Performant Financial Corp
Form 424B4
February 01, 2013
**Table of Contents**

**Filed Pursuant to Rule 424(b)(4)**
**Registration No. 333-186110**

# *8,000,000 Shares*

## *COMMON STOCK*

***The selling stockholders are offering 8,000,000 shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders.***

***Our common stock is listed on The NASDAQ Global Select Market under the symbol PFMT. On January 30, 2013, the last sale of our common stock as reported on The NASDAQ Global Select Market was $11.02 per share.***

***Investing in our common stock involves risks. See Risk Factors beginning on page 13.***

*PRICE $10.65 A SHARE*

| | *Price to Public* | *Underwriting Discounts and Commissions[(1)]* | *Proceeds to Selling Stockholders* |
|---|---|---|---|

| | | | |
|---|---|---|---|
| *Per Share* | $ 10.65 | $ 0.452625 | $ 10.197375 |
| *Total* | $ 85,200,000 | $ 3,621,000 | $ 81,579,000 |

*(1) See Underwriting for additional information regarding compensation.*

*The selling stockholders identified in this prospectus have granted the underwriters an option for a period of 30 days to purchase, on the same terms and conditions as set forth above, up to an additional 1,200,000 shares of our common stock. We will not receive any of the proceeds from the sale of shares by these selling stockholders if the underwriters exercise their option to purchase additional shares of common stock.*

*The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.*

*The underwriters expect to deliver the shares of common stock to purchasers on February 5, 2013.*

*GOLDMAN, SACHS & CO.* *MORGAN STANLEY*

*WELLS FARGO SECURITIES* *CREDIT SUISSE*

*WILLIAM BLAIR*

*January 31, 2013*

**Table of Contents**

**TABLE OF CONTENTS**



You should rely only on the information contained in this prospectus and any free writing prospectus we may specifically authorize to be delivered or made available to you. We have not, and the selling stockholders and the underwriters have not, authorized anyone to provide you with additional or different information. The information contained in this prospectus or any free writing prospectus is accurate only as of its date, regardless of its time of delivery or of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus is an offer to sell only the shares offered hereby but only under circumstances and in jurisdictions where it is lawful to do so.

Table of Contents

## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, including our consolidated financial statements and the related notes and the information set forth under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, in each case included elsewhere in this prospectus. Unless expressly indicated or the context otherwise requires, in this prospectus, Performant, we, us, our, and the Company refer to Performant Financial Corporation and, where appropriate, its subsidiar*

### Overview

We provide technology-enabled recovery and related analytics services in the United States. Our services help identify and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Our clients typically operate in complex and regulated environments and outsource their recovery needs in order to reduce losses on billions of dollars of defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. We generally provide our services on an outsourced basis, where we handle many or all aspects of our clients recovery processes.

We believe we have a leading position in our markets based on our proprietary technology-enabled services platform, long-standing client relationships and the large volume of funds we have recovered for our clients. In 2011, we provided recovery services on approximately $8.7 billion of combined student loans and other delinquent federal and state receivables and recovered approximately $189 million in improper Medicare payments. Our clients include 12 of the 32 public sector participants in the student loan industry and these relationships average more than 10 years in length, including a 22-year relationship with the U.S. Department of Education. In the healthcare market, we are currently one of four prime Medicare Recovery Audit Contractors, or RACs, in the United States for the Centers for Medicare and Medicaid Services, or CMS.

We utilize our technology platform to efficiently provide recovery and analytics services in the markets we serve. We have continuously developed and refined our technology platform for almost two decades by using our extensive domain and data processing expertise. We believe our technology platform allows us to achieve higher workforce productivity versus more traditional labor-intensive outsourcing business models, as we generated in excess of $130,000 of revenues per employee during 2011, based on the average number of employees during the year. In addition, we believe that our platform is easily adaptable to new markets and processes. For example, we utilized the same basic platform previously used primarily for student loan recovery activities to enter the healthcare market.

Our revenue model is generally success-based as we earn fees based on a percentage of the aggregate amount of funds that we enable our clients to recover. Our services do not require any significant upfront investments by our clients and we offer our clients the opportunity to recover significant funds otherwise lost. Furthermore, our business model does not require significant capital expenditures for us and we do not purchase loans or obligations. We believe we benefit from a significant degree of revenue visibility due to reasonably predictable recovery outcomes in a substantial portion of our business. For the year ended December 31, 2011, we generated approximately $163.0 million in revenues, $12.4 million in net income, $57.8 million in adjusted EBITDA and $25.0 million in adjusted net income. For the nine months ended September 30, 2012, we generated approximately $154.1 million in revenues, $17.0 million in net income, $52.2 million in adjusted EBITDA and $23.5 million in adjusted net income, and our total debt was $150.5 million at September 30, 2012. See Adjusted EBITDA and Adjusted Net Income below for a definition of adjusted EBITDA and adjusted net income and reconciliations of adjusted EBITDA and adjusted net income to net income determined in accordance with generally accepted accounting principles.

Table of Contents

### Industry Overview

We operate in markets characterized by strong growth, a complex regulatory environment and a significant amount of delinquent, defaulted or improperly paid assets.

#### *Student Lending*

According to the Department of Education, total government-supported student loan originations were estimated to be approximately $115 billion in the year ended September 30, 2012, and the aggregate dollar amount of these loans has grown at a compound annual growth rate of 11% from 2002 through 2012. The cohort default rate, which is the measure utilized by the Department of Education to track the percentage of government-supported loan borrowers that enter repayment in a certain year ended September 30 and default by the end of the next year ended September 30, has risen from approximately 5% in 2006 to approximately 9% in 2010, the last year for which data is available.

#### *Healthcare*

According to CMS, U.S. healthcare spending reached $2.7 trillion in 2011 and is forecast to grow at a 6% annual rate through 2021. CMS indicates that government-related healthcare spending for 2011 totaled approximately $1.2 trillion. This government-related spending included approximately $554 billion of payments under Medicare, of which $43 billion, or 8%, was estimated to be improper. Medicare improper payments generally involve incorrect coding, procedures performed which were not medically necessary, incomplete documentation or claims submitted based on outdated fee schedules, among other issues.

#### *Other Markets*

We believe that the demand for recovery of delinquent state taxes will grow as state governments struggle with revenue generation and face significant budget deficits. According to the Center on Budget and Policy Priorities, an independent think tank, 43 U.S. states faced budget shortfalls totaling $107 billion in the year ended September 30, 2012, with at least 31 states anticipating deficits for fiscal year 2013. The federal agency market consists of government debt subrogated to the Department of the Treasury. For the year ended September 30, 2011, federal agency recoveries in this market totaled more than $6.2 billion, a significant portion of which were made by private firms on behalf of the Department of Financial Management Service, a bureau of the Department of the Treasury.

### Our Platform

Our technology-enabled services platform is based on over two decades of experience in recovering large amounts of funds on behalf of our clients across several markets. The components of our platform include our data management expertise, analytics capabilities and technology-based workflow processes. Our platform integrates these components to allow us to achieve optimized outcomes for our clients in the form of increased efficiency and productivity and high recovery rates. We believe our platform and workflow processes are also intuitive and easy to use for our recovery and claims specialists and allow us to increase our employee retention and productivity.

### Our Competitive Strengths

We believe that our business is difficult to replicate, as it incorporates a combination of several important and differentiated elements, including:

- ***Scalable and flexible technology-enabled services platform.*** We have built a proprietary technology platform that is highly flexible, intuitive and easy to use for our recovery and claims specialists. Our platform is easily configurable and deployable across multiple markets and processes.

Table of Contents

***Advanced, technology-enabled workflow processes.*** Our technology-enabled workflow processes, developed over many years of operational experience in recovery services, disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent steps that are easily configurable and applicable to different types of recovery-related applications.

***Enhanced data and analytics capabilities.*** Our data and analytics capabilities allow us to achieve strong recovery rates for our clients. We have collected recovery-related data for over two decades, which we combine with large volumes of client and third-party data to effectively analyze our clients delinquent or defaulted assets and improper payments. We have also developed a number of analytics tools that we use to score our clients recovery inventory, determine the optimal recovery process and allocation of resources, and achieve higher levels of recovery results for our clients.

***Long-standing client relationships.*** We believe our long-standing focus on achieving superior recovery performance for our clients and the significant value our clients derive from this focus have helped us achieve long-tenured client relationships, strong contract retention and better access to new clients and future growth opportunities.

***Extensive domain expertise in complex and regulated markets.*** We have extensive experience and domain expertise in providing recovery services for government and private institutions that generally operate in complex and regulated markets. We have demonstrated our ability to develop domain expertise in new markets such as healthcare and state tax and federal Treasury receivables.

***Proven and experienced management team.*** Our management team has significant industry experience and has successfully grown our revenue base and service offerings beyond the original student loan market into healthcare and delinquent state tax and private financial institutions receivables.

**Our Growth Strategy**

Key elements of our growth strategy include the following:

***Expand our student loan recovery volume.*** We have long-standing relationships with some of the largest participants in the government-supported student loan market, and we believe there are significant opportunities within this growing market to increase the volume of student loans placed with us by existing and new clients.

***Expand our recovery services in the healthcare market.*** As healthcare spending grows, we expect the need for recovery services to increase in the public and private healthcare markets. We intend to expand our recovery services for existing clients, such as CMS, and offer analytics services to potential clients in the private healthcare market.

***Pursue strategic alliances and acquisitions.*** We intend to selectively consider opportunities to grow through strategic alliances or acquisitions that are complementary to our business.

**Recent Developments (Unaudited)**

***Three-months and year ended December 31, 2012***

Our consolidated financial statements for the three-months and year ended December 31, 2012 are not yet available. Our expectations with respect to our unaudited results for the period discussed below are based upon management estimates. The preliminary financial results presented below are subject to the completion of our financial closing procedures and any adjustments that may result from the completion of the audit of our 2012 consolidated financial statements. Accordingly, these results may change and those changes may be material. This summary is not meant to be a comprehensive statement of our unaudited financial results for these periods and our actual results may differ from these estimates. For additional information regarding the various risks and uncertainties inherent in estimates of this type, see Information Regarding

Forward-Looking Statements, elsewhere in this prospectus.

Table of Contents

We are providing the following preliminary estimates of our financial results and operating metrics for the three-months ended December 31, 2012:

***GAAP***

Revenues are expected to be between $53.5 million and $56.5 million, representing a sequential quarterly increase of approximately 3.0% at the midpoint of the range. The estimated increase is the result of increased revenues from the student lending and healthcare markets. Revenues from the student lending market are estimated to be between $33.9 million and $34.6 million, representing a sequential quarterly increase of approximately 3.8% at the midpoint of the range. Revenues from the healthcare market are estimated to be between $14.2 million and $16.0 million, representing a sequential quarterly increase of approximately 11.7% at the midpoint of the range, reflecting higher claim recovery volumes from CMS under our RAC contract. Revenues from other markets are estimated to be between $5.4 million and $5.9 million.

Net income is estimated to be between $5.5 million and $6.8 million, representing a sequential quarterly decrease of approximately 3.2% at the midpoint of the range, due to increased operating expenses consistent with the growth of our recovery activities under our RAC contract and expenses we have incurred to process Periodic Interim Payment providers, or PIP, claims under our RAC contract where we have not been able to recognize related revenues but expect to in the future. We have also incurred additional expenses associated with being a public company.

***Non-GAAP***

Adjusted EBITDA is expected to be between $16.1 million and $18.1 million, representing a sequential quarterly decrease of approximately 6.4% at the midpoint of the range is primarily due to the increase in operating expenses as described above.

Adjusted net income is estimated to be between $6.7 million and $8.0 million, representing a sequential quarterly decrease of approximately 9.8% at the midpoint of the range is primarily due to the increase in our operating expenses as described above.

***Operating Metrics***

Student Loan Placement Volume is estimated to be between $1.9 billion and $2.2 billion and Placement Revenue as a Percentage of Placement Volume is estimated to be between 1.50% and 1.70%.

Healthcare Net Claim Recovery Volume is estimated to be between $125.0 million and $140.0 million and Claim Recovery Fee Rate is estimated to be approximately 11.3%.

We are providing the following preliminary estimates of our financial results and operating metrics for the year ended December 31, 2012:

***GAAP***

Revenues are expected to be between $207.6 million and $210.6 million, representing a sequential annual increase of approximately 28.3% at the midpoint of the range. The estimated increase is due to greater audit and recovery activities from the student lending and healthcare markets. Revenues from the student lending market are estimated to be between $132.1 million and $132.8 million, representing an annual increase of approximately 8.3% at the midpoint of the range. Revenues from the healthcare market are estimated to be between $53.3 million and $55.1 million, representing an annual increase of approximately 151.5% at the midpoint of the range, reflecting higher claim recovery volumes from CMS under our RAC contract. Revenues from other markets are estimated to be between $22.2 million and $22.7 million.

Table of Contents

Net income is estimated to be between $22.5 million and $23.8 million, representing a sequential annual estimated increase of approximately 87.2% at the midpoint of the range, due to greater audit and recovery activities from the student lending and healthcare markets.

***Non-GAAP***

Adjusted EBITDA is expected to be between $68.3 million and $70.3 million, representing a sequential annual estimated increase of approximately 20.0% at the midpoint of the range, primarily due to the increase in our estimated net income as described above.

Adjusted net income is estimated to be between $30.2 million and $31.5 million, representing an estimated increase of approximately 23.5% at the midpoint of the range, primarily due to the increase in our estimated net income as described above.

***Operating Metrics***

Student Loan Placement Volume is estimated to be between $5.5 billion and $5.8 billion and Placement Revenue as a Percentage of Placement Volume is estimated to be between 2.25% and 2.40%.

Healthcare Net Claim Recovery Volume is estimated to be between $470.0 million and $485.0 million and Claim Recovery Fee Rate is estimated to be approximately 11.3%.

