | \$ 168,570  | \$ 154,792 | \$ 138,068   | \$ 135,754    |   |
| Fee income  | 26,306                 | 14,391      | 14,767     | 16,183       | 14,765        |   |
| Total revenues  | 197,762                | 182,961     | 169,559    | 154,251      | 150,519       |   |
| Operating expenses  | 118,294                | 109,135     | 103,672    | 94,262       | 93,461        |   |
| Income from operations  | 79,468                 | 73,826      | 65,887     | 59,989       | 57,058        |   |
| Net interest expense  | 3,995                  | 2,923       | 2,689      | 1,816        | 2,189         |   |
| Net income  | 49,211                 | 43,414      | 38,517     | 35,732       | 33,127        |   |
| Net income attributable to Portfolio Recovery Associates, Inc.        | 47,338                 | 43,599      | 38,600     | 35,802       | 33,314        |   |
| <b>PERIOD-END BALANCES (in thousands)</b>                             |                        |             |            |              |               |   |
| Cash and cash equivalents   | \$ 108,705             | \$ 43,459   | \$ 39,111  | \$ 32,687    | \$ 31,488     |   |
| Finance receivables, net  | 1,256,822              | 1,236,859   | 1,169,747  | 1,078,951    | 973,594       |   |
| Goodwill and intangible assets, net                                   | 119,636                | 124,349     | 125,462    | 129,852      | 121,623       |   |
| Total assets  | 1,547,985              | 1,457,246   | 1,382,739  | 1,288,956    | 1,169,698     |   |
| Borrowings  | 452,229                | 413,774     | 371,159    | 327,542      | 250,674       |   |
| Total liabilities   | 721,001                | 655,012     | 621,413    | 559,856      | 479,211       |   |
| Total equity  | 816,647                | 791,898     | 750,990    | 708,427      | 670,489       |   |
| <b>FINANCE RECEIVABLE COLLECTIONS</b>                                 |                        |             |            |              |               |   |
| (dollars in thousands)  |                        |             |            |              |               |   |
| Cash collections  | \$ 291,651             | \$ 296,397  | \$ 275,463 | \$ 229,211   | \$ 229,052    |   |
| Cash collections on fully amortized pools                             | 8,762                  | 10,612      | 6,345      | 6,211        | 6,762         |   |
| Principal amortization without allowance charges                      | 122,776                | 129,012     | 118,498    | 88,851       | 91,735        |   |
| Principal amortization with allowance charges                         | 120,195                | 127,827     | 120,671    | 91,142       | 93,298        |   |
| Principal amortization w/ allowance charges as % of cash collections: |                        |             |            |              |               |   |
| Including fully amortized pools                                       | 41.2                   | % 43.1      | % 43.8     | % 39.8       | % 40.7        | % |
| Excluding fully amortized pools                                       | 42.5                   | % 44.7      | % 44.8     | % 40.9       | % 42.0        | % |
| <b>ALLOWANCE FOR FINANCE RECEIVABLES (dollars in thousands)</b>       |                        |             |            |              |               |   |
| Allowance (reversal)/charge   | \$ (2,581              | ) \$ (1,185 | ) \$ 2,173 | \$ 2,291     | \$ 1,563      |   |
| Allowance (reversal)/charge to period-end net finance receivables     | (0.2                   | )% (0.1     | )% 0.2     | % 0.2        | % 0.2         | % |
| Allowance (reversal)/charge to net finance receivable income          | (1.5                   | )% (0.7     | )% 1.4     | % 1.7        | % 1.2         | % |
| Allowance (reversal)/charge to cash collections                       | (0.9                   | )% (0.4     | )% 0.8     | % 1.0        | % 0.7         | % |

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PURCHASES OF FINANCE

RECEIVABLES (dollars in thousands)

|                              |           |           |           |           |           |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| Cash paid - core             | \$89,044  | \$113,314 | \$126,951 | \$85,476  | \$52,703  |
| Face value - core            | 1,352,877 | 1,178,229 | 1,398,960 | 901,512   | 674,135   |
| Cash paid - bankruptcy       | 41,794    | 82,273    | 86,595    | 111,001   | 41,277    |
| Face value - bankruptcy      | 215,957   | 1,926,515 | 436,508   | 946,927   | 341,359   |
| Cash paid - UK               | 11,037    | 4,881     | 1,387     | 2,631     | 8,981     |
| Face value - UK              | 218,528   | 81,852    | 18,570    | 59,953    | 248,667   |
| Cash paid - total            | 141,875   | 200,468   | 214,933   | 199,108   | 102,961   |
| Face value - total           | 1,787,362 | 3,186,596 | 1,854,038 | 1,908,392 | 1,264,161 |
| Number of portfolios - total | 79        | 94        | 91        | 104       | 107       |

ESTIMATED REMAINING

COLLECTIONS (in thousands)

|   |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|
| Estimated remaining collections - core and UK | \$1,794,641 | \$1,711,006 | \$1,562,383 | \$1,410,053 | \$1,346,562 |
| Estimated remaining collections - bankruptcy  | 877,722     | 925,223     | 924,520     | 905,136     | 791,018     |
| Estimated remaining collections - total       | 2,672,363   | 2,636,229   | 2,486,903   | 2,315,189   | 2,137,580   |

SHARE DATA (7) (share amounts in thousands)

|   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Net income per common share - diluted                                   | \$0.93  | \$0.85  | \$0.75  | \$0.7   | \$0.65  |
| Weighted average number of shares outstanding - diluted                 | 50,660  | 51,183  | 51,273  | 51,217  | 51,066  |
| Shares repurchased  | 989     | 166     | 48      | —       | —       |
| Average price paid per share repurchased (including acquisitions costs) | \$50.55 | \$39.82 | \$39.34 | 31.01   | \$—     |
| Closing market price  | \$59.93 | \$51.21 | \$42.31 | \$35.62 | \$34.81 |

RATIOS AND OTHER DATA (dollars in thousands)

|   |           |           |           |           |           |   |
|---|-----------|-----------|-----------|-----------|-----------|---|
| Return on average equity (1)                  | 23.5      | % 22.5    | % 21.1    | % 20.6    | % 20.3    | % |
| Return on revenue (2)                         | 24.9      | % 23.7    | % 22.7    | % 23.2    | % 22.0    | % |
| Return on average assets (3)                  | 12.5      | % 12.1    | % 11.3    | % 11.8    | % 11.4    | % |
| Operating margin (4)                          | 40.2      | % 40.4    | % 38.9    | % 38.9    | % 37.9    | % |
| Operating expense to cash receipts (5)        | 37.2      | % 35.1    | % 35.7    | % 38.4    | % 38.3    | % |
| Debt to equity (6)                            | 55.4      | % 52.3    | % 49.4    | % 46.2    | % 37.4    | % |
| Number of collectors                          | 2,054     | 2,190     | 2,159     | 2,153     | 1,992     |   |
| Number of full-time equivalent employees      | 3,223     | 3,362     | 3,250     | 3,221     | 3,103     |   |
| Cash receipts (5)                             | \$317,957 | \$310,788 | \$290,230 | \$245,394 | \$243,817 |   |
| Line of credit - unused portion at period end | 435,500   | 184,000   | 228,000   | 273,000   | 214,450   |   |

(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 the line of credit balance plus long-term debt

(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 portfolio is not significant and is 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. However the numbers presented in these tables represent gross cash collections and do not reflect any costs to collect; therefore, 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. We continue to make enhancements to our analytical abilities, with the intent to collect more cash at a lower cost.