See Summary Consolidated Financial Data Adjusted EBITDA and Adjusted Net Income for a definition of adjusted EBITDA and adjusted net income, the reasons for providing these financial measures and the limitations of these measures, which do not reflect all items of income and expense as reported under GAAP. Also, see below for reconciliations of the estimated and actual adjusted EBITDA and adjusted net income amounts set forth above to estimated or actual net income determined in accordance with GAAP.

***Operating Metrics***

See Management s Discussion and Analysis of Financial Condition and Results of Operations Operating Metrics for the definition of the operating metrics used above and the purposes for which management uses these metrics.

**Table of Contents**

The following tables present a reconciliation of estimated adjusted EBITDA and estimated adjusted net income for the three-months and the year ended December 31, 2012, to estimated net income for these periods and adjusted EBITDA and adjusted net income for the three months ended September 30, 2012 and the year ended December 31, 2011, to actual net income for these periods:

| | Three Months Ended | | Year Ended | |
|---|---|---|---|---|
| | September 30, 2012 | December 31, 2012 | December 31, 2011 | December 31, 2012 |
| | (in thousands) | | | |
| **Reconciliation of Adjusted EBITDA:** | | | | |
| Net income | $ 6,383 | $ 5,525 to 6,830 | $ 12,372 | $ 22,503 to 23,808 |
| Provision for income taxes | 4,601 | 4,257 to 4,951 | 7,516 | 15,955 to 16,649 |
| Interest expense | 3,175 | 3,087 | 13,530 | 12,416 |
| Interest income | (2) | | (125) | (64) |
| Debt extinguishment costs(1) | | | | 3,679 |
| Depreciation and amortization | 2,445 | 2,501 | 7,766 | 9,503 |
| Impairment of trade name(2) | | | 13,400 | |
| Non-core operating expenses(3) | | | 2,548 | 47 |
| Advisory fee(4) | 932 | | 634 | 2,640 |
| Stock based compensation | 734 | 731 | 120 | 1,614 |
| Adjusted EBITDA | $ 18,268 | $ 16,100 to 18,100 | $ 57,761 | $ 68,292 to 70,291 |

| | Three Months Ended | | Year Ended | |
|---|---|---|---|---|
| | September 30, 2012 | December 31, 2012 | December 31, 2011 | December 31, 2012 |
| | (in thousands) | | | |
| **Reconciliation of Adjusted Net Income:** | | | | |
| Net income | $ 6,383 | $ 5,525 to 6,830 | $ 12,372 | $ 22,503 to 23,808 |
| Debt extinguishment costs(1) | | | | 3,679 |
| Impairment of trade name(2) | | | 13,400 | |
| Non core operating expenses(3) | | | 2,548 | 47 |
| Advisory fee(4) | 931 | | 634 | 2,640 |
| Stock based compensation | 734 | 731 | 120 | 1,614 |
| Amortization of intangibles(5) | 932 | 933 | 3,043 | 3,674 |
| Deferred financing amortization costs(6) | 344 | 296 | 1,254 | 1,161 |
| Tax adjustments(7) | (1,177) | (784) | (8,400) | (5,126) |
| Adjusted net income | $ 8,147 | $ 6,701 to 8,006 | $ 24,971 | $ 30,191 to 31,496 |

(1) Represents debt extinguishment costs comprised of approximately \$3.3 million of fees paid to lenders in connection with our new credit facility and approximately \$0.3 million of unamortized debt issuance costs in connection with our old credit facility.
(2) Represents impairment expenses to write off the carrying amount of the trade name intangible asset due to the plan to retire the Diversified Collection Services, Inc. trade name.
(3) Represents professional fees and settlement costs related to strategic corporate development activities and a \$1.2 million legal settlement in 2011.
(4) Represents expenses incurred under an advisory services agreement with Parthenon Capital Partners, which was terminated in April 2012. See Note 11 Related Party Transactions.
(5) Represents amortization of capitalized expenses related to the acquisition of Performant by an affiliate of Parthenon Capital Partners in 2004 and an acquisition in the first quarter of 2012 to enhance our analytics capabilities.
(6) Represents amortization of capitalized financing costs related to debt offerings conducted in 2009, 2010 and 2012.
(7) Represents tax adjustments assuming a marginal tax rate of 40%.

Table of Contents

**Risks Associated With Our Business**

Our business is subject to numerous risks and uncertainties including those highlighted in the section titled Risk Factors immediately following the prospectus summary. Some of these risks include, among others, that:

- Revenues generated from our five largest clients represented 74% of our revenues for the year ended December 31, 2011, and any termination of or deterioration in our relationship with any of these clients would result in a decline in our revenues;

- Many of our contracts with our clients for the recovery of student loans and other receivables are subject to periodic renewal or re-bidding processes, are not exclusive and do not commit our clients to provide specified volumes of business and, as a consequence, there is no assurance that we will be able to maintain our revenues and operating results;

- We face significant competition in all of the markets in which we operate and an inability to compete effectively in the future could harm our relationships with our clients, which would impact our ability to maintain our revenues and operating results;

- The U.S. federal government accounts for a significant portion of our revenues, and any loss of business from, or change in our relationship with, the U.S. federal government would result in a significant decrease in our revenues and operating results;

- Future legislative or regulatory changes affecting the markets in which we operate could impair our business and operations;

- Our business relationship with the Department of Education has accounted for a significant portion of our revenues and will take on increasing importance as a result of Student Aid and Fiscal Responsibility Act of 2010, or SAFRA. Our failure to maintain this relationship would significantly decrease our revenues;

- We could lose clients as a result of consolidation among the Guaranty Agencies, or GAs, which would decrease our revenues;

- Our ability to derive revenues under our RAC contract will depend in part on the number and types of potentially improper claims that we are allowed to pursue by CMS, and our results of operations may be harmed if CMS limits the scope of claims we are allowed to pursue;

- A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt the operation of our business;

- If our security measures are breached or fail and unauthorized access is obtained to our clients confidential data, our services may be perceived as insecure, the attractiveness of our recovery services to current or potential clients may be reduced, and we may incur significant liabilities;

- We are subject to extensive regulations regarding our recovery practices and the use and disclosure of confidential personal and healthcare information and failure to comply with these regulations could cause us to incur liabilities and expenses; and

Our recovery business is subject to extensive regulation and consumer protection laws and our failure to comply with those regulations and laws may subject us to liability and result in significant costs.

**Corporate Information**

We commenced our operations in 1976 under the corporate name Diversified Collection Services, Inc., or DCS. We were incorporated in Delaware on October 8, 2003 under the name DCS Holdings, Inc. and subsequently changed our name to Performant Financial Corporation in 2005. Our principal executive offices are

Table of Contents

located at 333 North Canyons Parkway, Livermore, California 94551 and our telephone number is (925) 960-4800. Our website address is *www.performantcorp.com*. **The information on or accessible through our website is not part of this prospectus.**

**Our Principal Stockholder**

Our principal stockholder, an affiliate of Parthenon Capital Partners, acquired its interest in us in 2004 and prior to this offering beneficially owns approximately 64.8% of our outstanding common stock. Parthenon Capital Partners is a private equity investment firm with approximately $2 billion of capital under management. Parthenon Capital Partners was founded in March of 1998 and focuses on investing in select middle-market companies. The firm invests in a variety of industry sectors with particular expertise in business and financial services, healthcare, distribution/logistics, and technology-enabled services.

Table of Contents

## THE OFFERING

| | |
|---|---|
| Common stock offered by the selling stockholders | 8,000,000 shares |
| Common stock to be outstanding after this offering | 45,320,606 shares |
| Option to purchase additional shares offered by the selling stockholders | 1,200,000 shares |
| Use of proceeds | We will not receive any of the proceeds from the sale of shares in this offering. See Use of Proceeds and Principal and Selling Stockholders. |
| NASDAQ Global Select Market symbol | PFMT |

The number of shares of common stock that will be outstanding after this offering is based on the number of shares outstanding as of September 30, 2012, and excludes:

- 7,912,719 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2012, at a weighted-average exercise price of approximately $3.79 per share; and
- 1,935,891 shares of common stock reserved for future issuance under our 2012 Stock Incentive Plan.

Unless expressly indicated or the context otherwise requires, all information in this prospectus assumes:

- no exercise by the underwriters of their right to purchase up to an additional 1,200,000 shares of common stock from the selling stockholders to cover over-allotments; and
- no exercise of options outstanding as of September 30, 2012.

Table of Contents

## SUMMARY CONSOLIDATED FINANCIAL DATA

We have derived the summary consolidated statement of operations data for 2009, 2010 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the summary consolidated statement of operations data for the nine months ended September 30, 2011 and 2012 and the consolidated balance sheet data as of September 30, 2012 from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments, which consist only of normal recurring adjustments, that management considers necessary for the fair statement of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results that may be expected in the future. The following summary consolidated financial data should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2009 (Restated)[1] | 2010 (Restated)[1] | 2011 (Restated)[1] | 2011 | 2012 |
| | (in thousands, except share and per share amounts) | | | | |
| **Consolidated Statement of Operations Data:** | | | | | |
| Revenues | $ 109,832 | $ 123,519 | $ 162,974 | $ 120,333 | $ 154,099 |
| Operating expenses: | | | | | |
| Salaries and benefits | 53,728 | 58,113 | 67,082 | 50,437 | 59,426 |
| Other operating expense | 32,110 | 33,655 | 49,199 | 35,193 | 53,053 |
| Impairment of trade name | | | 13,400 | | |
| Total operating expenses | 85,838 | 91,768 | 129,681 | 85,630 | 112,479 |
| Income from operations | 23,994 | 31,751 | 33,293 | 34,703 | 41,620 |
| Debt extinguishment costs[2] | | | | | (3,679) |
| Interest expense | (16,017) | (15,230) | (13,530) | (10,213) | (9,329) |
| Interest income | 104 | 118 | 125 | 94 | 64 |
| Income before provision for income taxes | 8,081 | 16,639 | 19,888 | 24,584 | 28,676 |
| Provision for income taxes | 3,071 | 6,664 | 7,516 | 9,839 | 11,698 |
| Net income | $ 5,010 | $ 9,975 | $ 12,372 | $ 14,745 | $ 16,978 |
| Accrual for preferred stock dividends | 5,128 | 5,771 | 6,495 | 4,785 | 2,038 |
| Net income (loss) available to common shareholders | (118) | 4,204 | 5,877 | 9,960 | 14,940 |
| Net income (loss) per share attributable to common shareholders[3] | | | | | |
| Basic | $ (0.00) | $ 0.10 | $ 0.14 | $ 0.23 | $ 0.34 |
| Diluted | $ (0.00) | $ 0.09 | $ 0.13 | $ 0.22 | $ 0.32 |
| Weighted average shares | | | | | |
| Basic | 42,962 | 42,962 | 42,962 | 42,962 | 43,519 |
| Diluted | 42,962 | 45,019 | 45,742 | 44,646 | 47,164 |

(1) The consolidated financial statements have been restated for the presentation of our Redeemable Preferred Stock, which affects our balance sheets and the calculation of net income (loss) per share attributable to common shareholders, which affects our statements of operations. See Note 1 to our consolidated financial statements.

(2)

Represents debt extinguishment costs comprised of approximately $3.3 million of fees paid to lenders in connection with our new credit facility and approximately $0.3 million of unamortized debt issuance costs in connection with our old credit facility.

(3) Please see Note 1 to our consolidated financial statements for an explanation of the calculations of our basic and diluted net income per share of common stock.

Table of Contents

| | | As of September 30, 2012 (in thousands) |
|---|---|---|
| **Consolidated Balance Sheet Data:** | | |
| Cash and cash equivalents | $ | 32,204 |
| Total assets | $ | 207,628 |
| Total debt | $ | 150,529 |
| Total liabilities | $ | 190,312 |
| Total stockholders equity (deficit) | $ | 17,316 |

***Adjusted EBITDA and Adjusted Net Income***

To provide investors with additional information regarding our financial results, we have disclosed in the table below and within this prospectus adjusted EBITDA and adjusted net income, both of which are non-GAAP financial measures. We have provided a reconciliation below of adjusted EBITDA to net income and adjusted net income to net income, the most directly comparable GAAP financial measure to these non-GAAP financial measures.

We have included adjusted EBITDA and adjusted net income in this prospectus because they are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends and to prepare and approve our annual budget. Accordingly, we believe that adjusted EBITDA and adjusted net income provide useful information to investors and analysts in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of adjusted EBITDA and adjusted net income has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect interest expense on our indebtedness;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect tax payments;
- adjusted EBITDA and adjusted net income do not reflect the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA and adjusted net income do not reflect the impact of certain non-operating expenses resulting from matters we do not consider to be indicative of our core operating performance; and
- other companies may calculate adjusted EBITDA and adjusted net income differently than we do, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA and adjusted net income alongside other financial performance measures, including net income and our other GAAP results.