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 Portfolio

| (\$ in thousands) | Inception through September 30, 2013 |                |   |  |                        | As of September 30, 2013 |  |                                 |                                 |                             |
|-------------------|--------------------------------------|----------------|---|--|------------------------|--------------------------|--|---------------------------------|---------------------------------|-----------------------------|
|                   | 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              | \$3,080                              | \$10,198       | \$7,075                                 | \$3,123                                  | \$—                    | \$7,075                  | \$—  | \$21                            | \$10,219                        | 332%                        |
| 1997              | 7,685                                | 25,483         | 17,378                                  | 8,105                                    | —                      | 17,378                   | —  | 115                             | 25,598                          | 333%                        |
| 1998              | 11,089                               | 37,317         | 26,331                                  | 10,986                                   | —                      | 26,331                   | —  | 316                             | 37,633                          | 339%                        |
| 1999              | 18,898                               | 69,257         | 50,083                                  | 19,174                                   | —                      | 50,083                   | —  | 631                             | 69,888                          | 370%                        |
| 2000              | 25,020                               | 116,394        | 91,197                                  | 25,197                                   | —                      | 91,197                   | —  | 1,632                           | 118,026                         | 472%                        |
| 2001              | 33,481                               | 175,420        | 141,068                                 | 34,352                                   | —                      | 141,068                  | —  | 2,830                           | 178,250                         | 532%                        |
| 2002              | 42,325                               | 197,745        | 155,420                                 | 42,325                                   | —                      | 155,420                  | —  | 4,567                           | 202,312                         | 478%                        |
| 2003              | 61,447                               | 264,086        | 202,637                                 | 61,449                                   | —                      | 202,637                  | —  | 8,778                           | 272,864                         | 444%                        |
| 2004              | 59,176                               | 197,371        | 139,394                                 | 57,977                                   | 1,200                  | 138,194                  | —  | 8,466                           | 205,837                         | 348%                        |
| 2005              | 143,166                              | 309,176        | 183,574                                 | 125,602                                  | 11,265                 | 172,309                  | 6,300  | 12,326                          | 321,502                         | 225%                        |
| 2006              | 107,670                              | 206,698        | 126,653                                 | 80,045                                   | 21,765                 | 104,888                  | 5,860  | 10,048                          | 216,746                         | 201%                        |
| 2007              | 258,383                              | 473,083        | 258,977                                 | 214,106                                  | 21,905                 | 237,072                  | 22,366                                       | 51,890                          | 524,973                         | 203%                        |
| 2008              | 275,148                              | 466,251        | 257,419                                 | 208,832                                  | 35,395                 | 222,024                  | 30,887                                       | 56,049                          | 522,300                         | 190%                        |
| 2009              | 281,428                              | 713,843        | 473,044                                 | 240,799                                  | —                      | 473,044                  | 40,630                                       | 175,189                         | 889,032                         | 316%                        |
| 2010              | 358,082                              | 698,978        | 431,939                                 | 267,039                                  | —                      | 431,939                  | 91,068                                       | 308,951                         | 1,007,929                       | 281%                        |
| 2011              | 394,029                              | 500,565        | 285,880                                 | 214,685                                  | —                      | 285,880                  | 179,344                                      | 450,642                         | 951,207                         | 241%                        |
| 2012              | 511,638                              | 287,187        | 143,340                                 | 143,847                                  | —                      | 143,340                  | 367,792                                      | 675,753                         | 962,940                         | 188%                        |
| YTD 2013          | 535,377                              | 95,288         | 50,153                                  | 45,135                                   | —                      | 50,153                   | 490,761                                      | 871,885                         | 967,173                         | 181%                        |
| Total             | \$3,127,122                          | \$4,844,340    | \$3,041,562                             | \$1,802,778                              | \$91,530               | \$2,950,032              | \$1,235,008                                  | \$2,640,089                     | \$7,484,429                     | 239%                        |

Purchased Bankruptcy Portfolio

| (\$ in thousands) | Inception through September 30, 2013 |                |   |  |                        | As of September 30, 2013 |  |                                 |                                 |                             |
|-------------------|--------------------------------------|----------------|---|--|------------------------|--------------------------|--|---------------------------------|---------------------------------|-----------------------------|
|                   | 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                                | 14,477         | 8,209                                   | 6,268                                    | 1,200                  | 7,009                    | —  | 56                              | 14,533                          | 195%                        |
| 2005              | 29,301                               | 43,610         | 14,757                                  | 28,853                                   | 420                    | 14,337                   | 29   | 63                              | 43,673                          | 149%                        |
| 2006              | 17,630                               | 31,484         | 14,736                                  | 16,748                                   | 850                    | 13,886                   | 32   | 249                             | 31,733                          | 180%                        |
| 2007              | 78,541                               | 103,907        | 35,458                                  | 68,449                                   | 9,930                  | 25,528                   | 162  | 880                             | 104,787                         | 133%                        |
| 2008              | 108,600                              | 162,961        | 70,985                                  | 91,976                                   | 12,750                 | 58,235                   | 3,874  | 4,737                           | 167,698                         | 154%                        |
| 2009              | 156,039                              | 382,913        | 247,745                                 | 135,168                                  | —                      | 247,745                  | 20,871                                       | 80,974                          | 463,887                         | 297%                        |
| 2010              | 209,197                              | 363,019        | 208,843                                 | 154,176                                  | —                      | 208,843                  | 55,021                                       | 146,354                         | 509,373                         | 243%                        |
| 2011              | 182,085                              | 143,351        | 64,049                                  | 79,302                                   | —                      | 64,049                   | 102,783                                      | 157,578                         | 300,929                         | 165%                        |
| 2012              | 253,067                              | 96,030         | 35,191                                  | 60,839                                   | —                      | 35,191                   | 192,229                                      | 250,503                         | 346,533                         | 137%                        |
| YTD 2013          | 206,219                              | 35,286         | 11,145                                  | 24,141                                   | —                      | 11,145                   | 182,079                                      | 236,327                         | 271,613                         | 132%                        |
| Total             | \$1,248,147                          | \$1,377,038    | \$711,118                               | \$665,920                                | \$25,150               | \$685,968                | \$557,080                                    | \$877,721                       | \$2,254,759                     | 181%                        |





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## Core Portfolio

|                   |             | Inception through September 30, 2013 |             |              |           | As of September 30, 2013 |             |             |             |                 |
|-------------------|-------------|--------------------------------------|-------------|--------------|-----------|--------------------------|-------------|-------------|-------------|-----------------|
| (\$ in thousands) |             | Actual                               | Income      |              | Allowance | Income                   |             |             |             |                 |
| Purchase          | Purchase    | Cash                                 | Recognized  | Principal    | on        | Recognized               | Net Finance | Estimated   | Total       | Total Estimated |
| Period            | Price       | Collections                          | on Finance  | Amortization | Charges   | on Finance               | Receivable  | Remaining   | Estimated   | Collections to  |
|                   |             | Including                            | Cash        |              |           | Receivables,             | Balance     | Collections | Collections | Purchase Price  |
|                   |             | Sales                                | Receivables |              |           | Net                      |             |             |             |                 |
| 1996              | \$3,080     | \$10,198                             | \$7,075     | \$3,123      | \$—       | \$7,075                  | \$—         | \$21        | \$10,219    | 332%            |
| 1997              | 7,685       | 25,483                               | 17,378      | 8,105        | —         | 17,378                   | —           | 115         | 25,598      | 333%            |
| 1998              | 11,089      | 37,317                               | 26,331      | 10,986       | —         | 26,331                   | —           | 316         | 37,633      | 339%            |
| 1999              | 18,898      | 69,257                               | 50,083      | 19,174       | —         | 50,083                   | —           | 631         | 69,888      | 370%            |
| 2000              | 25,020      | 116,394                              | 91,197      | 25,197       | —         | 91,197                   | —           | 1,632       | 118,026     | 472%            |
| 2001              | 33,481      | 175,420                              | 141,068     | 34,352       | —         | 141,068                  | —           | 2,830       | 178,250     | 532%            |
| 2002              | 42,325      | 197,745                              | 155,420     | 42,325       | —         | 155,420                  | —           | 4,567       | 202,312     | 478%            |
| 2003              | 61,447      | 264,086                              | 202,637     | 61,449       | —         | 202,637                  | —           | 8,778       | 272,864     | 444%            |
| 2004              | 51,708      | 182,894                              | 131,185     | 51,709       | —         | 131,185                  | —           | 8,410       | 191,304     | 370%            |
| 2005              | 113,865     | 265,566                              | 168,817     | 96,749       | 10,845    | 157,972                  | 6,271       | 12,263      | 277,829     | 244%            |
| 2006              | 90,040      | 175,214                              | 111,917     | 63,297       | 20,915    | 91,002                   | 5,828       | 9,799       | 185,013     | 205%            |
| 2007              | 179,842     | 369,176                              | 223,519     | 145,657      | 11,975    | 211,544                  | 22,204      | 51,010      | 420,186     | 234%            |
| 2008              | 166,548     | 303,290                              | 186,434     | 116,856      | 22,645    | 163,789                  | 27,013      | 51,312      | 354,602     | 213%            |
| 2009              | 125,389     | 330,930                              | 225,299     | 105,631      | —         | 225,299                  | 19,759      | 94,215      | 425,145     | 339%            |
| 2010              | 148,885     | 335,959                              | 223,096     | 112,863      | —         | 223,096                  | 36,047      | 162,597     | 498,556     | 335%            |
| 2011              | 211,944     | 357,214                              | 221,831     | 135,383      | —         | 221,831                  | 76,561      | 293,064     | 650,278     | 307%            |
| 2012              | 258,571     | 191,157                              | 108,149     | 83,008       | —         | 108,149                  | 175,563     | 425,250     | 616,407     | 238%            |
| YTD<br>2013       | 329,158     | 60,002                               | 39,008      | 20,994       | —         | 39,008                   | 308,682     | 635,558     | 695,560     | 211%            |
| Total             | \$1,878,975 | \$3,467,302                          | \$2,330,444 | \$1,136,858  | \$66,380  | \$2,264,064              | \$677,928   | \$1,762,368 | \$5,229,670 | 278%            |

## Domestic Portfolio Data – Year to Date

## Entire Portfolio

|                   |          | Year to Date September 30, 2013 |             |              |           | As of September 30, 2013 |             |             |             |                 |
|-------------------|----------|---------------------------------|-------------|--------------|-----------|--------------------------|-------------|-------------|-------------|-----------------|
| (\$ in thousands) |          | Actual                          | Income      |              | Allowance | Income                   |             |             |             |                 |
| Purchase          | Purchase | Cash                            | Recognized  | Principal    | on        | Recognized               | Net Finance | Estimated   | Total       | Total Estimated |
| Period            | Price    | Collections                     | on Finance  | Amortization | Charges   | on Finance               | Receivable  | Remaining   | Estimated   | Collections to  |
|                   |          | Including                       | Cash        |              |           | Receivables,             | Balance     | Collections | Collections | Purchase Price  |
|                   |          | Sales                           | Receivables |              |           | Net                      |             |             |             |                 |
| 1996              | \$3,080  | \$15                            | \$15        | \$—          | \$—       | \$15                     | \$—         | \$21        | \$10,219    | 332%            |
| 1997              | 7,685    | 60                              | 60          | —            | —         | 60                       | —           | 115         | 25,598      | 333%            |
| 1998              | 11,089   | 138                             | 138         | —            | —         | 138                      | —           | 316         | 37,633      | 339%            |
| 1999              | 18,898   | 385                             | 385         | —            | —         | 385                      | —           | 631         | 69,888      | 370%            |
| 2000              | 25,020   | 1,078                           | 1,078       | —            | —         | 1,078                    | —           | 1,632       | 118,026     | 472%            |
| 2001              | 33,481   | 1,852                           | 1,852       | —            | —         | 1,852                    | —           | 2,830       | 178,250     | 532%            |
| 2002              | 42,325   | 2,701                           | 2,701       | —            | —         | 2,701                    | —           | 4,567       | 202,312     | 478%            |
| 2003              | 61,447   | 4,212                           | 4,212       | —            | —         | 4,212                    | —           | 8,778       | 272,864     | 444%            |
| 2004              | 59,176   | 3,617                           | 3,617       | —            | —         | 3,617                    | —           | 8,466       | 205,837     | 348%            |
| 2005              | 143,166  | 7,990                           | 3,572       | 4,418        | (2,423)   | 5,995                    | 6,300       | 12,326      | 321,502     | 225%            |
| 2006              | 107,670  | 6,982                           | 2,927       | 4,055        | (750)     | 3,677                    | 5,860       | 10,048      | 216,746     | 201%            |
| 2007              | 258,383  | 23,721                          | 11,818      | 11,903       | (970)     | 12,788                   | 22,366      | 51,890      | 524,973     | 203%            |

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|             |             |           |           |           |           |           |             |             |             |      |
|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-------------|-------------|-------------|------|
| 2008        | 275,148     | 35,513    | 13,854    | 21,659    | 2,550     | 11,304    | 30,887      | 56,049      | 522,300     | 190% |
| 2009        | 281,428     | 114,706   | 81,903    | 32,803    | —         | 81,903    | 40,630      | 175,189     | 889,032     | 316% |
| 2010        | 358,082     | 159,470   | 113,021   | 46,449    | —         | 113,021   | 91,068      | 308,951     | 1,007,929   | 281% |
| 2011        | 394,029     | 182,535   | 106,560   | 75,975    | —         | 106,560   | 179,344     | 450,642     | 951,207     | 241% |
| 2012        | 511,638     | 212,898   | 95,357    | 117,541   | —         | 95,357    | 367,792     | 675,753     | 962,940     | 188% |
| YTD<br>2013 | 535,377     | 95,288    | 50,153    | 45,135    | —         | 50,153    | 490,761     | 871,885     | 967,173     | 181% |
| Total       | \$3,127,122 | \$853,161 | \$493,223 | \$359,938 | \$(1,593) | \$494,816 | \$1,235,008 | \$2,640,089 | \$7,484,429 | 239% |

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## Purchased Bankruptcy Portfolio

|                   |             | Year to Date September 30, 2013 |             |           |           |              | As of September 30, 2013 |            |             |                 |
|-------------------|-------------|---------------------------------|-------------|-----------|-----------|--------------|--------------------------|------------|-------------|-----------------|
| (\$ in thousands) |             | Actual                          | Income      |           |           | Income       |                          |            |             |                 |
| Purchase          | Purchase    | Cash                            | Recognized  | Principal | Allowance | Recognized   | Net Finan                | Estimated  | Total       | Total Estimated |
| Period            | Price       | Collection                      | on          | Amortizat | Charges   | on           | Receivable               | Remaining  | Estimated   | Collections to  |
|                   |             | Including                       | Cash        | ion       |           | Finance      | Balance                  | Collection | Collections | Purchase Price  |
|                   |             | Sales                           | Receivables |           |           | Receivables, |                          |            |             |                 |
|                   |             |                                 |             |           |           | Net          |                          |            |             |                 |
| 1996-2003         | \$—         | \$—                             | \$—         | \$—       | \$—       | \$—          | \$—                      | \$—        | \$—         | —%              |
| 2004              | 7,468       | 75                              | 75          | —         | —         | 75           | —                        | 56         | 14,533      | 195%            |
| 2005              | 29,301      | 138                             | 38          | 100       | (73       | )111         | 29                       | 63         | 43,673      | 149%            |
| 2006              | 17,630      | 338                             | 210         | 128       | (50       | )260         | 32                       | 249        | 31,733      | 180%            |
| 2007              | 78,541      | 982                             | 266         | 716       | 650       | (384         | ) 162                    | 880        | 104,787     | 133%            |
| 2008              | 108,600     | 10,423                          | 1,816       | 8,607     | 6,000     | (4,184       | ) 3,874                  | 4,737      | 167,698     | 154%            |
| 2009              | 156,039     | 73,830                          | 50,625      | 23,205    | —         | 50,625       | 20,871                   | 80,974     | 463,887     | 297%            |
| 2010              | 209,197     | 94,014                          | 61,767      | 32,247    | —         | 61,767       | 55,021                   | 146,354    | 509,373     | 243%            |
| 2011              | 182,085     | 61,754                          | 24,583      | 37,171    | —         | 24,583       | 102,783                  | 157,578    | 300,929     | 165%            |
| 2012              | 253,067     | 78,642                          | 24,674      | 53,968    | —         | 24,674       | 192,229                  | 250,503    | 346,533     | 137%            |
| YTD 2013          | 206,219     | 35,286                          | 11,145      | 24,141    | —         | 11,145       | 182,079                  | 236,327    | 271,613     | 132%            |
| Total             | \$1,248,147 | \$355,482                       | \$175,199   | \$180,283 | \$6,527   | \$168,672    | \$557,080                | \$877,721  | \$2,254,759 | 181%            |

## Core Portfolio

|                   |             | Year to Date September 30, 2013 |             |           |           |              | As of September 30, 2013 |             |             |                 |
|-------------------|-------------|---------------------------------|-------------|-----------|-----------|--------------|--------------------------|-------------|-------------|-----------------|
| (\$ in thousands) |             | Actual                          | Income      |           |           | Income       |                          |             |             |                 |
| Purchase          | Purchase    | Cash                            | Recognized  | Principal | Allowance | Recognized   | Net Finan                | Estimated   | Total       | Total Estimated |
| Period            | Price       | Collection                      | on          | Amortizat | Charges   | on           | Receivable               | Remaining   | Estimated   | Collections to  |
|                   |             | Including                       | Cash        | ion       |           | Finance      | Balance                  | Collection  | Collections | Purchase Price  |
|                   |             | Sales                           | Receivables |           |           | Receivables, |                          |             |             |                 |
|                   |             |                                 |             |           |           | Net          |                          |             |             |                 |
| 1996              | \$3,080     | \$15                            | \$15        | \$—       | \$—       | \$15         | \$—                      | \$21        | \$10,219    | 332%            |
| 1997              | 7,685       | 60                              | 60          | —         | —         | 60           | —                        | 115         | 25,598      | 333%            |
| 1998              | 11,089      | 138                             | 138         | —         | —         | 138          | —                        | 316         | 37,633      | 339%            |
| 1999              | 18,898      | 385                             | 385         | —         | —         | 385          | —                        | 631         | 69,888      | 370%            |
| 2000              | 25,020      | 1,078                           | 1,078       | —         | —         | 1,078        | —                        | 1,632       | 118,026     | 472%            |
| 2001              | 33,481      | 1,852                           | 1,852       | —         | —         | 1,852        | —                        | 2,830       | 178,250     | 532%            |
| 2002              | 42,325      | 2,701                           | 2,701       | —         | —         | 2,701        | —                        | 4,567       | 202,312     | 478%            |
| 2003              | 61,447      | 4,212                           | 4,212       | —         | —         | 4,212        | —                        | 8,778       | 272,864     | 444%            |
| 2004              | 51,708      | 3,542                           | 3,542       | —         | —         | 3,542        | —                        | 8,410       | 191,304     | 370%            |
| 2005              | 113,865     | 7,852                           | 3,534       | 4,318     | (2,350    | )5,884       | 6,271                    | 12,263      | 277,829     | 244%            |
| 2006              | 90,040      | 6,644                           | 2,717       | 3,927     | (700      | )3,417       | 5,828                    | 9,799       | 185,013     | 205%            |
| 2007              | 179,842     | 22,739                          | 11,552      | 11,187    | (1,620    | )13,172      | 22,204                   | 51,010      | 420,186     | 234%            |
| 2008              | 166,548     | 25,090                          | 12,038      | 13,052    | (3,450    | )15,488      | 27,013                   | 51,312      | 354,602     | 213%            |
| 2009              | 125,389     | 40,876                          | 31,278      | 9,598     | —         | 31,278       | 19,759                   | 94,215      | 425,145     | 339%            |
| 2010              | 148,885     | 65,456                          | 51,254      | 14,202    | —         | 51,254       | 36,047                   | 162,597     | 498,556     | 335%            |
| 2011              | 211,944     | 120,781                         | 81,977      | 38,804    | —         | 81,977       | 76,561                   | 293,064     | 650,278     | 307%            |
| 2012              | 258,571     | 134,256                         | 70,683      | 63,573    | —         | 70,683       | 175,563                  | 425,250     | 616,407     | 238%            |
| YTD 2013          | 329,158     | 60,002                          | 39,008      | 20,994    | —         | 39,008       | 308,682                  | 635,558     | 695,560     | 211%            |
| Total             | \$1,878,975 | \$497,679                       | \$318,024   | \$179,655 | \$(8,120) | \$326,144    | \$677,928                | \$1,762,368 | \$5,229,670 | 278%            |