Table of Contents

The following tables present a reconciliation of adjusted EBITDA and adjusted net income for each of the periods indicated:

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| **Reconciliation of Adjusted EBITDA:** | | | | | |
| Net income | $ 5,010 | $ 9,975 | $ 12,372 | $ 14,745 | $ 16,978 |
| Provision for income taxes | 3,071 | 6,664 | 7,516 | 9,839 | 11,698 |
| Interest expense | 16,017 | 15,230 | 13,530 | 10,213 | 9,329 |
| Interest income | (104) | (118) | (125) | (94) | (64) |
| Debt extinguishment costs(1) | | | | | 3,679 |
| Depreciation and amortization | 9,624 | 7,213 | 7,766 | 5,712 | 7,002 |
| Impairment of trade name(2) | | | 13,400 | | |
| Non-core operating expenses(3) | | 1,108 | 2,548 | 2,438 | 47 |
| Advisory fee(4) | 684 | 759 | 634 | 326 | 2,641 |
| Stock based compensation | 580 | 629 | 120 | 83 | 883 |
| Adjusted EBITDA | $ 34,882 | $ 41,460 | $ 57,761 | $ 43,262 | $ 52,193 |

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| **Reconciliation of Adjusted Net Income:** | | | | | |
| Net income | $ 5,010 | $ 9,975 | $ 12,372 | $ 14,745 | $ 16,978 |
| Debt extinguishment costs(1) | | | | | 3,679 |
| Impairment of trade name(2) | | | 13,400 | | |
| Non core operating expenses(3) | | 1,108 | 2,548 | 2,438 | 47 |
| Advisory fee(4) | 684 | 759 | 634 | 327 | 2,640 |
| Stock based compensation | 580 | 629 | 120 | 83 | 883 |
| Amortization of intangibles(5) | 5,795 | 3,043 | 3,043 | 2,282 | 2,741 |
| Deferred financing amortization costs(6) | 3,027 | 1,997 | 1,254 | 946 | 865 |
| Tax adjustments(7) | (4,034) | (3,014) | (8,400) | (2,430) | (4,341) |
| Adjusted net income | $ 11,062 | $ 14,497 | $ 24,971 | $ 18,391 | $ 23,492 |

(1) Represents debt extinguishment costs comprised of approximately $3.3 million of fees paid to lenders in connection with our new credit facility and approximately $0.3 million of unamortized debt issuance costs in connection with our old credit facility.
(2) Represents impairment expense to write off the carrying amount of the trade name intangible asset due to the plan to retire the Diversified Collection Services, Inc. trade name.
(3) Represents professional fees and settlement costs related to strategic corporate development activities and a $1.2 million legal settlement in 2011.
(4) Represents expenses incurred under an advisory services agreement with Parthenon Capital Partners, which was terminated in April 2012. See Certain Relationships and Related Party Transactions Arrangements with Our Investors Advisory Services Agreement.
(5) Represents amortization of capitalized expenses related to the acquisition of Performant by an affiliate of Parthenon Capital Partners in 2004, the impairment expense to reduce the carrying amount of the intangible asset due to our decision to terminate a client contract in 2009 and an acquisition in the first quarter of 2012 to enhance our analytics capabilities.
(6) Represents amortization of capitalized financing costs related to debt offerings conducted in 2009, 2010 and 2012.
(7) Represents tax adjustments assuming a marginal tax rate of 40%.

## RISK FACTORS

*Investing in our common stock involves substantial risks. In addition to the other information in this prospectus, you should carefully consider the following factors before investing in our common stock. Any of the risk factors we describe below could adversely affect our business, financial condition and results of operations. The market price of our common stock could decline if one or more of these risks and uncertainties actually occurs, causing you to lose all or part of your investment in our shares. Certain statements in Risk Factors are forward-looking statements. See Information Regarding Forward-Looking Statements included elsewhere in this prospectus.*

### Risks Related to Our Business

***Revenues generated from our five largest clients represented 74% of our revenues for the year ended December 31, 2011, and any termination of or deterioration in our relationship with any of these clients would result in a decline in our revenues.***

We derive a substantial majority of our revenues from a limited number of clients, including the Department of Education, CMS and three GAs. Revenues from our five largest clients represented 74% of our revenues for the year ended December 31, 2011. We expect that our revenues will become increasingly concentrated with our major clients as a result of rising business volumes under our RAC contract, which accounted for approximately 25% of our revenues in the nine months ended September 30, 2012, compared to approximately 13% of our revenues in 2011. If we lose one of these clients or if the terms of our relationships with any of these clients become less favorable to us, our revenues would decline, which would harm our business, financial condition and results of operations.

***Many of our contracts with our clients for the recovery of student loans and other receivables are subject to periodic renewal or re-bidding processes, are not exclusive and do not commit our clients to provide specified volumes of business and, as a consequence, there is no assurance that we will be able to maintain our revenues and operating results.***

Substantially all of our existing contracts for the recovery of student loan and other receivables, which represented approximately 75% of our revenues in 2011, enable our clients to unilaterally terminate their contractual relationship with us at any time without penalty, potentially leading to loss of business or renegotiation of terms. Our contracts generally are subject to a periodic rebidding process at the end of the contract term. Further, most of our contracts in these markets allow our clients to unilaterally change the volume of loans and other receivables that are placed with us at any given time. In addition, most of our contracts are not exclusive, with our clients retaining multiple service providers with whom we must compete for placements of loans or other obligations. Therefore, despite our contractual relationships with our clients, our contracts do not provide assurance that we will generate a minimum amount of revenues or that we will receive a specific volume of placements.

Our revenues and operating results would be negatively affected if our student loans and receivables clients, which include four of our five largest clients in 2011, do not renew their agreements with us upon contract expiration, reduce the volume of student loan placements provided to us, modify the terms of service, including the success fees we are able to earn upon recovery of defaulted student loans, or any of these clients establish more favorable relationships with our competitors. For example, we have been advised that our contractual arrangement with the Department of Education may be modified as a result of the Department of Education s decision to have its recovery vendors promote IBR to defaulted student loans. The IBR program provides flexibility on the required monthly payment for student loan borrowers at an amount intended to be affordable based on a borrower s income and family size. As a result of the increased application of the IBR program to defaulted student loans, we expect that there will be an increase in the number of loans that become eligible for rehabilitation because more defaulted student loan borrowers will be able to make qualifying payments. In this connection, we have been advised that the Department of Education may make certain changes

Table of Contents

to its contractual arrangements with its recovery vendors, although the nature of the changes remains uncertain. Any changes in the contingency fee percentages or other compensation terms that we are paid under existing and future contracts could have a significant impact on our revenues and operating results.

***We face significant competition in all of the markets in which we operate and an inability to compete effectively in the future could harm our relationships with our clients, which would impact our ability to maintain our revenues and operating results.***

We operate in very competitive markets. In providing our services to the student loan and other receivables markets, we face competition from many other companies. Initially, we compete with these companies to be one of typically several firms engaged to provide recovery services to a particular client and, if we are successful in being engaged, we then face continuing competition from the client s other retained firms based on the client s benchmarking of the recovery rates of its several vendors. Those recovery vendors who produce the highest recovery rates from a client often will be allocated additional placements and in some cases additional success fees. Accordingly, maintaining high levels of recovery performance, and doing so in a cost-effective manner, are important factors in our ability to maintain and grow our revenues and net income and the failure to achieve these objectives could harm our business, financial condition and results of operations.

Similarly, we faced a highly competitive bidding process to become one of the four prime RAC contractors that provide recovery services for improper Medicare payments. We expect that CMS will issue a request for proposals in connection with the re-bidding for the RAC contracts in the first half of 2013. Although our RAC contract is currently set to expire in 2014, CMS may terminate our RAC contract as early as August 2013 in connection with the re-bidding process for new RAC contracts. We expect that this process will be competitive. The failure to retain this contract or a significant adverse change in the terms of this contract, which generated approximately 25% of our revenues in the nine months ended September 30, 2012, would seriously harm our ability to maintain or increase our revenues and operating results.

Some of our current and potential competitors in the markets in which we operate may have greater financial, marketing, technological or other resources than we do. The ability of any of our competitors and potential competitors to adopt new and effective technology to better serve our markets may allow them to gain market strength. Increasing levels of competition in the future may result in lower recovery fees, lower volumes of contracted recovery services or higher costs for resources. Any inability to compete effectively in the markets that we serve could adversely affect our business, financial condition and results of operations.

***The U.S. federal government accounts for a significant portion of our revenues, and any loss of business from, or change in our relationship with, the U.S. federal government would result in a significant decrease in our revenues and operating results.***

We have historically derived and are likely to continue to derive a significant portion of our revenues from the U.S. federal government. For the year ended December 31, 2011, revenues under contracts with the U.S. federal government accounted for approximately 27% of our total revenues. Furthermore, federal government revenues increased to approximately 41% in the nine months ended September 30, 2012, primarily as a result of increasing revenues from our RAC contract with CMS. In addition, fees payable by the U.S. federal government are expected to become a larger percentage of our total revenues over the next several years as a result of legislation that has transferred responsibility for all new student loan origination to the Department of Education. The continuation and exercise of renewal options on existing government contracts and any new government contracts are, among other things, contingent upon the availability of adequate funding for the applicable federal government agency. Changes in federal government spending could directly affect our financial performance. For example, the Obama Administration s proposed budget for the year ending September 30, 2013, included a proposal designed to redirect federal government spending to an alternative federal program by decreasing the amount that GAs are compensated when they rehabilitate defaulted loans. While the Obama Administration s budget proposal was not approved by Congress, in June 2012, a bill

Table of Contents

containing similar provisions reducing the compensation of GAs for rehabilitation of defaulted student loans was subsequently introduced in the U.S. Senate. The loss of business from the U.S. federal government, or significant policy changes or financial pressures within the agencies of the U.S. federal government that we serve would result in a significant decrease in our revenues, which would adversely affect our business, financial condition and results of operations.

***Future legislative or regulatory changes affecting the markets in which we operate could impair our business and operations.***

The two principal markets in which we provide our recovery services, government-supported student loans and the Medicare program, are a subject of significant legislative and regulatory focus and we cannot anticipate how future changes in government policy may affect our business and operations. For example, SAFRA significantly changed the structure of the government-supported student loan market by assigning responsibility for all new government-supported student loan originations to the Department of Education, rather than originations by private institutions and backed by one of 31 government-supported GAs. This legislation, and any future changes in the legislation and regulations that govern these markets, may require us to adapt our business to the new circumstances and we may be unable to do so in a manner that does not adversely affect our business and operations.

***Our business relationship with the Department of Education has accounted for a significant portion of our revenues and will take on increasing importance to our business as a result of SAFRA. Our failure to maintain this relationship would significantly decrease our revenues.***

The majority of our historical revenues from the student loan market have come from our relationships with the GAs. As a result of SAFRA, the Department of Education will ultimately become the sole source of revenues in this market, although the GAs will continue to service their existing student loan portfolios for many years to come. As a result, over time, defaults on student loans originated by the Department of Education will predominate and our ability to maintain the revenues we had previously received from a number of GA clients will depend on our relationship with a single client, the Department of Education. While we have 22 years of experience in performing student loan recovery services for the Department of Education, we are one of 17 unrestricted recovery service providers on the current Department of Education contract. In 2011, student loan recovery work for the Department of Education generated revenues of $17.9 million, or approximately 11% of our total revenues. The Department of Education is expected to initiate a contract re-compete process during the first half of 2013. If our relationship with the Department of Education terminates or deteriorates or if the Department of Education, ultimately as the sole holder of defaulted student loans, requires its contractors to agree to less favorable terms, our revenues would significantly decrease, and our business, financial condition and results of operations would be harmed.

***We could lose clients as a result of consolidation among the GAs, which would decrease our revenues.***

As a result of SAFRA, which terminated the ability of the GAs to originate government-supported student loans, some have speculated that there may be consolidation among the 31 GAs. If GAs that are our clients are combined with GAs with whom we do not have a relationship, we could suffer a loss of business. We currently have relationships with 11 of the 31 GAs and three of our GA clients were each responsible for more than 10% of our total revenues in 2011. The consolidation of our GA clients with others and the failure to provide recovery services to the consolidated entity could decrease our revenues, which could negatively impact our business, financial condition and results of operations.

***Our ability to derive revenues under our RAC contract will depend in part on the number and types of potentially improper claims that we are allowed to pursue by CMS, and our results of operations may be harmed if the scope of claims that we are allowed to pursue is limited.***

While we are the prime contractor responsible for review of Medicare records for all Part A and Part B claims in our region pursuant to the terms of our RAC contract with CMS, we are not permitted to seek the

Table of Contents

recovery of an improper claim unless that particular type of claim has been pre-approved by CMS to ensure compliance with applicable Medicare payment policies, as well as national and local coverage determinations. While the revenues we earn under our contract with CMS are determined primarily by the aggregate volume of Medicare claims in our region and our ability to successfully identify improper payments within these claims, the long-term growth of the revenues we derive under our RAC contract will also depend in part on CMS expanding the scope of potentially improper claims that we are allowed to pursue under our RAC contract. If we are unable to continue to identify improper claims within the types of claims that we are permitted to pursue from time to time or if CMS does not expand the scope of potentially improper claims that we are allowed to pursue, our results of operations could be adversely affected.

Further, the improper claims approved by CMS and identified by us may be challenged by affected parties. For example, in November 2012 the American Hospital Association and four hospitals filed a lawsuit against Kathleen Sebelius, the Secretary of the Department of Health and Human Services. The lawsuit claims, among other things, that CMS is acting improperly in completely denying payment for claims initially made under Medicare Part A (inpatient) that should have been made under Medicare Part B (outpatient), rather than remitting the difference between the Part A and Part B payments. This type of improper claim has accounted for a substantial portion of the claims we have identified under our RAC contract. If healthcare providers are able to limit the scope of improper claims, our revenues may be harmed.

***Our results of operations may fluctuate on a quarterly or annual basis and cause volatility in the price of our stock.***

Our revenues and operating results could vary significantly from period-to-period and may fail to match our past performance because of a variety of factors, some of which are outside of our control. Any of these factors could cause the price of our common stock to fluctuate. Factors that could contribute to the variability of our operating results include:

- the amount of defaulted student loans and other receivables that our clients place with us for recovery;
- the timing of placements of student loans and other receivables which are entirely in the discretion of our clients;
- our ability to successfully identify improper Medicare claims and the number and type of potentially improper claims that CMS authorizes us to pursue under our RAC contract;
- the loss or gain of significant clients or changes in the contingency fee rates or other significant terms of our business arrangements with our significant clients;
- technological and operational issues that may affect our clients and regulatory changes in the markets we service; and
- general industry and macroeconomic conditions.