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## Domestic Portfolio Data – Current Quarter

## Entire Portfolio

| Purchase Period | Purchase Price | Quarter Ended September 30, 2013        |                                       |                        |                   |   | As of September 30, 2013        |                                 |                             |   |  |
|-----------------|----------------|---|---------------------------------------|------------------------|-------------------|---|---------------------------------|---------------------------------|-----------------------------|---|--|
|                 |                | Actual Cash Collections Including Sales | Income Recognized on Cash Receivables | Principal Amortization | Allowance Charges | Income Recognized on Finance Receivables, Net | Net Finance Receivables Balance | Estimated Remaining Collections | Total Estimated Collections | Total Estimated Collections to Purchase Price |  |
| 1996            | \$3,080        | \$4                                     | \$4                                   | \$—                    | \$—               | \$4   | \$—                             | \$21                            | \$10,219                    | 332%  |  |
| 1997            | 7,685          | 18                                      | 18                                    | —                      | —                 | 18  | —                               | 115                             | 25,598                      | 333%  |  |
| 1998            | 11,089         | 38                                      | 38                                    | —                      | —                 | 38  | —                               | 316                             | 37,633                      | 339%  |  |
| 1999            | 18,898         | 95                                      | 95                                    | —                      | —                 | 95  | —                               | 631                             | 69,888                      | 370%  |  |
| 2000            | 25,020         | 280                                     | 280                                   | —                      | —                 | 280   | —                               | 1,632                           | 118,026                     | 472%  |  |
| 2001            | 33,481         | 545                                     | 545                                   | —                      | —                 | 545   | —                               | 2,830                           | 178,250                     | 532%  |  |
| 2002            | 42,325         | 717                                     | 718                                   | (1)                    | —                 | 718   | —                               | 4,567                           | 202,312                     | 478%  |  |
| 2003            | 61,447         | 1,175                                   | 1,175                                 | —                      | —                 | 1,175   | —                               | 8,778                           | 272,864                     | 444%  |  |
| 2004            | 59,176         | 995                                     | 995                                   | —                      | —                 | 995   | —                               | 8,466                           | 205,837                     | 348%  |  |
| 2005            | 143,166        | 2,307                                   | 1,109                                 | 1,198                  | (1,351)           | 2,460   | 6,300                           | 12,326                          | 321,502                     | 225%  |  |
| 2006            | 107,670        | 1,832                                   | 840                                   | 992                    | (500)             | 1,340   | 5,860                           | 10,048                          | 216,746                     | 201%  |  |
| 2007            | 258,383        | 6,412                                   | 3,767                                 | 2,645                  | (1,830)           | 5,597   | 22,366                          | 51,890                          | 524,973                     | 203%  |  |
| 2008            | 275,148        | 9,404                                   | 3,985                                 | 5,419                  | 1,100             | 2,885   | 30,887                          | 56,049                          | 522,300                     | 190%  |  |
| 2009            | 281,428        | 36,024                                  | 25,566                                | 10,458                 | —                 | 25,566  | 40,630                          | 175,189                         | 889,032                     | 316%  |  |
| 2010            | 358,082        | 49,896                                  | 36,044                                | 13,852                 | —                 | 36,044  | 91,068                          | 308,951                         | 1,007,929                   | 281%  |  |
| 2011            | 394,029        | 57,825                                  | 35,791                                | 22,034                 | —                 | 35,791  | 179,344                         | 450,642                         | 951,207                     | 241%  |  |
| 2012            | 511,638        | 69,208                                  | 31,565                                | 37,643                 | —                 | 31,565  | 367,792                         | 675,753                         | 962,940                     | 188%  |  |
| YTD 2013        | 535,377        | 50,608                                  | 26,340                                | 24,268                 | —                 | 26,340  | 490,761                         | 871,885                         | 967,173                     | 181%  |  |
| Total           | \$3,127,122    | \$287,383                               | \$168,875                             | \$118,508              | \$(2,581)         | \$171,456                                     | \$1,235,008                     | \$2,640,089                     | \$7,484,429                 | 239%  |  |

## Purchased Bankruptcy Portfolio

| Purchase Period | Purchase Price | Quarter Ended September 30, 2013        |                                       |                        |                   |   | As of September 30, 2013        |                                 |                             |   |  |
|-----------------|----------------|---|---------------------------------------|------------------------|-------------------|---|---------------------------------|---------------------------------|-----------------------------|---|--|
|                 |                | Actual Cash Collections Including Sales | Income Recognized on Cash Receivables | Principal Amortization | Allowance Charges | Income Recognized on Finance Receivables, Net | Net Finance Receivables Balance | Estimated Remaining Collections | Total Estimated Collections | Total Estimated Collections to Purchase Price |  |
| 1996-2003       | \$—            | \$—                                     | \$—                                   | \$—                    | \$—               | \$—   | \$—                             | \$—                             | \$—                         | —%  |  |
| 2004            | 7,468          | 15                                      | 15                                    | —                      | —                 | 15  | —                               | 56                              | 14,533                      | 195%  |  |
| 2005            | 29,301         | 31                                      | 13                                    | 18                     | (1)               | 14  | 29                              | 63                              | 43,673                      | 149%  |  |
| 2006            | 17,630         | 93                                      | 62                                    | 31                     | —                 | 62  | 32                              | 249                             | 31,733                      | 180%  |  |
| 2007            | 78,541         | 253                                     | 92                                    | 161                    | (110)             | 202   | 162                             | 880                             | 104,787                     | 133%  |  |
| 2008            | 108,600        | 2,260                                   | 342                                   | 1,918                  | 1,500             | (1,158)                                       | 3,874                           | 4,737                           | 167,698                     | 154%  |  |
| 2009            | 156,039        | 23,991                                  | 15,922                                | 8,069                  | —                 | 15,922  | 20,871                          | 80,974                          | 463,887                     | 297%  |  |
| 2010            | 209,197        | 30,418                                  | 20,205                                | 10,213                 | —                 | 20,205  | 55,021                          | 146,354                         | 509,373                     | 243%  |  |
| 2011            | 182,085        | 21,023                                  | 8,406                                 | 12,617                 | —                 | 8,406   | 102,783                         | 157,578                         | 300,929                     | 165%  |  |
| 2012            | 253,067        | 26,349                                  | 7,696                                 | 18,653                 | —                 | 7,696   | 192,229                         | 250,503                         | 346,533                     | 137%  |  |
| YTD 2013        | 206,219        | 16,144                                  | 5,021                                 | 11,123                 | —                 | 5,021   | 182,079                         | 236,327                         | 271,613                     | 132%  |  |
| Total           | \$1,248,147    | \$120,577                               | \$57,774                              | \$62,803               | \$1,389           | \$56,385                                      | \$557,080                       | \$877,721                       | \$2,254,759                 | 181%  |  |



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## Core Portfolio

| Purchase Period | Purchase Price | Quarter Ended September 30, 2013        |                                       |                        |                   |   | As of September 30, 2013       |                                 |                             |   |
|-----------------|----------------|---|---------------------------------------|------------------------|-------------------|---|--------------------------------|---------------------------------|-----------------------------|---|
|                 |                | Actual Cash Collections Including Sales | Income Recognized on Cash 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        | \$4                                     | \$4                                   | \$—                    | \$—               | \$4   | \$—                            | \$21                            | \$10,219                    | 332%  |
| 1997            | 7,685          | 18                                      | 18                                    | —                      | —                 | 18  | —                              | 115                             | 25,598                      | 333%  |
| 1998            | 11,089         | 38                                      | 38                                    | —                      | —                 | 38  | —                              | 316                             | 37,633                      | 339%  |
| 1999            | 18,898         | 95                                      | 95                                    | —                      | —                 | 95  | —                              | 631                             | 69,888                      | 370%  |
| 2000            | 25,020         | 280                                     | 280                                   | —                      | —                 | 280   | —                              | 1,632                           | 118,026                     | 472%  |
| 2001            | 33,481         | 545                                     | 545                                   | —                      | —                 | 545   | —                              | 2,830                           | 178,250                     | 532%  |
| 2002            | 42,325         | 717                                     | 718                                   | (1)                    | —                 | 718   | —                              | 4,567                           | 202,312                     | 478%  |
| 2003            | 61,447         | 1,175                                   | 1,175                                 | —                      | —                 | 1,175   | —                              | 8,778                           | 272,864                     | 444%  |
| 2004            | 51,708         | 980                                     | 980                                   | —                      | —                 | 980   | —                              | 8,410                           | 191,304                     | 370%  |
| 2005            | 113,865        | 2,276                                   | 1,096                                 | 1,180                  | (1,350)           | 2,446   | 6,271                          | 12,263                          | 277,829                     | 244%  |
| 2006            | 90,040         | 1,739                                   | 778                                   | 961                    | (500)             | 1,278   | 5,828                          | 9,799                           | 185,013                     | 205%  |
| 2007            | 179,842        | 6,159                                   | 3,675                                 | 2,484                  | (1,720)           | 5,395   | 22,204                         | 51,010                          | 420,186                     | 234%  |
| 2008            | 166,548        | 7,144                                   | 3,643                                 | 3,501                  | (400)             | 4,043   | 27,013                         | 51,312                          | 354,602                     | 213%  |
| 2009            | 125,389        | 12,033                                  | 9,644                                 | 2,389                  | —                 | 9,644   | 19,759                         | 94,215                          | 425,145                     | 339%  |
| 2010            | 148,885        | 19,478                                  | 15,839                                | 3,639                  | —                 | 15,839  | 36,047                         | 162,597                         | 498,556                     | 335%  |
| 2011            | 211,944        | 36,802                                  | 27,385                                | 9,417                  | —                 | 27,385  | 76,561                         | 293,064                         | 650,278                     | 307%  |
| 2012            | 258,571        | 42,859                                  | 23,869                                | 18,990                 | —                 | 23,869  | 175,563                        | 425,250                         | 616,407                     | 238%  |
| YTD 2013        | 329,158        | 34,464                                  | 21,319                                | 13,145                 | —                 | 21,319  | 308,682                        | 635,558                         | 695,560                     | 211%  |
| Total           | \$1,878,975    | \$166,806                               | \$111,101                             | \$55,705               | \$(3,970)         | \$115,071                                     | \$677,928                      | \$1,762,368                     | \$5,229,670                 | 278%  |

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



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Our ability to profitably purchase and liquidate pools of bankrupt accounts provides diversity to our distressed asset acquisition business. Although we generally buy bankrupt portfolios from many of the same consumer lenders from whom we acquire Core customer portfolios, the volumes and pricing characteristics as well as the competitors are different. Based upon market dynamics, the profitability of portfolios purchased in the bankrupt and Core markets may differ over time. We have found periods when bankrupt accounts were more profitable and other times when Core accounts were more profitable. From 2004 through 2008, our bankruptcy buying fluctuated between 13% and 39% of our total portfolio purchasing. In 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 and 2012, bankruptcy buying represented 48% and 50%, respectively, of our total domestic portfolio purchasing. During the first nine months of 2013, bankruptcy buying represented 39% of our total domestic portfolio purchasing.

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

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

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



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

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

(in thousands)

| Purchase<br>Period | Purchase<br>Price | Cash Collection Period |           |           |           |           |           |           |           |           |           | YTD<br>2013 | Total |
|--------------------|-------------------|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------|
|                    |                   | 1996-2004              | 2005      | 2006      | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      |           |             |       |
| 1996               | \$3,080           | \$9,204                | \$210     | \$237     | \$102     | \$83      | \$78      | \$68      | \$100     | \$39      | \$15      | \$10,136    |       |
| 1997               | 7,685             | 21,943                 | 860       | 597       | 437       | 346       | 215       | 216       | 187       | 112       | 60        | 24,973      |       |
| 1998               | 11,089            | 31,078                 | 1,811     | 1,415     | 882       | 616       | 397       | 382       | 332       | 241       | 138       | 37,292      |       |
| 1999               | 18,898            | 52,846                 | 4,352     | 3,032     | 2,243     | 1,533     | 1,328     | 1,139     | 997       | 709       | 385       | 68,564      |       |
| 2000               | 25,020            | 76,596                 | 10,924    | 8,067     | 5,202     | 3,604     | 3,198     | 2,782     | 2,554     | 1,927     | 1,078     | 115,932     |       |
| 2001               | 33,481            | 96,599                 | 22,639    | 16,048    | 10,011    | 6,164     | 5,299     | 4,422     | 3,791     | 3,104     | 1,852     | 169,929     |       |
| 2002               | 42,325            | 87,073                 | 32,497    | 24,729    | 16,527    | 9,772     | 7,444     | 6,375     | 5,844     | 4,768     | 2,701     | 197,730     |       |
| 2003               | 61,447            | 74,014                 | 52,640    | 43,728    | 30,695    | 18,818    | 13,135    | 10,422    | 8,945     | 7,477     | 4,212     | 264,086     |       |
| 2004               | 59,176            | 18,019                 | 46,475    | 40,424    | 30,750    | 19,339    | 13,677    | 9,944     | 8,522     | 6,604     | 3,617     | 197,371     |       |
| 2005               | 143,166           | —                      | 18,968    | 75,145    | 69,862    | 49,576    | 33,366    | 23,733    | 17,234    | 13,302    | 7,990     | 309,176     |       |
| 2006               | 107,670           | —                      | —         | 22,971    | 53,192    | 40,560    | 29,749    | 22,494    | 18,190    | 12,560    | 6,982     | 206,698     |       |
| 2007               | 258,383           | —                      | —         | —         | 42,263    | 115,011   | 94,805    | 83,059    | 67,088    | 47,136    | 23,721    | 473,083     |       |
| 2008               | 275,148           | —                      | —         | —         | —         | 61,277    | 107,974   | 100,337   | 89,344    | 71,806    | 35,513    | 466,251     |       |
| 2009               | 281,428           | —                      | —         | —         | —         | —         | 57,338    | 177,407   | 187,119   | 177,273   | 114,706   | 713,843     |       |
| 2010               | 358,082           | —                      | —         | —         | —         | —         | —         | 86,562    | 218,053   | 234,893   | 159,470   | 698,978     |       |
| 2011               | 394,029           | —                      | —         | —         | —         | —         | —         | —         | 77,190    | 240,840   | 182,535   | 500,565     |       |
| 2012               | 511,638           | —                      | —         | —         | —         | —         | —         | —         | —         | 74,289    | 212,898   | 287,187     |       |
| YTD<br>2013        | 535,377           | —                      | —         | —         | —         | —         | —         | —         | —         | —         | 95,288    | 95,288      |       |
| Total              | \$3,127,122       | \$467,372              | \$191,376 | \$236,393 | \$262,166 | \$326,699 | \$368,003 | \$529,342 | \$705,490 | \$897,080 | \$853,161 | \$4,837,000 |       |

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

(in thousands)

| Purchase<br>Period | Purchase<br>Price | Cash Collection Period |         |          |          |          |          |           |           |           |           | YTD<br>2013 | Total |
|--------------------|-------------------|------------------------|---------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-------------|-------|
|                    |                   | 1996-2004              | 2005    | 2006     | 2007     | 2008     | 2009     | 2010      | 2011      | 2012      |           |             |       |
| 2004               | \$7,468           | 743                    | 4,554   | 3,956    | 2,777    | 1,455    | 496      | 164       | 149       | 108       | 75        | \$14,477    |       |
| 2005               | 29,301            | —                      | 3,777   | 15,500   | 11,934   | 6,845    | 3,318    | 1,382     | 466       | 250       | 138       | 43,610      |       |
| 2006               | 17,630            | —                      | —       | 5,608    | 9,455    | 6,522    | 4,398    | 2,972     | 1,526     | 665       | 338       | 31,484      |       |
| 2007               | 78,541            | —                      | —       | —        | 2,850    | 27,972   | 25,630   | 22,829    | 16,093    | 7,551     | 982       | 103,907     |       |
| 2008               | 108,600           | —                      | —       | —        | —        | 14,024   | 35,894   | 37,974    | 35,690    | 28,956    | 10,423    | 162,961     |       |
| 2009               | 156,039           | —                      | —       | —        | —        | —        | 16,635   | 81,780    | 102,780   | 107,888   | 73,830    | 382,913     |       |
| 2010               | 209,197           | —                      | —       | —        | —        | —        | —        | 39,486    | 104,499   | 125,020   | 94,014    | 363,019     |       |
| 2011               | 182,085           | —                      | —       | —        | —        | —        | —        | —         | 15,218    | 66,379    | 61,754    | 143,351     |       |
| 2012               | 253,067           | —                      | —       | —        | —        | —        | —        | —         | —         | 17,388    | 78,642    | 96,030      |       |
| YTD<br>2013        | 206,219           | —                      | —       | —        | —        | —        | —        | —         | —         | —         | 35,286    | 35,286      |       |
| Total              | \$1,248,147       | \$743                  | \$8,331 | \$25,064 | \$27,016 | \$56,818 | \$86,371 | \$186,587 | \$276,421 | \$354,205 | \$355,482 | \$1,377,038 |       |