For example, a technology system upgrade at the Department of Education has caused fluctuations in our quarterly operating results. This upgrade significantly decreased the volume of student loan placements by the Department of Education to all recovery vendors, including us. As a result, the dollar amount of placements that we received from the Department of Education in the nine months ended September 30, 2012 was 45% lower than in the comparable nine months ended September 30, 2011. While in the fourth quarter of 2012, we and the other recovery vendors have received substantially larger placement volume as a result of the completion of this technology system upgrade, the majority of the revenues from these placements will be delayed because we do not begin to earn rehabilitation revenues from a given placement until at least nine months after receipt of a placement. In addition, for approximately twelve months beginning in September 2011, this technology system upgrade prevented the Department of Education from processing a significant portion of rehabilitated student loans and accordingly we were not able to recognize a significant amount of the revenues associated with rehabilitation of loans for this client. However, the Department of Education continued to pay us based on invoices submitted and we recorded these cash receipts as deferred revenues on our balance sheet. This led to deferred revenues of $2.5 million as of September 30, 2012.

Further, our claim recovery volume is currently impacted by a system adjustment that is being implemented by CMS for its PIP providers. PIP providers are reimbursed for Medicare claims through different processes than other healthcare providers, and CMS is in the process of making certain system adjustments in order to allow these claims to be processed. Prior to April 2012, we were not permitted to audit Medicare claims for these PIP providers, which we estimate to account for approximately 20% of Medicare claims in our region. The improper payments to PIP providers that we have identified were not processed by CMS from April 2012 until January 2013, when a small portion of such payments began to be processed manually. As a result, we will not recognize any revenues from identified improper payments to PIP providers as of December 31, 2012, but we have incurred expenses related to these claims. We estimate that this delayed our recognition of approximately $6 million in revenues in 2012, although we expect to begin recognizing a portion of these revenues starting in the first quarter of 2013. CMS remains in the process of implementing the necessary changes to its systems that would allow these claims to be processed automatically and allow us to recognize these revenues. While we believe that this delay in automatic processing is temporary, we are uncertain as to when automatic processing will begin and the failure of CMS to process these and future claims on a timely basis will delay our recognition of the revenues until this is resolved. Because our revenues are dependent on many factors, some of which are outside of our control, we may experience significant fluctuations in our results of operations and as a result volatility in our stock price.

***Downturns in domestic or global economic conditions and other macroeconomic factors could harm our business and results of operations.***

Various macroeconomic factors influence our business and results of operations. These include the volume of student loan originations in the United States, together with tuition costs and student enrollment rates, the default rate of student loan borrowers, which is impacted by domestic and global economic conditions, rates of unemployment and similar factors, and the growth in Medicare expenditures resulting from changes in healthcare costs. Changes in these factors could lead to a reduction in overall recovery rates by our clients, which in turn could adversely affect our business, financial condition and results of operations. In addition, during the global financial crisis beginning in 2008, the market for securitized student loan portfolios was disrupted, resulting in delays in the ability of some GA clients to resell rehabilitated student loans and as a result delaying our ability to recognize revenues from these rehabilitated loans.

***We may not be able to maintain or increase our profitability, and our recent financial results may not be indicative of our future financial results.***

We may not succeed in maintaining our profitability on a quarterly or annual basis and could incur quarterly or annual losses in future periods. We expect to incur additional operating expenses associated with being a public company and we intend to continue to increase our operating expenses as we grow our business. We also expect to continue to make investments in our proprietary technology platform and hire additional employees and subcontractors as we expand our healthcare recovery and other operations, thus incurring additional expenses. If our revenues do not increase to offset these increases in expenses, our operating results could be adversely affected. Our historical revenues and net income growth rates are not indicative of future growth rates.

***We may not be able to manage our growth effectively and our results of operations could be negatively affected.***

Our business has expanded significantly, especially in recent years with the expansion of our services in the healthcare market, and we intend to maintain our focus on growth. However, our continued focus on growth and the expansion of our business may place additional demands on our management, operations and financial resources and will require us to incur additional expenses. We cannot be sure that we will be able to manage our growth effectively. In order to successfully manage our growth, our expenses will increase to recruit, train and manage additional qualified employees and subcontractors and to expand and enhance our administrative infrastructure and continue to improve our management, financial and information systems and controls. If we cannot manage our growth effectively, our expenses may increase and our results of operations could be negatively affected.

***A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt the operation of our business.***

A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt our operations. Our operating systems and technology infrastructure are susceptible to damage or interruption from various causes, including acts of God and other natural disasters, power losses, computer systems failures, Internet and telecommunications or data network failures, operator error, computer viruses, losses of and corruption of data and similar events. The occurrence of any of these events could result in interruptions, delays or cessations in service to our clients, reduce the attractiveness of our recovery services to current or potential clients and adversely impact our financial condition and results of operations. While we have backup systems in many of our operating facilities, an extended outage of utility or network services may harm our ability to operate our business. Further, the situations we plan for and the amount of insurance coverage we maintain for losses as result of failures of our operating systems and infrastructure may not be adequate in any particular case.

***If our security measures are breached or fail and unauthorized access is obtained to our clients confidential data, our services may be perceived as insecure, the attractiveness of our recovery services to current or potential clients may be reduced, and we may incur significant liabilities.***

Our recovery services involve the storage and transmission of confidential information relating to our clients and their customers, including health, financial, credit, payment and other personal or confidential information. Although our data security procedures are designed to protect against unauthorized access to confidential information, our computer systems, software and networks may be vulnerable to unauthorized access and disclosure of our clients confidential information. Further, we may not effectively adapt our security measures to evolving security risks, address the security and privacy concerns of existing or potential clients as they change over time, or be compliant with federal, state, and local laws and regulations with respect to securing confidential information. Unauthorized access to confidential information relating to our clients and their customers could lead to reputational damage which could deter our clients and potential clients from selecting our recovery services, or result in termination of contracts with those clients affected by any such breach, regulatory action, and claims against us.

In the event of any unauthorized access to personal or other confidential information, we may be required to expend significant resources to investigate and remediate vulnerabilities in our security procedures, and we may be subject to fines, penalties, litigation costs, and financial losses that are either not insured against or not fully covered through any insurance maintained by us. If one or more of such failures in our security and privacy measures were to occur, our business, financial condition and results of operations could suffer.

***Our business may be harmed if we lose members of our management team or other key employees.***

We are highly dependent on members of our management team and other key employees and our future success depends in part on our ability to retain these people. Our inability to continue to attract and retain members of our management team and other key employees could adversely affect our business, financial condition and results of operations.

Table of Contents

***The growth of our healthcare business will require us to hire and retain employees with specialized skills and failure to do so could harm our ability to grow our business.***

The growth of our healthcare business will depend in part on our ability to recruit, train and manage additional qualified employees. Our healthcare-related operations require us to hire registered nurses and experts in Medicare coding. Finding, attracting and retaining employees with these skills is a critical component of providing our healthcare-related recovery and audit services, and our inability to staff these operations appropriately represents a risk to our healthcare service offering and associated revenues. An inability to hire qualified personnel, particularly to serve our healthcare clients, may restrain the growth of our business.

***We rely on subcontractors to provide services to our clients and the failure of subcontractors to perform as expected could harm our business operations and our relationships with our clients.***

We engage subcontractors to provide certain services to our clients. These subcontractors participate to varying degrees in our recovery activities with regards to all of the services we provide. While most of our subcontractors provide specific services to us, we engage one subcontractor to provide all of the audit and recovery services under our contract with CMS within a portion of our region. According to CMS, the geographic area allocated to this subcontractor accounted for approximately 17% of total Medicare spending in our region in 2009. While we believe that we perform appropriate due diligence before we hire subcontractors, our subcontractors may not provide adequate service or otherwise comply with the terms set forth in their agreements. In the event a subcontractor provides deficient performance to one or more of our clients, any such client may reduce the volume of services we are providing under an existing contract or may terminate the relevant contract entirely and we may face claims for breach of contract. Any such disruption in our relations with our clients as a result of services provided by any of our subcontractors could adversely affect our revenues and operating results.

***If our software vendors or utility and network providers fail to deliver or perform as expected our business operations could be adversely affected.***

Our recovery services depend in part on third-party providers, including software vendors and utility and network providers. Our ability to service our clients depends on these third-party providers meeting our expectations and contractual obligations in a timely and effective manner. Our business could be materially and adversely affected, and we might incur significant additional liabilities, if the services provided by these third-party providers do not meet our expectations or if they terminate or refuse to renew their relationships with us on similar contractual terms.

***We are subject to extensive regulations regarding the use and disclosure of confidential personal information and failure to comply with these regulations could cause us to incur liabilities and expenses.***

We are subject to a wide array of federal and state laws and regulations regarding the use and disclosure of confidential personal information and security. For example, the federal Health Insurance Portability and Accountability Act of 1996, as amended, or HIPAA, and related state laws subject us to substantial restrictions and requirements with respect to the use and disclosure of the personal health information that we obtain in connection with our audit and recovery services under our contract with CMS and we must establish administrative, physical and technical safeguards to protect the confidentiality of this information. Similar protections extend to the type of personal financial and other information we acquire from our student loan, state tax and federal receivables clients. We are required to notify affected individuals and government agencies of data security breaches involving protected health and certain personally identifiable information. These laws and regulations also require that we develop, implement and maintain written, comprehensive information security programs containing safeguards that are appropriate to protect personally identifiable information or health information against unauthorized access, misuse, destruction or modification. Federal law generally does not preempt state law in the area of protection of personal information, and as a result we must also comply with

Table of Contents

state laws and regulations. Regulation of privacy, data use and security requires that we incur significant expenses, which could increase in the future as a result of additional regulations, all of which adversely affects our results of operations. Failure to comply with these laws and regulations can result in penalties and in some cases expose us to civil lawsuits.

***Our student loan recovery business is subject to extensive regulation and consumer protection laws and our failure to comply with these regulations and laws may subject us to liability and result in significant costs.***

Our student loan recovery business is subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection. The Fair Debt Collection Practices Act, or FDCPA, and related state laws provide specific guidelines that we must follow in communicating with holders of student loans and regulates the manner in which we can recover defaulted student loans. Some state attorney generals have been active in this area of consumer protection regulation. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators, as well as frequent litigation from private plaintiffs regarding compliance under the FDCPA and related state regulations. We are also subject to the Fair Credit Reporting Act, or FCRA, which regulates consumer credit reporting and may impose liability on us to the extent adverse credit information reported to a credit bureau is false or inaccurate. Our compliance with the FDCPA, FCRA and other federal and state regulations that affect our student loan recovery business may result in significant costs, including litigation costs. We may also become subject to regulations promulgated by the United States Consumer Financial Protection Bureau, or CFPB, which was established in July 2011 as part of the Dodd-Frank Act to, among other things, establish regulations regarding consumer financial protection laws. In July 2012, the CFPB announced that regulations would be forthcoming that may impact our student loan recovery business and compliance with these regulations may increase our costs. Changes to existing regulations or the adoption of new regulations could adversely affect our business and results of operations if we are not able to adapt our services and client relationships to meet the new regulatory structure.

***The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain executive management and qualified board members.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the Dodd-Frank Act and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased or will continue to increase demand on our systems and resources, particularly after we are no longer an emerging growth company. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management s attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.

We also expect that being a public company will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying

Table of Contents

interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We will continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

However, for as long as we remain an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We may take advantage of these reporting exemptions until we are no longer an emerging growth company.

We will remain an emerging growth company for up to five years, although if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any June 30 before that time, our revenues exceed $1 billion, or we issue more than $1 billion in non-convertible debt in a three-year period, we would cease to be an emerging growth company as of the following December 31.

As a result of disclosure of information as a public company, our business and financial condition have become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business operations and financial results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business operations and financial results. These factors could also make it more difficult for us to attract and retain qualified employees, executive officers and members of our board of directors.

***Failure to achieve and maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley would impair our ability to produce accurate and reliable financial statements, which would harm our stock price.***

We are subject to reporting obligations under Section 404 of the Sarbanes-Oxley Act that require us to include a management report on our internal control over financial reporting in our annual report, which contains management s assessment of the effectiveness of our internal control over financial reporting. These requirements will first apply to our annual report on Form 10-K for the year ending December 31, 2013 and complying with these requirements can be difficult. For example, in June 2012, our independent registered public accounting firm determined that we had incorrectly accounted for our mandatorily redeemable preferred stock, which required audit adjusting entries for the three-year period ended December 31, 2011. Our failure to detect this error was deemed to be a deficiency in internal control and this deficiency was considered to be a material weakness. To address this situation, our independent registered public accounting firm recommended that the Company emphasize the importance of thoroughly researching all new accounting policies and revisiting accounting policies set for existing transactions when changes in the business or reporting requirements occur or are expected to occur. To prevent issues like these in the future, we have bolstered our technical accounting expertise and, where appropriate, engaged outside consultants with specialized knowledge.

Our management may conclude that our internal control over our financial reporting is not effective. As we only recently became a public company following the completion of our initial public offering on

Table of Contents

August 15, 2012, we have limited accounting personnel and other resources with which to address our internal controls and procedures. If we fail to timely achieve and maintain the adequacy of our internal control over financial reporting, we may not be able to produce reliable financial reports or help prevent fraud. Our failure to achieve and maintain effective internal control over financial reporting could prevent us from filing our periodic reports on a timely basis, which could result in the loss of investor confidence in the reliability of our financial statements, harm our business and negatively impact the trading price of our common stock.

We are required to disclose changes made in our internal controls and procedures on a quarterly basis. However, our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company as defined in the JOBS Act, if we continue to take advantage of the exemptions contained in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future.

***Litigation may result in substantial costs of defense, damages or settlement, any of which could subject us to significant costs and expenses.***

We are party to lawsuits in the normal course of business, particularly in connection with our student loan recovery services. For example, we are regularly subject to claims that we have violated the guidelines and procedures that must be followed under federal and state laws in communicating with consumer debtors. We may not ultimately prevail or otherwise be able to satisfactorily resolve any pending or future litigation, which may result in substantial costs of defense, damages or settlement. In the future, we may be required to alter our business practices or pay substantial damages or settlement costs as a result of litigation proceedings, which could adversely affect our business operations and results of operations.