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

(in thousands)

| Purchase<br>Period | Purchase<br>Price | Cash Collection Period |           |           |           |           |           |           |           |           |           | YTD<br>2013 | Total |
|--------------------|-------------------|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------|
|                    |                   | 1996-2004              | 2005      | 2006      | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      |           |             |       |
| 1996               | \$3,080           | \$9,204                | \$210     | \$237     | \$102     | \$83      | \$78      | \$68      | \$100     | \$39      | \$15      | \$10,136    |       |
| 1997               | 7,685             | 21,943                 | 860       | 597       | 437       | 346       | 215       | 216       | 187       | 112       | 60        | 24,973      |       |
| 1998               | 11,089            | 31,078                 | 1,811     | 1,415     | 882       | 616       | 397       | 382       | 332       | 241       | 138       | 37,292      |       |
| 1999               | 18,898            | 52,846                 | 4,352     | 3,032     | 2,243     | 1,533     | 1,328     | 1,139     | 997       | 709       | 385       | 68,564      |       |
| 2000               | 25,020            | 76,596                 | 10,924    | 8,067     | 5,202     | 3,604     | 3,198     | 2,782     | 2,554     | 1,927     | 1,078     | 115,932     |       |
| 2001               | 33,481            | 96,599                 | 22,639    | 16,048    | 10,011    | 6,164     | 5,299     | 4,422     | 3,791     | 3,104     | 1,852     | 169,929     |       |
| 2002               | 42,325            | 87,073                 | 32,497    | 24,729    | 16,527    | 9,772     | 7,444     | 6,375     | 5,844     | 4,768     | 2,701     | 197,730     |       |
| 2003               | 61,447            | 74,014                 | 52,640    | 43,728    | 30,695    | 18,818    | 13,135    | 10,422    | 8,945     | 7,477     | 4,212     | 264,086     |       |
| 2004               | 51,708            | 17,276                 | 41,921    | 36,468    | 27,973    | 17,884    | 13,181    | 9,780     | 8,373     | 6,496     | 3,542     | 182,894     |       |
| 2005               | 113,865           | —                      | 15,191    | 59,645    | 57,928    | 42,731    | 30,048    | 22,351    | 16,768    | 13,052    | 7,852     | 265,566     |       |
| 2006               | 90,040            | —                      | —         | 17,363    | 43,737    | 34,038    | 25,351    | 19,522    | 16,664    | 11,895    | 6,644     | 175,214     |       |
| 2007               | 179,842           | —                      | —         | —         | 39,413    | 87,039    | 69,175    | 60,230    | 50,995    | 39,585    | 22,739    | 369,176     |       |
| 2008               | 166,548           | —                      | —         | —         | —         | 47,253    | 72,080    | 62,363    | 53,654    | 42,850    | 25,090    | 303,290     |       |
| 2009               | 125,389           | —                      | —         | —         | —         | —         | 40,703    | 95,627    | 84,339    | 69,385    | 40,876    | 330,930     |       |
| 2010               | 148,885           | —                      | —         | —         | —         | —         | —         | 47,076    | 113,554   | 109,873   | 65,456    | 335,959     |       |
| 2011               | 211,944           | —                      | —         | —         | —         | —         | —         | —         | 61,972    | 174,461   | 120,781   | 357,214     |       |
| 2012               | 258,571           | —                      | —         | —         | —         | —         | —         | —         | —         | 56,901    | 134,256   | 191,157     |       |
| YTD<br>2013        | 329,158           | —                      | —         | —         | —         | —         | —         | —         | —         | —         | 60,002    | 60,002      |       |
| Total              | \$1,878,975       | \$466,629              | \$183,045 | \$211,329 | \$235,150 | \$269,881 | \$281,632 | \$342,755 | \$429,069 | \$542,875 | \$497,679 | \$3,460,    |       |

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 the first nine months of 2013.

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

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

## Seasonality

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)          | Q32013    | Q22013    | Q12013    | Q42012    | Q32012    | Q22012    | Q12012    | Q42011    |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Call Center and Other Collections | \$89,512  | \$90,229  | \$89,037  | \$72,624  | \$72,394  | \$73,582  | \$79,805  | \$61,227  |
| External Legal Collections        | 48,274    | 50,131    | 47,910    | 41,521    | 39,913    | 41,464    | 34,852    | 26,316    |
| Internal Legal Collections        | 33,288    | 30,365    | 29,283    | 23,968    | 25,650    | 25,361    | 23,345    | 17,615    |
| Bankruptcy Court Trustee Payments | 120,577   | 125,672   | 109,233   | 91,098    | 91,095    | 92,018    | 79,994    | 75,166    |
| Total Cash Collections            | \$291,651 | \$296,397 | \$275,463 | \$229,211 | \$229,052 | \$232,425 | \$217,996 | \$180,324 |

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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 September 30, |             | Nine Months Ended September 30, |             |
|---|----------------------------------|-------------|---------------------------------|-------------|
|   | 2013                             | 2012        | 2013                            | 2012        |
| Balance at beginning of year  | \$1,236,859                      | \$966,508   | \$1,078,951                     | \$926,734   |
| Acquisitions of finance receivables <sup>(1)</sup>                          | 138,854                          | 100,063     | 546,201                         | 333,402     |
| Foreign currency translation adjustment                                     | 1,304                            | 321         | 363                             | 365         |
| Cash collections applied to principal on finance receivables <sup>(2)</sup> | (120,195 )                       | (93,298 )   | (368,693 )                      | (286,907 )  |
| Balance at end of period  | \$1,256,822                      | \$973,594   | \$1,256,822                     | \$973,594   |
| Estimated Remaining Collections   | \$2,672,361                      | \$2,137,580 | \$2,672,361                     | \$2,137,580 |

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

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

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

The following table categorizes our life to date portfolio purchases as of September 30, 2013, into the major asset types represented (amounts in thousands):

| Account Type               | No. of Accounts % |       | Life to Date Purchased Face Value <sup>(1)</sup> |       | Original Purchase Price <sup>(2)</sup> |       |
|----------------------------|-------------------|-------|--|-------|--|-------|
|                            |                   |       |  | %     |  | %     |
| Major Credit Cards         | 18,599            | 55 %  | \$52,991,704                                     | 69 %  | \$2,212,671                            | 69 %  |
| Consumer Finance           | 6,700             | 20    | 8,621,846  | 11    | 144,208                                | 5     |
| Private Label Credit Cards | 7,744             | 23    | 10,590,061                                       | 14    | 744,013                                | 23    |
| Auto Deficiency            | 653               | 2     | 4,619,737  | 6     | 98,204                                 | 3     |
| Total                      | 33,696            | 100 % | \$76,823,348                                     | 100 % | \$3,199,096                            | 100 % |

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

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

The following table summarizes our life to date portfolio purchases as of September 30, 2013, into the delinquency categories represented (amounts in thousands).

| Account Type        | No. of Accounts % |       | Life to Date Purchased Face Value <sup>(1)</sup> |       | Original Purchase Price <sup>(2)</sup> |       |
|---------------------|-------------------|-------|--|-------|--|-------|
|                     |                   |       |  | %     |  | %     |
| Fresh               | 3,078             | 9 %   | \$7,414,106                                      | 9 %   | \$779,480                              | 24 %  |
| Primary             | 4,773             | 14    | 9,019,913  | 12    | 488,936                                | 15    |
| Secondary           | 5,990             | 18    | 9,000,191  | 12    | 368,234                                | 12    |
| Tertiary            | 4,242             | 12    | 6,257,361  | 8     | 104,013                                | 3     |
| Bankruptcy Trustees | 5,281             | 16    | 22,261,852                                       | 29    | 1,306,146                              | 41    |
| Other               | 10,332            | 31    | 22,869,925                                       | 30    | 152,287                                | 5     |
| Total               | 33,696            | 100 % | \$76,823,348                                     | 100 % | \$3,199,096                            | 100 % |

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

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

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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 portfolio purchases as of September 30, 2013, by geographic location (amounts in thousands):

| Geographic Distribution | No. of Accounts% |     | Life to Date Purchased    |     | Original Purchase    |     |   |
|-------------------------|------------------|-----|---------------------------|-----|----------------------|-----|---|
|                         |                  |     | Face Value <sup>(1)</sup> | %   | Price <sup>(2)</sup> | %   |   |
| California              | 3,629            | 11  | % \$ 10,216,954           | 13  | % \$ 408,527         | 13  | % |
| Texas                   | 4,727            | 14  | 8,307,705                 | 11  | 271,231              | 8   |   |
| Florida                 | 2,670            | 8   | 7,243,048                 | 9   | 286,355              | 9   |   |
| New York                | 1,901            | 6   | 4,493,991                 | 6   | 166,557              | 5   |   |
| Ohio                    | 1,600            | 5   | 2,888,660                 | 4   | 133,155              | 4   |   |
| Pennsylvania            | 1,202            | 4   | 2,787,912                 | 4   | 114,429              | 4   |   |
| Illinois                | 1,275            | 4   | 2,743,665                 | 4   | 124,667              | 4   |   |
| North Carolina          | 1,204            | 4   | 2,679,027                 | 3   | 109,422              | 3   |   |
| Georgia                 | 1,096            | 3   | 2,524,045                 | 3   | 121,844              | 4   |   |
| Michigan                | 902              | 3   | 2,109,225                 | 3   | 96,968               | 3   |   |
| New Jersey              | 784              | 2   | 2,083,490                 | 3   | 90,260               | 3   |   |
| Arizona                 | 610              | 2   | 1,664,506                 | 2   | 68,357               | 2   |   |
| Virginia                | 899              | 3   | 1,623,274                 | 2   | 73,990               | 2   |   |
| Tennessee               | 716              | 2   | 1,578,738                 | 2   | 72,919               | 2   |   |
| Massachusetts           | 576              | 2   | 1,412,303                 | 2   | 57,338               | 2   |   |
| Indiana                 | 613              | 2   | 1,373,133                 | 2   | 69,574               | 2   |   |
| Other <sup>(3)</sup>    | 9,292            | 25  | 21,093,672                | 27  | 933,503              | 30  |   |
| Total                   | 33,696           | 100 | % \$ 76,823,348           | 100 | % \$ 3,199,096       | 100 | % |

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

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

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

## Collections Productivity

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

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

|    | Core cash collections <sup>(1)</sup> |       |       |       |       |
|----|--------------------------------------|-------|-------|-------|-------|
|    | 2013 <sup>(5)</sup>                  | 2012  | 2011  | 2010  | 2009  |
| Q1 | \$193                                | \$166 | \$162 | \$135 | \$120 |
| Q2 | 190                                  | 169   | 154   | 127   | 114   |
| Q3 | 191                                  | 171   | 152   | 127   | 111   |
| Q4 | —                                    | 150   | 137   | 129   | 109   |

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|    | Total cash collections <sup>(2)</sup>                    |       |       |       |       |
|----|--|-------|-------|-------|-------|
|    | 2013 <sup>(5)</sup>                                      | 2012  | 2011  | 2010  | 2009  |
| Q1 | \$304  | \$258 | \$241 | \$182 | \$147 |
| Q2 | 315  | 275   | 243   | 188   | 143   |
| Q3 | 310  | 279   | 249   | 200   | 144   |
| Q4 | —  | 245   | 228   | 204   | 148   |
|    | Non-legal cash collections <sup>(3)</sup>                |       |       |       |       |
|    | 2013 <sup>(5)</sup>                                      | 2012  | 2011  | 2010  | 2009  |
| Q1 | \$251  | \$216 | \$204 | \$154 | \$118 |
| Q2 | 261  | 225   | 205   | 160   | 116   |
| Q3 | 259  | 230   | 212   | 170   | 119   |
| Q4 | —  | 200   | 194   | 174   | 123   |
|    | Non-legal/non-bankruptcy cash collections <sup>(4)</sup> |       |       |       |       |
|    | 2013 <sup>(5)</sup>                                      | 2012  | 2011  | 2010  | 2009  |
| Q1 | \$140  | \$125 | \$125 | \$106 | \$90  |
| Q2 | 137  | 120   | 116   | 100   | 87    |
| Q3 | 140  | 122   | 115   | 97    | 87    |
| Q4 | —  | 105   | 103   | 98    | 84    |

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.

#### Goodwill

Goodwill was \$102.9 million at September 30, 2013 and \$109.5 million at December 31, 2012. During the three months ended September 30, 2013, we evaluated the goodwill associated with one of our reporting units, which had experienced a revenue and profitability decline, recent net losses and the loss of a significant client during the quarter. Based on this evaluation, we recorded a \$6.4 million impairment of goodwill in the third quarter of 2013. This non-cash charge represents the full amount of goodwill previously recorded for our PLS subsidiary. The decrease was partially offset by a foreign currency translation adjustment of \$2.3 million.

#### 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, payment of cash dividends, repayments of bank borrowings, operating expenses, purchases of

property and equipment and working capital to support our growth.

As of September 30, 2013, cash and cash equivalents totaled \$108.7 million, compared to \$32.7 million at December 31, 2012. We had no debt outstanding on the revolving portion of our credit facility which represents availability of \$435.5 million

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(subject to the borrowing base and applicable debt covenants). In addition, at September 30, 2013 we had \$196.3 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 \$161.9 million as of September 30, 2013. Additionally we may enter into new or renewed flow commitments in the next twelve months and close on spot transactions in addition to the aforementioned flow agreements. We believe that funds generated from operations and from cash collections on finance receivables, together with existing cash and available borrowings under our credit agreement will be sufficient to finance our operations, planned capital expenditures, the aforementioned forward flow commitments, and 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 have the right to purchase the noncontrolling interest in CCB through February 2015. Effective January 31, 2013, we exercised our right to purchase half of the remaining noncontrolling interest for a purchase price of \$1.1 million. On September 27, 2013, we exercised our right to purchase the remainder of the noncontrolling interest for a purchase price of approximately \$4.5 million. The purchase price was derived from the formula stipulated in the contractual agreement and was based on prior levels of EBITDA. The closing occurred on October 31, 2013.

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.

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 \$172.1 million and \$93.7 million for the nine months ended September 30, 2013 and 2012, respectively. In these periods, cash from operations was generated primarily from net income earned through cash collections and fee income received for the period. The increase was due in part to an increase in net income to \$131.1 million for the nine months ended September 30, 2013, from \$90.4 million for the nine months ended September 30, 2012. The remaining increase was due to net changes in other accounts related to our operating activities.

Our investing activities used cash of \$187.4 million and \$96.6 million during the nine months ended September 30, 2013 and 2012, respectively. Cash provided by investing activities is primarily driven by cash collections applied to principal on finance receivables. Cash used in investing activities is primarily driven by acquisitions of defaulted consumer receivables, purchases of property and equipment and business acquisitions. The majority of the increase was due to an increase in acquisitions of finance receivables, which increased from \$329.4 million for the nine months ended September 30, 2012 to \$546.2 million for the nine months ended September 30, 2013, partially offset by an increase in collections applied to principal on finance receivables from \$286.9 million for the nine months ended September 30, 2012 to \$368.7 million for the nine months ended September 30, 2013. In addition, cash of \$48.7 million was used on business acquisitions during the nine months ended September 30, 2012 compared to \$0 in the nine months ended September 30, 2013.

Our financing activities provided cash of \$91.2 million and \$8.2 million during the nine months ended September 30, 2013 and 2012, respectively. Cash is primarily provided by draws on our line of credit and gross proceeds from

convertible debt offerings. 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 change was due in large part to the convertible debt offering that occurred in the third quarter of 2013. This provided us with \$287.5 million in gross proceeds of the offering during the nine months ended September 30, 2013 compared to \$0 in the nine months ended September 30, 2012. The change was due also due to changes in the net borrowings on our credit facility. We had net repayments on our credit facility of \$127.0 million during the nine months ended September 30, 2013 compared to net borrowings of \$30.0 million during the nine months ended September 30, 2012. In addition, we repurchased \$58.5 million and \$22.7 million of our common stock during the nine months ended September 30, 2013 and 2012, respectively.

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Cash paid for interest was \$9.3 million and \$7.6 million for the nine months ended September 30, 2013 and 2012, respectively. Interest was paid on our line of credit and long-term debt. Cash paid for income taxes was \$78.4 million and \$71.5 million for the nine months ended September 30, 2013 and 2012, respectively. The increase in the taxes paid for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, is primarily due to an increase in taxable income.

### 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"). On August 6, 2013, we entered into a First Amendment (the "First Amendment") to the Credit Agreement. The First Amendment amended and restated certain provisions to clarify the permitted indebtedness basket for the issuance of senior, unsecured convertible notes in an aggregate amount not to exceed \$300,000,000. On August 21, 2013, we entered into a Lender Joinder Agreement and Lender Commitment Agreement, and Consented to a Master Assignment and Assumption (collectively, the "Loan Modification Agreements"), which together modified the Credit Agreement. The Loan Modification Agreements, among other things, increased by \$35.5 million the amount of revolving credit availability under the Credit Agreement. Under the terms of the Credit Agreement, as amended and modified, the credit facility includes an aggregate principal amount available of \$631.8 million (subject to the borrowing base and applicable debt covenants) which consists of a \$196.3 million floating rate term loan that amortizes and matures on December 19, 2017 and a \$435.5 million revolving credit facility (after giving effect to the August 21, 2013 modification) 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. No existing lender is obligated to increase its commitment. The Credit Agreement is secured by a first priority lien on substantially all of our assets.