***We typically face a long period to implement a new contract which may cause us to incur expenses before we receive revenues from new client relationships.***

If we are successful in obtaining an engagement with a new client or a new contract with an existing client, we typically have a subsequent long implementation period in which the services are planned in detail and we integrate our technology, processes and resources with the client s operations. If we enter into a contract with a new client, we typically will not receive revenues until implementation is completed and work under the contract actually begins. Our clients may also experience delays in obtaining approvals or delays associated with technology or system implementations, such as the delays experienced with the implementation of our RAC contract with CMS due to an appeal by competitors who were unsuccessful in bidding on the contract. Because we generally begin to hire new employees to provide services to a new client once a contract is signed, we may incur significant expenses associated with these additional hires before we receive corresponding revenues under any such new contract. If we are not successful in maintaining contractual commitments after the expenses we incur during our typically long implementation cycle, our results of operations could be adversely affected.

***If we are unable to adequately protect our proprietary technology, our competitive position could be harmed or we could be required to incur significant costs to enforce our rights.***

The success of our business depends in part upon our proprietary technology platform. We rely on a combination of copyright, patent, trademark, and trade secret laws, as well as on confidentiality procedures and non-compete agreements, to establish and protect our proprietary technology rights. The steps we have taken to deter misappropriation of our proprietary technology may be insufficient to protect our proprietary information. Any infringement or misappropriation of our patents, trademarks, trade secrets, or other intellectual property rights could adversely affect any competitive advantage we currently derive or may derive from our proprietary technology platform and we may incur significant costs associated with litigation that may be necessary to enforce our intellectual property rights.

Table of Contents

***Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.***

Our competitors protect their proprietary rights by means of patents, trade secrets, copyrights, trademarks and other intellectual property. Any party asserting that we infringe, misappropriate or violate their intellectual property rights may force us to defend ourselves, and potentially our clients, against the alleged claim. These claims and any resulting lawsuit, if successful, could be time-consuming and expensive to defend, subject us to significant liability for damages or invalidation of our proprietary rights, prevent us from operating all or a portion of our business or force us to redesign our services or technology platform or cause an interruption or cessation of our business operations, any of which could adversely affect our business and operating results. In addition, any litigation relating to the infringement of intellectual property rights could harm our relationships with current and prospective clients. The risk of such claims and lawsuits could increase if we increase the size and scope of our services in our existing markets or expand into new markets.

***We may make acquisitions that prove unsuccessful, strain or divert our resources and harm our results of operations and stock price.***

We may consider acquisitions of other companies in our industry or in new markets. We may not be able to successfully complete any such acquisition and, if completed, any such acquisition may fail to achieve the intended financial results. We may not be able to successfully integrate any acquired businesses with our own and we may be unable to maintain our standards, controls and policies. Further, acquisitions may place additional constraints on our resources by diverting the attention of our management from other business concerns. Moreover, any acquisition may result in a potentially dilutive issuance of equity securities, the incurrence of additional debt and amortization of expenses related to intangible assets, all of which could adversely affect our results of operations and stock price.

***Our current or future indebtedness could adversely affect our business and financial condition and reduce the funds available to us for other purposes, and our failure to comply with the covenants contained in our credit agreement could result in an event of default that could adversely affect our results of operations.***

As of September 30, 2012, our total debt was $150.5 million. For the year ended December 31, 2011, our consolidated interest expense was approximately $13.5 million. Our ability to make scheduled payments or to refinance our debt obligations and to fund our other liquidity needs depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot make assurances that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness and to fund our other liquidity needs. If our cash flows and capital resources are insufficient to fund our debt service obligations and allow us to maintain compliance with the covenants under our credit agreement or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot ensure that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including our credit agreement. If we cannot make scheduled payments on our debt, we will be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable, the lenders under our credit agreement could terminate their commitments to lend us money and foreclose against the assets securing our borrowings and we could be forced into bankruptcy or liquidation.

Our debt agreements contain, and any agreements to refinance our debt likely will contain, financial and restrictive covenants that limit our ability to incur additional debt, including to finance future operations or other capital needs, and to engage in other activities that we may believe are in our long-term best interests, including to dispose of or acquire assets. Our failure to comply with these covenants may result in an event of default,

Table of Contents

which, if not cured or waived, could accelerate the maturity of our indebtedness or result in modifications to our credit terms. If our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations and we may not be able to continue our operations as planned.

***If securities analysts do not publish research or if securities analysts or other third parties publish inaccurate or unfavorable research about us, the price of our common stock could decline.***

The trading market for our common stock relies in part on the research and reports that securities analysts and other third parties choose to publish about us. We do not control whether these analysts or other third parties provide research regarding our company. The price of our common stock could decline if one or more securities analysts downgrade our common stock or if one or more securities analysts or other third parties publish inaccurate or unfavorable research about us or cease publishing reports about us.

**Risks Related to This Offering and Our Common Stock**

***We are classified as a controlled company and, as a result, we rely on exemptions from certain corporate governance requirements. As a result, you do not have the same protections afforded to stockholders of companies that are subject to such requirements.***

Parthenon Capital Partners controls a majority of our common stock. As a result, we are a controlled company within the meaning of the applicable stock exchange corporate governance standards. Under the rules of the NASDAQ Global Select Market, or NASDAQ, a company of which more than 50% of the outstanding voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain stock exchange corporate governance requirements, including:

- the requirement that a majority of the board of directors consists of independent directors;
- the requirement that nominating and corporate governance matters be decided solely by independent directors; and
- the requirement that employee and officer compensation matters be decided solely by independent directors.

We utilize each of these exemptions. As a result, we do not have a majority of independent directors and our nominating and corporate governance and compensation functions are not decided solely by independent directors. Accordingly, you do not have the same protections afforded to stockholders of companies that are subject to all of the stock exchange corporate governance requirements.

***The price of our common stock could be volatile, and you may not be able to sell your shares at or above the public offering price.***

Since our initial public offering in August 2012, the price of our common stock, as reported by NASDAQ, has ranged from a low of $7.55 on November 27, 2012 to a high of $12.18 on September 13, 2012. The trading price of our common stock may be significantly affected by various factors, including: quarterly fluctuations in our operating results; the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections; changes in investors and analysts perception of the business risks and conditions of our business; our ability to meet the earnings estimates and other performance expectations of financial analysts or investors; unfavorable commentary or downgrades of our stock by equity research analysts; termination of lock-up agreements or other restrictions on the ability of our existing stockholders to sell their shares after this offering and our initial public offering; changes in our capital structure, such as future issuances of debt or equity securities; lawsuits threatened or filed against us; strategic actions by us or our competitors, such as acquisitions or restructurings; new legislation or regulatory actions; changes in our relationship with any of our significant clients; fluctuations in the stock prices of our peer companies or in stock markets in general; and general economic conditions.

Table of Contents

***Future sales, or the perception of future sales, of our common stock may lower our stock price.***

If our existing stockholders sell a large number of shares of our common stock following this offering, the market price of our common stock could decline significantly. In addition, the perception in the public market that our existing stockholders might sell shares of common stock could depress the market price of our common stock, regardless of the actual plans of our existing stockholders. Upon the completion of this offering, a total of 45,392,224 shares of common stock will be outstanding, assuming that there are no exercises of options after December 31, 2012. Of these shares, 8,000,000 shares of common stock sold in this offering by the selling stockholders, plus any shares sold upon exercise of the underwriters option to purchase additional shares, in addition to the 10,350,000 shares that were sold in our initial public offering, will be freely tradable in the public market without restriction or further registration under the Securities Act of 1933, or the Securities Act, unless these shares are held by affiliates, as that term is defined in Rule 144 under the Securities Act. Of the remaining shares outstanding, 303,360 shares will be eligible for sale beginning February 6, 2013 following the expiration of the lock-up agreement from our initial public offering in August 2012, and 27,728,773 shares are subject to lock-up agreements restricting the sale of those shares for 90 days from the date of this prospectus. The underwriters may waive the lock-up restriction and allow any of the stockholders subject to this restriction to sell their shares at any time. See Shares Eligible for Future Sale.

***Our majority stockholder is the principal selling stockholder in this offering and will receive substantial benefits from its sale of shares in this offering***

Our majority stockholder, Parthenon Capital Partners, is offering 5,705,075 shares of our common stock in this offering (or 6,689,008 shares of our common stock if the underwriters exercise their over-allotment option in full) and accordingly Parthenon Capital Partners will receive gross proceeds before underwriting discounts and commissions of approximately $60.8 million (or gross proceeds of approximately $71.2 million if the underwriters exercise their over-allotment option in full). The interests of Parthenon Capital Partners, which will beneficially own approximately 51.3% of our outstanding common stock after the offering (assuming no exercise of the underwriters over-allotment option), may not be consistent with our interests or the interests of our other stockholders.

***Our majority stockholder has the ability to control significant corporate activities and our majority stockholder s interests may not coincide with yours.***

Parthenon Capital Partners beneficially owned approximately 64.8% of our common stock as of December 31, 2012. As a result of its ownership, Parthenon Capital Partners, so long as it holds a majority of our outstanding shares, has the ability to control the outcome of matters submitted to a vote of stockholders and, through our board of directors, the ability to control decision-making with respect to our business direction and policies. Parthenon Capital Partners may have interests different from our other stockholders interests, and may vote in a manner adverse to those interests. Matters over which Parthenon Capital Partners can, directly or indirectly, exercise control include:

- the election of our board of directors and the appointment and removal of our officers;
- mergers and other business combination transactions, including proposed transactions that would result in our stockholders receiving a premium price for their shares;
- other acquisitions or dispositions of businesses or assets;
- incurrence of indebtedness and the issuance of equity securities;
- repurchase of stock and payment of dividends; and
- the issuance of shares to management under our equity incentive plans.

25

Even if Parthenon Capital Partners ownership of our shares falls below a majority, it may continue to be able to strongly influence or effectively control our decisions. In addition, Parthenon Capital Partners has a contractual right to designate a number of directors proportionate to its stock ownership. Further, under our amended and restated certificate of incorporation, Parthenon Capital Partners does not have any obligation to present to us, and Parthenon Capital Partners may separately pursue, corporate opportunities of which it becomes aware, even if those opportunities are ones that we would have pursued if granted the opportunity.

***Anti-takeover provisions contained in our certificate of incorporation and bylaws could impair a takeover attempt that our stockholders may find beneficial.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include the following provisions: establishing a classified board of directors so that not all members of our board are elected at one time; providing that directors may be removed by stockholders only for cause at such time as Parthenon Capital Partners no longer beneficially owns a majority of our outstanding shares; authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock; limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting at such time as Parthenon Capital Partners no longer beneficially owns a majority of our outstanding shares; limiting our ability to engage in certain business combinations with any interested stockholder, other than Parthenon Capital Partners, for a three-year period following the time that the stockholder became an interested stockholder; requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; requiring a super majority vote for certain amendments to our amended and restated certificate of incorporation and amended and restated bylaws after the time when Parthenon Capital Partners ceases to beneficially own a majority of our outstanding shares; and limiting the determination of the number of directors on our board of directors and, when Parthenon Capital Partners is no longer our majority stockholder, the filling of vacancies or newly created seats on the board, to our board of directors then in office. These provisions, alone or together, could have the effect of delaying or deterring a change in control, could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

***Because we do not intend to pay cash dividends in the foreseeable future, you may not receive any return on investment unless you are able to sell your common stock for a price greater than your purchase price.***

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. In addition, our ability to pay dividends is subject to restrictive covenants contained in our credit agreement. As a result, you may not receive any return on investment unless you are able to sell your common stock for a price greater than your purchase price.

Table of Contents

**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. All statements other than statements of historical fact contained in this prospectus, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, design, intend, exp expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

our expected financial results and operating metrics for the three and twelve months ended December 31, 2012;

our opportunities and expectations for growth in the student lending, healthcare and other markets;

anticipated trends and challenges in our business and competition in the markets in which we operate;

our client relationships and future growth opportunities;

the adaptability of our technology platform to new markets and processes;

our ability to invest in and utilize our data and analytics capabilities to expand our capabilities;

our belief that we benefit from a significant degree of revenue visibility;

our growth strategy of expanding in our existing markets and considering strategic alliances or acquisitions;

our ability to meet our liquidity and working capital needs;

maintaining, protecting and enhancing our intellectual property;

our expectations regarding future expenses;

expected future financial performance; and

our ability to comply with and adapt to industry regulations and compliance demands.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We disclaim any duty to update any of these forward-looking statements after the date of this prospectus to conform these statements to actual results or revised expectations.

You may rely only on the information contained in this prospectus. Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus, nor sale of common stock, means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy shares of common stock in any circumstances under which the offer or solicitation is unlawful.

This prospectus also contains statistical data and estimates, including those relating to market size and growth rates of the markets in which we participate, that we obtained from government and industry publications. These publications typically indicate that they have obtained their information from sources they believe to be reliable, but do not guarantee the accuracy and completeness of their information. Although we have assessed the information in the publications and found it to be reasonable and believe the publications are reliable, we have not independently verified their data.

Table of Contents

## USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares by the selling stockholders in this offering. See Principal and Selling Stockholders.

## MARKET PRICE OF OUR COMMON STOCK

Our common stock began trading on the NASDAQ Global Select market under the symbol PFMT on August 10, 2012. Prior to that, there was no public market for our common stock. The table sets forth, for the periods indicated below, the high and low sales prices per share of our common stock as reported by NASDAQ since August 10, 2012.

| **2012** | **High** | **Low** |
|---|---|---|
| Third Quarter (beginning August 10, 2012) | 12.18 | 9.20 |
| Fourth Quarter | 11.84 | 7.55 |

| **2013** | **High** | **Low** |
|---|---|---|
| First Quarter (through January 30, 2013) | 11.70 | 10.02 |

On January 30, 2013, the closing price as reported by NASDAQ of our common stock was $11.02 per share. As of January 30, 2013, we had approximately 38 holders of record of our common stock.

## DIVIDEND POLICY

Our board of directors does not currently intend to pay regular dividends on our common stock. However, we expect to reevaluate our dividend policy on a regular basis following this offering and may, subject to compliance with the covenants in our credit agreement and other considerations, determine to pay dividends in the future. Our ability to pay dividends is subject to restrictive covenants contained in our credit agreement.

Table of Contents

## CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2012. You should read the information in this table together with the sections titled Use of Proceeds, Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

| | As of September 30, 2012 (in thousands, except share data) |
|---|---|
| Cash and cash equivalents | $ 32, 204 |
| Debt: | |
| Revolving credit facility | $ |
| Term A loan | 51,975 |
| Term B loan | 98,554 |
| Total debt | 150,529 |
| Stockholders deficit: | |
| Common stock, $.0001 par value, 500,000,000 shares authorized, 45,320,606 shares issued and outstanding | 4 |
| Preferred stock, $.0001 par value, 50,000,000 shares authorized, no shares issued and outstanding | |
| Additional paid-in capital | 35,186 |
| Accumulated deficit | (17,874) |
| Total stockholders equity | 17,316 |
| Total capitalization | $ 167,845 |

The number of shares of common stock issued and outstanding in the table above excludes:

7,912,719 shares of common stock issuable upon the exercise of options outstanding, at a weighted-average exercise price of $3.79 per share; and

1,935,891 shares of common stock reserved for future issuance under our 2012 Stock Incentive Plan.

Table of Contents

## SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected consolidated statement of operations data for 2009, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2010 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the selected consolidated statement of operations data for the years ended December 31, 2007 and 2008 and the consolidated balance sheet data as of December 31, 2007, 2008 and 2009 from our audited consolidated financial statements not included elsewhere in this prospectus. We have derived the selected consolidated financial data for the nine months ended September 30, 2011 and 2012 and as of September 30, 2012 from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments, which consist only of normal recurring adjustments, that management considers necessary for the fair statement of the financial information set forth in those statements. Historical results are not necessarily indicative of future results. You should read the following selected consolidated historical financial data below in conjunction with the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes, and other financial information included in this prospectus. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements and is qualified in its entirety by the consolidated financial statements and related notes and schedule included in this prospectus.

| | Year Ended December 31, | | | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|---|
| | 2007 (Restated)[1] | 2008 (Restated)[1] | 2009 (Restated)[1] | 2010 (Restated)[1] | 2011 (Restated)[1] | 2011 | 2012 |
| | (in thousands, except share data) | | | | | | |
| **Consolidated Statement of Operations Data:** | | | | | | | |
| Revenues | $ 88,514 | $ 98,967 | $ 109,832 | $ 123,519 | $ 162,974 | $ 120,333 | $ 154,099 |
| Operating expenses: | | | | | | | |
| Salaries and benefits | 51,805 | 49,109 | 53,728 | 58,113 | 67,082 | 50,437 | 59,426 |
| Other operating expense | 23,778 | 26,730 | 32,110 | 33,655 | 49,199 | 35,193 | 53,053 |
| Impairment of trade name | | | | | 13,400 | | |
| Total operating expenses | 75,583 | 75,839 | 85,838 | 91,768 | 129,681 | 85,630 | 112,479 |
| Income from operations | 12,931 | 23,128 | 23,994 | 31,751 | 33,293 | 34,703 | 41,620 |
| Debt extinguishment costs[2] | | | | | | | (3,679) |
| Interest expense | (17,966) | (16,361) | (16,017) | (15,230) | (13,530) | (10,213) | (9,329) |
| Interest income | 488 | 217 | 104 | 118 | 125 | 94 | 64 |
| Income before provision for income taxes | (4,547) | 6,984 | 8,081 | 16,639 | 19,888 | 24,584 | 28,676 |
| Provision for income taxes | (1,445) | 3,113 | 3,071 | 6,664 | 7,516 | 9,839 | 11,698 |
| Net income | $ (3,102) | $ 3,871 | $ 5,010 | $ 9,975 | $ 12,372 | $ 14,745 | $ 16,978 |
| Accrual for preferred stock dividends | 4,047 | 4,556 | 5,128 | 5,771 | 6,495 | 4,785 | 2,038 |
| Net income (loss) available to common shareholders | (7,149) | (685) | (118) | 4,204 | 5,877 | 9,960 | 14,940 |
| Net income (loss) per share attributable to common shareholders[3] | | | | | | | |
| Basic | $ (0.17) | $ (0.02) | $ (0.00) | $ 0.10 | $ 0.14 | $ 0.23 | $ 0.34 |
| Diluted | $ (0.17) | $ (0.02) | $ (0.00) | $ 0.09 | $ 0.13 | $ 0.22 | $ 0.32 |
| Weighted average shares | | | | | | | |
| Basic | 42,509 | 42,653 | 42,962 | 42,962 | 42,962 | 42,962 | 43,519 |
| Diluted | 42,509 | 42,653 | 42,962 | 45,019 | 45,742 | 44,646 | 47,164 |

(1) The consolidated financial statements have been restated for the presentation of our Redeemable Preferred Stock, which affects our balance sheets and the calculation of net income (loss) per share attributable to common shareholders, which affects our statements of operations. See Note 1 to our consolidated financial statements.

(2) Represents debt extinguishment costs comprised of approximately $3.3 million of fees paid to lenders in connection with our new credit facility and approximately $0.3 million of unamortized debt issuance costs in connection with our old credit facility.

Table of Contents

(3) Please see Note 1 to our consolidated financial statements for an explanation of the calculations of our basic and diluted net income per share of common stock.

| | As of December 31, | | | | | As of September 30, |
|---|---|---|---|---|---|---|
| | 2007 (Restated)(1) | 2008 (Restated)(1) | 2009 (Restated)(1) | 2010 (Restated)(1) | 2011 (Restated)(1) | 2012 |
| | (in thousands) | | | | | |
| **Consolidated Balance Sheet Data:** | | | | | | |
| Cash and cash equivalents | $ 11,869 | $ 9,108 | $ 8,924 | $ 11,078 | $ 20,004 | $ 32,204 |
| Total assets | $ 183,939 | $ 183,783 | $ 180,735 | $ 181,390 | $ 182,299 | $ 207,628 |
| Total debt | $ 142,180 | $ 134,215 | $ 127,298 | $ 117,331 | $ 103,383 | $ 150,529 |
| Total liabilities | $ 174,410 | $ 167,617 | $ 161,077 | $ 151,231 | $ 139,756 | $ 190,312 |
| Redeemable preferred stock | $ 36,298 | $ 40,854 | $ 45,982 | $ 51,753 | $ 58,248 | $ |
| Total stockholders (deficit) equity | $ (26,769) | $ (26,688) | $ (26,324) | $ (21,594) | $ (15,705) | $ 17,316 |

(1) The consolidated financial statements have been restated for the presentation of our Redeemable Preferred Stock, which affects our balance sheets and the calculation of net income (loss) per share attributable to common shareholders, which affects our statements of operations. See Note 1 to our consolidated financial statements.

Table of Contents

## MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

## AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. See Information Regarding Forward-Looking Statements included elsewhere in this prospectus. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section entitled Risk Factors included elsewhere in this prospectus.*

### Overview

We provide technology-enabled recovery and related analytics services in the United States. Our services help identify and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Our clients typically operate in complex and regulated environments and outsource their recovery needs in order to reduce losses on billions of dollars of defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury and other receivables. We generally provide our services on an outsourced basis, where we handle many or all aspects of our clients recovery processes.

Our revenue model is generally success-based as we earn fees on the aggregate amount of funds that we enable our clients to recover. Our services do not require any significant upfront investments by our clients and offer our clients the opportunity to recover significant funds otherwise lost. Because our model is based upon the success of our efforts and the dollars we enable our clients to recover, our business objectives are aligned with those of our clients and we are generally not reliant on their spending budgets. Furthermore, our business model does not require significant capital expenditures and we do not purchase loans or obligations. We believe we benefit from a significant degree of revenue visibility due to predictable recovery outcomes in a substantial portion of our business.

### Recent Developments

In early November 2012, we received notification that, due to the effects of Hurricane Sandy, we had to temporarily suspend certain Medicare audit and recovery activities in three of the twelve states where we are the prime Medicare audit contractor. Following this notification, we were unable to submit requests for medical records from healthcare providers in the states of New York, New Jersey and Connecticut and were not permitted to submit claims to providers in these states until December 7, 2012. Providers located within designated Federal disaster areas received this relief until January 6, 2013. We have resumed normal audit and recovery activities following these dates and we do not believe that this temporary suspension of audit and recovery activities meaningfully impacted our expected fourth quarter and 2012 full year results as claims made prior to this notice continued to be processed. However, we also expect that there may be a delay in the recognition of some revenues that would have otherwise been recognized during the first quarter of 2013.

### Sources of Revenues

We derive our revenues from services for clients in a variety of different markets. These markets include our two largest markets, student lending and healthcare, as well as our other markets which include but are not limited to delinquent state taxes and federal Treasury and other receivables.

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | (in thousands) | | |
| Student Lending | $ 84,056 | $ 103,672 | $ 122,253 | $ 91,578 | $ 98,232 |
| Healthcare | | 1,821 | 21,549 | 14,406 | 39,093 |
| Other | 25,776 | 18,026 | 19,172 | 14,349 | 16,774 |
| Total Revenues | $ 109,832 | $ 123,519 | $ 162,974 | $ 120,333 | $ 154,099 |

Table of Contents

*Student Lending*

We derive the majority of our revenues from the recovery of student loans. These revenues are contract-based and consist primarily of contingency fees based on a specified percentage of the amount we enable our clients to recover. Our contingency fee percentage for a particular recovery depends on the type of recovery facilitated. We also receive incremental performance incentives based upon our performance as compared to other contractors with the Department of Education, which are comprised of additional inventory allocation volumes and incentive fees.

We believe the size and the composition of our student loan inventory at any point provides us with a significant degree of revenue visibility for our student loan revenues. Based on data compiled from over two decades of experience with the recovery of defaulted student loans, at the time we receive a placement of student loans, we are able to make a reasonably accurate estimate of the recovery outcomes likely to be derived from such placement and the revenues we are likely able to generate based on the anticipated recovery outcomes.

There are five potential outcomes to the student loan recovery process from which we generate revenues. These outcomes include: full repayment, recurring payments, rehabilitation, loan restructuring and wage garnishment. Of these five potential outcomes, our ability to rehabilitate defaulted student loans is the most significant component of our revenues in this market. Generally, a loan is considered successfully rehabilitated after the student loan borrower has made nine consecutive qualifying monthly payments and our client has notified us that it is recalling the loan. Once we have structured and implemented a repayment program for a defaulted borrower, we (i) earn a percentage of each periodic payment collected up to and including the final periodic payment prior to the loan being considered rehabilitated by our clients, and (ii) if the loan is rehabilitated, then we are paid a one-time percentage of the total amount of the remaining unpaid balance. The fees we are paid vary by recovery outcome as well as by contract. For non-government-supported student loans we are generally only paid contingency fees on two outcomes: full repayment or recurring repayments. The table below describes our typical fee structure for each of these five outcomes.

**Student Loan Recovery Outcomes**

| Full Repayment | Recurring Payments | Rehabilitation | Loan Restructuring | Wage Garnishment |
|---|---|---|---|---|
| Repayment in full of the loan | Regular structured payments, typically according to a renegotiated payment plan | After a defaulted borrower has made nine consecutive recurring payments, the loan is eligible for rehabilitation | Restructure and consolidate a number of outstanding loans into a single loan, typically with one monthly payment and an extended maturity | If we are unable to obtain voluntary repayment, payments may be obtained through wage garnishment after certain administrative requirements are met |
| We are paid a percentage of the full payment that is made | We are paid a percentage of each payment | We are paid based on a percentage of the overall value of the rehabilitated loan | We are paid based on a percentage of overall value of the restructured loan | We are paid a percentage of each payment |

For certain guaranty agency, or GA, clients, we have entered into Master Service Agreements, or MSAs. Under these agreements, clients provide their entire inventory of outsourced loans or receivables to us for

Table of Contents

recovery on an exclusive basis, rather than just a portion, as with traditional contracts that are split among various service providers. In certain circumstances, we engage subcontractors to assist in the recovery of a portion of the client s portfolio. We also receive success fees for the recovery of loans under MSAs and our revenues under MSA arrangements include fees earned by the activities of our subcontractors. As of September 30, 2012, we had four MSA clients in the student loan market.

***Healthcare***

We derive revenues from the healthcare market primarily from our Recovery Audit Contractor, or RAC, contract, under which we are the prime contractor responsible for detecting improperly paid Part A and Part B Medicare claims in 12 states in the Northeastern United States. Revenues earned under the RAC contract are driven by the identification of improperly paid Medicare claims through both automated and manual review of such claims. We are paid contingency fees by the Centers for Medicare and Medicaid Services, or CMS, based on a percentage of the dollar amount of claims recovered by CMS as a result of our efforts. We recognize revenue when the provider pays CMS or incurs an offset against future Medicare claims. The revenues we recognize are net of our estimate of claims that will be overturned by appeal following payment by the provider.

To accelerate our ability to provide Medicare audit and recovery services across our region following our award of the RAC contract, we outsourced certain aspects of our healthcare recovery process to three different subcontractors. Two of these subcontractors provide a specific service to us in connection with our claims recovery process, and one subcontractor is engaged to provide all of the audit and recovery services for claims within a portion of our region. According to CMS, the geographic area allocated to this subcontractor represented approximately 17% of the total Medicare spending in our region in 2009. We recognize all of the revenues generated by the claims recovered through these subcontractor relationships, and we recognize the fees that we pay to these subcontractors in our expenses.

***Other***

We also derive revenues from the recovery of delinquent state taxes, and federal Treasury and other receivables, default aversion services for certain clients including financial institutions and the licensing of hosted technology solutions to certain clients. For our hosted technology services, we license our system and integrate our technology into our clients operations, for which we are paid a licensing fee. Our revenues for these services include contingency fees, fees based on dedicated headcount to our clients and hosted technology licensing fees.