Our borrowings outstanding on our credit facility at September 30, 2013 consisted of \$196.3 million outstanding on the term loan with an annual interest rate as of September 30, 2013 of 2.68%. At December 31, 2012, our borrowings on our credit facility consisted of \$122.0 million in 30-day Eurodollar rate loans and \$5.0 million in base rate loans with a weighted average interest rate of 2.74%. In addition, we had \$200.0 million outstanding on the term loan at December 31, 2012 with an annual interest rate as of December 31, 2012 of 2.71%. 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 on February 1, 2014.

The net proceeds from the sale of the Notes were approximately \$279.6 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses payable by us. We used \$174.0 million of the net proceeds from this offering to repay the outstanding balance on our revolving credit facility and used \$50.0 million to repurchase shares of our common stock.

We were in compliance with all covenants of our credit facilities as of September 30, 2013 and December 31, 2012.

### Undistributed Earnings of Foreign Subsidiaries

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

### Stockholders' Equity

Stockholders' equity was \$816.6 million at September 30, 2013 and \$708.4 million at December 31, 2012. The increase was primarily attributable to \$129.5 million in net income attributable to PRA during the nine months ended September 30, 2013. This was offset by a decrease of \$58.5 million as a result of the repurchase of 1.2 million shares of our common stock during the nine months ended September 30, 2013.

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## Contractual Obligations

Our contractual obligations as of September 30, 2013 were as follows (amounts in thousands):

| Contractual Obligations                            | Payments due by period |                  |             |             |                   |
|--|------------------------|------------------|-------------|-------------|-------------------|
|  | Total                  | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| Operating Leases                                   | \$29,590               | \$6,207          | \$11,626    | \$7,067     | \$4,690           |
| Line of Credit <sup>(1)</sup>                      | 6,959                  | 1,652            | 3,266       | 2,041       | —                 |
| Long-term Debt <sup>(2)</sup>                      | 568,193                | 22,735           | 61,286      | 179,422     | 304,750           |
| Purchase Commitments <sup>(3)</sup> <sup>(4)</sup> | 188,526                | 183,907          | 4,140       | 479         | —                 |
| Employment Agreements                              | 12,881                 | 11,672           | 1,209       | —           | —                 |
| Total  | \$806,149              | \$226,173        | \$81,527    | \$189,009   | \$309,440         |

(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 September 30, 2013 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 \$161.9 million.

(4) This amount includes the purchase price of approximately \$4.5 million which was paid to acquire the remaining noncontrolling interest of CCB on October 31, 2013.

## 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").

## Recent Accounting Pronouncements

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

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

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





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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 2012 Annual Report on Form 10-K filed on February 28, 2013. 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.

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

Fee Income:

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

Our skip tracing subsidiary utilizes gross reporting under ASC 605-45. We generate revenue by working an account and successfully locating a customer for our client. A fee is charged for these services. In addition, we incur expenses when we hire a third-party to effectuate repossession. We have determined the fees to be gross revenue based on the criteria in ASC 605-45 and they are recorded as such in the line item "Fee income," because we are primarily liable to the third party for the repossession costs. There is a corresponding expense in "Agent fees" for the third party repossession expenses. We also incur fees to release liens on the repossessed collateral. Like the repossession expenses, these lien-releases are charged to expense and recorded in the line item "Agent fees."

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

Our claims administration and payment processing business utilizes net reporting under ASC 605-45. We generate revenue by filing claims with the class action claims administrator on behalf of our clients and receiving the related settlement payment. Under SEC Staff Accounting Bulletin 104, we have determined that our fee is not earned until we

have received the settlement funds. When a payment is received from the claims administrator for settlement of a lawsuit, the fee is recorded on a net basis as revenue and included in the line item "Fee income." The balance of the received amounts is recorded as a liability and included in the line item "Accounts payable."

Our United Kingdom subsidiary generates revenue from both purchased finance receivables which is accounted for as described above and finance receivables serviced on a contingent fee basis. These serviced portfolios are owned by our clients and placed under a contingent fee commission arrangement. Our subsidiary is paid to collect funds from the client's debtors and

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earns a commission generally expressed as a percentage of the gross collections amount. The "Fee income" line of our income statement reflects the contingent fee amount earned, and not the gross collection amount.

### Valuation of Acquired Intangibles and Goodwill

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

### 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.

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 appropriate method for companies in the bad debt purchasing industry. Under the cost recovery method, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any income is recognized.

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



Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

We are subject to interest rate risk from outstanding borrowings on our variable rate credit facility. We assess this interest rate risk by estimating the increase in interest expense that would occur due to an increase in short-term interest rates. The average borrowings on our variable rate credit facility were \$286.2 million and \$259.7 million for the three months ended September 30, 2013 and 2012, respectively. Assuming a 200 basis point increase in interest rates, for example, interest expense would have increased by \$1.4 million and \$1.3 million for the three months ended September 30, 2013 and 2012, respectively, resulting in a decrease in income before income taxes of 1.9% and 2.4%, respectively. As of September 30, 2013 and December 31, 2012, we had \$196.3 million and \$327.0 million, respectively, of variable rate debt outstanding on our credit facility. We did not have any other variable rate debt outstanding as of September 30, 2013. We had no interest rate hedging programs in place for the three or nine months ended September 30, 2013 and 2012. Significant increases in future interest rates on our variable rate credit facility could lead to a material decrease in future earnings assuming all other factors remained constant.

Currency Exchange Risk

We are subject to currency exchange risk from our UK subsidiary, MHH. 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 September 30, 2013 and 2012, MHH revenues were 1.5% and 3.3% of consolidated revenues, respectively. We had no currency exchange risk hedging programs in place for the three or nine months ended September 30, 2013 or 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial and Administrative Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, controls may become inadequate because of changes in conditions and the degree of compliance with the policies or procedures may deteriorate. We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial and Administrative Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial and Administrative Officer have concluded that, as of September 30, 2013, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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



flows. Refer to Note 10 “Commitments and Contingencies” of our Consolidated Financial Statements for material developments with respect to legal proceedings previously disclosed with respect to prior periods.

#### Item 1A. Risk Factors

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

##### Risks Related to Our Convertible Notes

We incurred additional indebtedness in the form of Convertible Senior Notes.

In August 2013, we completed a private offering of \$287.5 million aggregate principal amount of 3.00% Convertible Senior Notes due 2020 (the "Notes"). Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness, including the Notes, or to make cash payments in connection with any conversion of the Notes depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our indebtedness and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring indebtedness or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at that time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We may not have the ability to raise the funds necessary to repurchase the Notes upon a fundamental change or to settle conversions in cash.

Holder of the Notes will have the right to require us to repurchase their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. In addition, upon a conversion of Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional shares of our common stock), we will be required to make cash payments in respect of the Notes. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or to settle conversions in cash and our ability to repurchase the Notes or pay cash upon conversion may be limited by law.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. Even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

We follow the guidance of ASC 470-20, Debt with Conversion and Other Options (“ASC 470-20”). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their respective principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

Conversion of the Notes may affect the price of our common stock.

The conversion of some or all of the Notes may dilute the ownership interest of existing stockholders to the extent we deliver shares of common stock upon conversion. Holders of the Notes will be able to convert them only upon the satisfaction of certain conditions prior to February 1, 2020. Upon conversion, holders of the Notes will receive cash, shares of common stock or a combination of cash and shares of common stock, at our election. Any sales in the public market of shares of common stock issued upon conversion of the Notes could adversely affect the trading price of our common stock.

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

##### Share Repurchase Program

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

| Month Ended     | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share <sup>(1)</sup> | Maximum Remaining Purchase Price for Share Repurchases Under the Plan |
|-----------------|---|---|---|
| August 31, 2013 | 989,200   | \$50.55                                     | \$18,754,443  |
| Total           | 989,200   | \$50.55                                     | \$18,754,443  |

(1) 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 to holders of record as of July 1, 2013.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

Not applicable.

#### Item 5. Other Information

None.

Item 6. Exhibits

- 4.1 Indenture dated August 13, 2013 between Portfolio Recovery Associates, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on August 14, 2013).
- 10.1 First Amendment to Credit Agreement (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on August 6, 2013).
- 10.2 Lender Commitment Agreement dated as of August 21, 2013 by and among Portfolio Recovery Associates, Inc., and Bank of America, N.A., as administrative agent.
- 10.3 Lender Joiner Agreement dated as of August 21, 2013, by and among Portfolio Recovery Associates, Inc., Bank of Hampton Roads, Heritage Bank, Union First Market and Bank of America, N.A., as administrative agent.
- 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: November 8, 2013

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

Date: November 8, 2013

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