**Operating Metrics**

We monitor a number of operating metrics in order to evaluate our business and make decisions regarding our corporate strategy. These key metrics include Placement Volume, Placement Revenue as a Percentage of Placement Volume, Net Claim Recovery Volume and Claim Recovery Fee Rate.

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (dollars in thousands) | | | | |
| **Student Lending:** | | | | | |
| Placement Volume | $ 4,920,506 | $ 5,294,971 | $ 6,241,483 | $ 4,747,518 | $ 3,600,495 |
| Placement Revenue as a percentage of Placement Volume | 1.71% | 1.96% | 1.96% | 1.93% | 2.73% |
| **Healthcare:** | | | | | |
| Net Claim Recovery Volume | $ | $ 15,494 | $ 188,573 | $ 125,689 | $ 343,794 |
| Claim Recovery Fee Rate | | 11.76% | 11.43% | 11.46% | 11.37% |

Table of Contents

*Placement Volume.* Our Placement Volume represents the dollar volume of defaulted student loans first placed with us during the specified period by public and private clients for recovery. Placement Volume allows us to measure and track trends in the amount of inventory our clients in the student lending market are placing with us during any period. The revenues associated with the recovery of a portion of these loans may be recognized in subsequent accounting periods, which assists management in estimating future revenues and in allocating resources necessary to address current Placement Volumes.

*Placement Revenue as a Percentage of Placement Volume.* Placement Revenue as a Percentage of Placement Volume is calculated by dividing revenues recognized during the specified period by Placement Volume first placed with us during that same period. This metric is subject to some level of variation from period to period based upon certain timing differences including, but not limited to, the timing of placements received by us within a period and the fact that a significant portion of revenues recognized in a current period is often generated from the Placement Volume received in prior periods. However, we believe that this metric provides a useful indication of the revenues we are generating from Placement Volumes on an ongoing basis and provides management with an indication of the relative efficiency of our recovery operations from period to period.

*Net Claim Recovery Volume.* Our Net Claim Recovery Volume measures the dollar volume of improper Medicare claims that we have recovered for CMS during the applicable period net of any amount that we have reserved to cover appeals by healthcare providers. We are paid recovery fees as a percentage of this recovered claim volume. We calculate this metric by dividing our claim recovery revenues by our Claim Recovery Fee Rate. This metric shows trends in the volume of improper payments within our region and allows management to measure our success in finding these improper payments, over time.

*Claim Recovery Fee Rate.* Our Claim Recovery Fee Rate represents the weighted-average percentage of our fees compared to amounts recovered by CMS. This percentage primarily depends on the method of recovery and, in some cases, the type of improper payment that we identify. This metric helps management measure the amount of revenues we generate from Net Claim Recovery Volume.

**Costs and Expenses**

We generally report two categories of operating expenses: salaries and benefits and other operating expense. Salaries and benefits expenses consist primarily of salaries and performance incentives paid and benefits provided to our employees. Other operating expense includes expenses related to our use of subcontractors, other production related expenses, including costs associated with data processing, retrieval of medical records, printing and mailing services, amortization and other outside services, as well as general corporate and administrative expenses. In addition to our main components of operating expenses, in 2011 we incurred a $13.4 million impairment expense to write off the carrying amount of the trade name intangible asset due to our plan to retire our Diversified Collection Services, Inc. trade name, which we report as impairment of trade name. We expect a significant portion of our expenses to increase as we grow our business. However, we expect certain expenses, including our corporate and general administrative expenses, to grow at a slower rate than our revenues. As a result, and over the long term, we expect our overall expenses to modestly decline as a percentage of revenues.

We also expect to incur additional professional fees and other expenses resulting from future expansion and the compliance requirements of operating as a public company, including increased audit and legal expenses, investor relations expenses, increased insurance expenses, particularly for directors and officers liability insurance, and the costs of complying with Section 404 of the Sarbanes-Oxley Act. While these costs may initially increase as a percentage of our revenues, we expect that in the future these expenses will increase at a slower rate than our overall business volume, and that they will eventually represent a smaller percentage of our revenues.

**Factors Affecting Our Operating Results**

Our results of operations are influenced by a number of factors, including allocation of placement volume, claim recovery volume, contingency fees, regulatory matters, effects of client concentration and macroeconomic factors.

***Allocation of Placement Volume***

Our clients have the right to unilaterally set and increase or reduce the volume of defaulted student loans or other receivables that we service at any given time. In addition, many of our recovery contracts for student loans and other receivables are not exclusive, with our clients retaining multiple service providers to service portions of their portfolios. Accordingly, the number of delinquent student loans or other receivables that are placed with us may vary from time to time, which may have a significant effect on the amount and timing of our revenues. We believe the major factors that influence the number of placements we receive from our clients in the student loan market include our performance under our existing contracts and our ability to perform well against competitors for a particular client. To the extent that we perform well under our existing contracts and differentiate our services from those of our competitors, we may receive a relatively greater number of placements under these existing contracts and may improve our ability to obtain future contracts from these clients and other potential clients. Further, delays in placement volume, as well as acceleration of placement volume, from any of our large clients may cause our revenues and operating results to vary from quarter to quarter.

Typically we are able to anticipate with reasonable accuracy the timing and volume of placements of defaulted student loans and other receivables based on historical patterns and regular communication with our clients. Occasionally, however, placements are delayed due to factors outside of our control. For example, a technology system upgrade at the Department of Education significantly decreased the volume of student loan placements by the Department of Education to all recovery vendors, including us. As a result, the dollar amount of placements that we received from the Department of Education in the nine months ended September 30, 2012 was 45% lower than in the comparable nine months ended September 30, 2011. While in the fourth quarter of 2012, we and the other recovery vendors have received substantially larger placement volume as a result of the completion of this technology system upgrade, the majority of the revenues from these placements will be delayed because we do not begin to earn rehabilitation revenues from a given placement until at least nine months after receipt of a placement. In addition, for approximately twelve months beginning in September 2011, the Department of Education was not able to process a significant portion of rehabilitated student loans and accordingly we were not able to recognize a significant amount of the revenues associated with rehabilitation of loans for this client. However, the Department of Education continued to pay us based on invoices submitted and we recorded these cash receipts as deferred revenues on our balance sheet. This led to deferred revenues of $2.5 million as of September 30, 2012.

The amount of placement volume that we receive is also dependent on the client relationships that we maintain. We analyze the profitability of each of our student lending clients, and sometimes determine that our resources servicing a specific client should be allocated elsewhere. As a result of this process, we decided to terminate an unprofitable contract with a commercial bank, which we do not expect will have a significant effect on revenues or net income in future periods. Our decision to terminate this contract, together with the decrease in placements from the Department of Education, as discussed above, account for substantially all of the 24% decrease in Placement Volume in the nine months ended September 30, 2012, compared to the prior year period.

***Claim Recovery Volume***

While we are entitled to review Medicare records for all Part A and Part B claims in our region, we are not permitted to identify an improper claim unless that particular type of claim has been pre-approved by CMS to ensure compliance with applicable Medicare payment policies, as well as national and local coverage determinations. The growth of our revenues is determined primarily by the aggregate volume of Medicare claims in our region and our ability to identify improper payments within these claims. However, the long-term growth of these revenues will also be affected by the scope of the issues pre-approved by CMS.

Further, our claim recovery volume is currently impacted by a system adjustment that is being implemented by CMS for its PIP providers. PIP providers are reimbursed for Medicare claims through different processes than other healthcare providers, and CMS is in the process of making certain system adjustments in order to allow these claims to be processed. Prior to April 2012, we were not permitted to audit Medicare claims for these PIP providers, which we estimate to account for approximately 20% of Medicare claims in our region. The improper payments to PIP providers that we have identified were not processed by CMS from April 2012 until January 2013, when a small portion of such payments began to be processed manually. As a result, we will not recognize any revenues from identified improper payments to PIP providers as of December 31, 2012, but we have incurred expenses related to these claims. We estimate that this delayed our recognition of approximately $6 million in revenues in 2012, although we expect to begin recognizing a portion of these revenues starting in the first quarter of 2013. CMS remains in the process of implementing the necessary changes to its systems that would allow these claims to be processed automatically and allow us to recognize these revenues. While we believe that this delay in automatic processing is temporary, we are uncertain of when automatic processing will begin and the failure of CMS to process these and future claims on a timely basis will delay our recognition of the revenues until this is resolved.

***Contingency Fees***

Our revenues consist primarily of contract-based contingency fees. The contingency fee percentages that we earn are set by our clients or agreed upon during the bid process, and may change from time to time either under the terms of existing contracts or pursuant to the terms of contract renewals. For example, we have been advised that our contractual arrangement with the Department of Education may be modified as a result of the Department of Education s decision to have its recovery vendors promote income based repayment, or IBR, to defaulted student loans. The IBR program provides flexibility on the required monthly payment for student loan borrowers at an amount intended to be affordable based on a borrower s income and family size. As a result of the increased application of the IBR program to defaulted student loans, we expect that there will be an increase in the number of loans that become eligible for rehabilitation because more defaulted student loan borrowers will be able to make qualifying payments. In this connection, we have been advised that the Department of Education may make certain changes to its contractual arrangements with its recovery vendors, although the nature of the changes remains uncertain. Any changes in the contingency fee percentages or other terms under which we are compensated under existing and future contracts could have a significant impact on our revenues.

***Regulatory Matters***

Each of the markets which we serve is highly regulated. Accordingly, changes in regulations that affect the types of loans, receivables and claims that we are able to service or the manner in which any such delinquent loans, receivables and claims can be recovered will affect our revenues and results of operations. For example, the passage of the Student Aid and Fiscal Responsibility Act, or SAFRA, in 2010 had the effect of transferring the origination of all government-supported student loans to the Department of Education, thereby ending all student loan originations guaranteed by the GAs. Loans guaranteed by the GAs represented approximately 70% of government-supported student loans originated in 2009. While the GAs will continue to service existing outstanding student loans for years to come, this legislation will over time shift the portfolio of student loans that we manage toward the Department of Education, and further concentrate our sources of revenues and increase our reliance on our relationship with the Department of Education. In addition, our entry into the healthcare market was facilitated by passage of the Tax Relief and Health Care Act of 2006, which mandated CMS to contract with private firms to audit Medicare claims in an effort to increase the recovery of improper Medicare payments. Any changes to the regulations that affect the student loan industry or the recovery of defaulted student loans or the Medicare program generally or the audit and recovery of Medicare claims could have a significant impact on our revenues and results of operations.

***Client Concentration***

Our revenues from the student loan market depend on our ability to maintain our contracts with some of the largest providers of student loans. In 2011, four providers of student loans each accounted for more than 10% of our revenues during such period and they collectively accounted for 61% of our total revenues during this period. Our contracts with these clients entitle them to unilaterally terminate their contractual relationship with us at any time without penalty. If we lose one of our significant clients, including if one of our significant clients is consolidated by an entity that does not use our services, if the terms of compensation for our services change or if there is a reduction in the level of placements provided by any of these clients, our revenues could decline.

Table of Contents

Our contract with CMS for the recovery of improper Medicare payments began generating significant revenues during 2011 and represented 25% of our total revenues in the three months ended September 30, 2012. We expect that CMS will issue a request for proposals in connection with the re-bidding for the RAC contracts in the first half of 2013. Although our RAC contract is currently set to expire in 2014, CMS may terminate our RAC contract as early as August 2013 in connection with the re-bidding process for new RAC contracts. While we believe our performance under the existing agreement and the experience we have gained in performing this contract position us well to renew the agreement, failure to renew the agreement or renewal on substantially less favorable terms could significantly harm our revenues and results of operations.

*Macroeconomic Factors*

Certain macroeconomic factors influence our business and results of operations. These include the increasing volume of student loan originations in the U.S. as a result of increased tuition costs and student enrollment, the default rate of student loan borrowers, the growth in Medicare expenditures resulting from increasing healthcare costs, as well as the fiscal budget tightening of federal, state and local governments as a result of general economic weakness and lower tax revenues.

**Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management s judgments and estimates.

*Revenue Recognition*

The majority of our contracts are contingency fee based. We recognize revenues on these contingency fee based contracts when third-party payors remit payments to our clients or remit payments to us on behalf of our clients, and, consequently, the contingency is deemed to have been satisfied. Under our RAC contract with CMS, we recognize revenues when the healthcare provider has paid CMS for a given claim or incurs an offset against future Medicare claims. Providers have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of CMS. We accrue an estimated liability for appeals based on the amount of commissions received which are subject to appeal and which we estimate may be returned to providers following successful appeal. This estimated liability for appeals is an offset to revenues on our income statement. Our estimates are based on our historical experience with appeals activity under our CMS contract since January 2010. During the three months ended September 30, 2012, we reserved an amount equal to 15% of gross revenues from our CMS contract, and for the nine months ended September 30, 2012, we reserved an amount equal to 13% of gross revenues from our CMS contract. We have increased our estimated liability for appeal in 2012 due to recent trends in our historical data related to the likelihood of successful appeals. Commencing on December 31, 2011, we established a separate line item in the current liabilities section of our balance sheet entitled Estimated liability for appeals to reflect our estimate of this liability. The $3.7 million balance as of September 30, 2012, represents our best estimate of the probable amount of losses related to appeals of claims for which commissions were previously collected and recognized as revenues. We estimate that it is reasonably possible that we could be required to pay up to an additional approximately $1.5 million as a result of potentially successful appeals. To the extent that required payments by us related to successful appeals exceed the amount

Table of Contents

accrued, revenues in the applicable period would be reduced by the amount of the excess. We similarly accrue an allowance against accounts receivable related to commissions yet to be collected, based on the same estimates used to establish the estimated liability for appeals of commissions received. Our inability to correctly estimate the estimated liabilities and allowance against accounts receivable could adversely affect our revenues in future periods.

***Goodwill***

We periodically review the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether an impairment may exist. GAAP requires that goodwill and certain intangible assets not subject to amortization be assessed annually for impairment using fair value measurement techniques.

Specifically, goodwill impairment is determined using a two-step test. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its book value, including goodwill. If the fair value of the reporting unit exceeds its book value, goodwill is considered not impaired and the second step of the impairment test is unnecessary. If the book value of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the book value of that goodwill. If the book value of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. In September 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The ASU permits early adoption, and based on our qualitative assessment we concluded that we are not required to perform the two-step impairment test at December 31, 2011.

***Impairments of Depreciable Intangible Assets***

We evaluate depreciable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Depreciable intangible assets consist of client contracts and related relationships, and are being amortized over their estimated useful life, which is generally 20 years. We evaluate the client contracts intangible at the individual contract level. The recoverability of such assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There was no impairment expense for depreciable intangible assets in 2010 or 2011. In 2009, an impairment charge of $2.6 million was recognized to account for our decision to discontinue a relationship with a client.

Table of Contents

**Results of Operations**

***Three Months Ended September 30, 2011 compared to the Three Months Ended September 30, 2012***

The following table represents our historical operating results for the periods presented:

| | Three Months Ended September 30, 2011 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Consolidated Statement of Operations Data:** | | |
| Revenues | $ 42,009 | $ 53,400 |
| Operating expenses: | | |
| Salaries and benefits | 16,456 | 21,003 |
| Other operating expense | 13,613 | 18,240 |
| Total operating expenses | 30,069 | 39,243 |
| Income from operations | 11,940 | 14,157 |
| Interest expense | (3,366) | (3,175) |
| Interest income | 31 | 2 |
| Income before provision for income taxes | 8,605 | 10,984 |
| Provision for income taxes | 3,439 | 4,601 |
| Net income | $ 5,166 | $ 6,383 |
| Accrual for preferred stock dividends | 1,660 | |
| Net income available to common shareholders | $ 3,506 | $ 6,383 |

***Revenues***

Total revenues were $53.4 million for the three months ended September 30, 2012, an increase of $11.4 million or 27.1%, compared to total revenues of $42.0 million for the three months ended September 30, 2011. This increase in revenues is primarily due to an increase of $8.4 million in revenues received from CMS under our RAC contract as a result of higher claim recovery volumes and an increase of $2.0 million generated from a new default-aversion service contract in the other markets that we serve. Revenues from student lending increased by 2.5% during the quarter to $33.0 million from $32.2 million in the prior year period.

***Salaries and Benefits***

Salaries and benefits expense was $21.0 million for the three months ended September 30, 2012, an increase of $4.5 million, or 27.6%, compared to salaries and benefits expense of $16.4 million for the three months ended September 30, 2011. This increase is primarily due to hiring of new employees to provide services under our RAC contract with CMS, an increase in expenses associated with the engagement of additional software engineers to assist in the integration of a newly acquired software license and an increase in expenses associated with the hiring of additional administrative employees.

***Other Operating Expense***

Other operating expense was $18.2 million for the three months ended September 30, 2012, an increase of $4.6 million, or 34.0%, compared to other operating expense of $13.6 million for the three months ended September 30, 2011. This increase is primarily due to (i) an additional $2.8 million of subcontractor fees incurred in connection with increased services provided under the RAC contract and MSA contracts and (ii) $0.9 million paid to Parthenon Capital Partners at the closing of our initial public offering in connection with the termination of an advisory services agreement. In addition, we incurred $0.3 million in additional payments to healthcare providers for the retrieval of medical records in accordance with the RAC contract due to an increase in the amount of Medicare claims we audited during the three months ended September 30, 2012. Payments to healthcare providers for the retrieval of medical records are incurred in the ordinary course of business under the

Table of Contents

RAC contract in order to complete our audit process and are directly correlated to the amount of Medicare claims we audit. We expect these payments for the retrieval of medical records to increase over time as the amount of Medicare claims we audit under the RAC contract increases.

*Income from Operations*

As a result of the factors described above, income from operations was $14.2 million for the three months ended September 30, 2012, compared to $12.0 million for the three months ended September 30, 2011, representing an increase of $2.2 million, or 18.6%.

*Interest Expense*

Interest expense was $3.2 million for the three months ended September 30, 2012 compared to $3.4 million for the three months ended September 30, 2011, representing a decrease of 5.7% due to lower interest rates under the new credit agreement as compared to the interest rates under our old credit agreement.

*Income Taxes*

Income tax expense was $4.6 million for the three months ended September 30, 2012 compared to $3.4 million for the three months ended September 30, 2011, representing an increase of 33.8% consistent with the increase in income before provision for income taxes. Our effective income tax increased to 41.9% for the three months ended September 30, 2012 from 40.0% for the three months ended September 30, 2011.

*Net Income*

As a result of the factors described above, net income was $6.4 million for the three months ended September 30, 2012, which represented an increase of $1.2 million compared to net income of $5.2 million for the three months ended September 30, 2011.

*Nine Months Ended September 30, 2011 compared to the Nine Months Ended September, 2012*

The following table represents our historical operating results for the periods presented:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2011 | 2012 |
| | (in thousands) | |
| **Consolidated Statement of Operations Data:** | | |
| Revenues | $ 120,333 | $ 154,099 |
| Operating expenses: | | |
| Salaries and benefits | 50,437 | 59,426 |
| Other operating expense | 35,193 | 53,053 |
| Total operating expenses | 85,630 | 112,479 |
| Income from operations | 34,703 | 41,620 |
| Debt extinguishment costs | | (3,679) |
| Interest expense | (10,213) | (9,329) |
| Interest income | 94 | 64 |
| Income before provision for income taxes | 24,584 | 28,676 |
| Provision for income taxes | 9,839 | 11,698 |
| Net income | $ 14,745 | $ 16,978 |
| Accrual for preferred stock dividends | 4,785 | 2,038 |

| | | |
|---|---|---|
| Net income available to common shareholders | $ 9,960 | $ 14,940 |

Table of Contents

***Revenues***

Total revenues were $154.1 million for the nine months ended September 30, 2012, an increase of $33.8 million, or 28.1%, compared to total revenues of $120.3 million for the nine months ended September 30, 2011. This increase in revenues is primarily due to an increase of $24.7 million in revenues received from CMS under our RAC contract as a result of higher claim recovery volumes and an increase of $2.5 million generated from a new default-aversion service contract in the other markets we serve. Revenues from student lending increased by $ 6.4 million, or 6.9%, to $98.2 million from $91.8 million in the comparable prior year period.

***Salaries and Benefits***

Salaries and benefits expense was $59.4 million for the nine months ended September 30, 2012, an increase of $9.0 million, or 17.8%, compared to salaries and benefits expense of $50.4 million for the nine months ended September 30, 2011. This increase is primarily due to hiring of new employees to provide services under our RAC contract with CMS, an increase in expenses associated with the engagement of additional software engineers to assist in the integration of a newly acquired software license and an increase in expenses associated with the hiring of additional administrative employees.

***Other Operating Expense***

Other operating expense was $53.0 million for the nine months ended September 30, 2012, an increase of $17.9 million, or 51.0%, compared to other operating expense of $35.2 million for the nine months ended September 30, 2011. This increase is primarily due to (i) an additional $9.6 million of subcontractor fees incurred in connection with increased services provided under the RAC contract and MSA contracts and (ii) a $1.3 million expense incurred as the result of the termination of an advisory services agreement with Parthenon Capital Partners, and an additional $0.9 million paid to Parthenon Capital Partners at the closing of our initial public offering also as a result of the termination of the advisory services agreement. In addition, the Company incurred an increase of $1.6 million in payments to healthcare providers for the retrieval of medical records in accordance with the RAC contract due to an increase in the amount of Medicare claims we audited during the nine months ended September 30, 2012.

***Income from Operations***

As a result of the factors described above, income from operations was $41.6 million for the nine months ended September 30, 2012, compared to $34.7 million for the nine months ended September 30, 2011, representing an increase of $6.9 million, or 20.0%.

***Debt Extinguishment Costs***

As a result of the entry into our new credit facility and the repayment of all amounts owed under our then existing credit facility in March 2012, we incurred debt extinguishment costs of $3.7 million, comprised of approximately $3.3 million in fees paid to the lenders in connection with our new credit facility and approximately $0.3 million of unamortized debt issuance costs associated with our old credit facility.

***Interest Expense***

Interest expense was $9.3 million for the nine months ended September 30, 2012 compared to $10.2 million for the nine months ended September 30, 2011 representing a decrease of 8.7% due to lower interest rates under the new credit agreement as compared to the interest rates under our old credit agreement.

***Income Taxes***

Income tax expense was $11.7 million for the nine months ended September 30, 2012 compared to $9.8 million for the nine months ended September 30, 2011 representing an increase of 18.9% consistent with the increase in income before provision for income taxes. Our effective income tax increased to 40.8% for the nine months ended September 30, 2012 from 40.0% for the nine months ended September 30, 2011.

Table of Contents

***Net Income***

As a result of the factors described above, net income was $17.0 million for the nine months ended September 30, 2012, which represented an increase of $2.2 million compared to net income of $14.7 million for the nine months ended September 30, 2011. Excluding the debt extinguishment costs incurred in March 2012, net income would have been $20.7 million for the nine months ended September 30, 2012.

***Year Ended December 31, 2010 compared to the Year Ended December 31, 2011***

The following table presents our historical operating results for the periods presented:

| | Year Ended December 31, | |
|---|---|---|
| | **2010** | **2011** |
| | (in thousands) | |
| **Consolidated Statement of Operations Data:** | | |
| Revenues | $ 123,519 | $ 162,974 |
| Operating expenses: | | |
| Salaries and benefits | 58,113 | 67,082 |
| Other operating expense | 33,655 | 49,199 |
| Impairment of trade name | | 13,400 |
| Total operating expenses | 91,768 | 129,681 |
| Income from operations | 31,751 | 33,293 |
| Interest expense | (15,230) | (13,530) |
| Interest income | 118 | 125 |
| Income before provision for income taxes | 16,639 | 19,888 |
| Provision for income taxes | 6,664 | 7,516 |
| Net income | $ 9,975 | $ 12,372 |

***Revenues***

Total revenues were $163.0 million for the year ended December 31, 2011, an increase of $39.5 million, or 31.9%, compared to total revenues of $123.5 million for the year ended December 31, 2010. Of this increase, $19.7 million is attributable to increased recovery activity on our RAC contract with CMS and reflects the first full-year of our recovery activity related to this contract. The remaining increase was primarily a result of an increase in revenues from our student lending markets, due largely to an approximately 17.9% increase in placement volume from 2010 to 2011.

***Salaries and Benefits***

Salaries and benefits was $67.1 million for the year ended December 31, 2011, an increase of $9.0 million, or 15.4%, compared to salaries and benefits expense of $58.1 million for the year ended December 31, 2010. This increase is primarily due to an increase in employee headcount associated with hiring to staff our operations under the RAC contract. Our employee headcount was 1,280 as of December 31, 2011, an increase of 160, or 14.3%, over the employee headcount of 1,120 as of December 31, 2010.

***Other Operating Expense***

Other operating expense was $49.2 million for the year ended December 31, 2011, an increase of $15.5 million, or 46.2%, compared to other operating expense of $33.7 million for the year ended December 31, 2010. This increase is primarily due to the use of subcontractors as we expand our operations in our healthcare market to help address the new and significant claims activity, along with increases in payments to healthcare providers for the transfer of medical records as required under the RAC contract. In addition, we recorded a $1.2 million expense in

2011 related to a legal settlement that was paid out in the first quarter of 2012.

Table of Contents

***Income From Operations***

As a result of the factors described above, income from operations was $33.3 million, for the year ended December 31, 2011, as compared to $31.8 million for the year ended December 31, 2010. This reflects an expense of $13.4 million related to impairment expenses to write off the carrying amount of the trade name intangible assets due to the retirement of a former trade name. Income from operations excluding this expense totaled $46.7 million for the year ended December 31, 2011, which represents an increase of $14.9 million, or 47.1%, as compared to income from operations for the year ended December 31, 2010.

***Interest Expense***

Interest expense was $13.5 million for the year ended December 31, 2011, a decrease of $1.7 million from $15.2 million for the year ended December 31, 2010. The reduction in interest expense is due primarily to lower notes payable balances resulting from principal repayments.

***Income Taxes***

Income tax expense of $7.5 million for the year ended December 31, 2011, represented an effective tax rate of 37.8% of income before provision for income tax.

***Net Income***

As a result of the factors described above, net income was $12.4 million for the year ended December 31, 2011, which represented an increase of $2.4 million over net income of $10.0 million for the year ended December 31, 2010. Excluding the impairment expenses to write off the carrying amount of the trade name, net income would have been $20.7 million for the year ended December 31, 2011.

***Year Ended December 31, 2009 compared to the Year Ended December 31, 2010***

The following table presents our historical operating results for the periods presented:

| | Years Ended December 31, | |
|---|---|---|
| | **2009** | **2010** |
| | (in thousands) | |
| **Consolidated Statement of Operations Data:** | | |
| Revenues | $ 109,832 | $ 123,519 |
| Operating expenses: | | |
| Salaries and benefits | 53,728 | 58,113 |
| Other operating expense | 32,110 | 33,655 |
| Total operating expenses | 85,838 | 91,768 |
| Income from operations | 23,994 | 31,751 |
| Interest expense | (16,017) | (15,230) |
| Interest income | 104 | 118 |
| Income before provision for income taxes | 8,081 | 16,639 |
| Provision for income taxes | 3,071 | 6,664 |
| Net income | $ 5,010 | $ 9,975 |

***Revenues***

Total revenues were $123.5 million for the year ended December 31, 2010, an increase of $13.7 million, or 12.5%, compared to total revenues of $109.8 million for the year ended December 31, 2009. Total revenues increased as a result of greater student loan revenue of $19.6 million driven by increased placement volume and

Table of Contents

$1.8 million of revenue associated with the commencement of operations under our RAC contract. This increase was partially offset by decrease in other revenue primarily attributable to a revenue benefit we experienced in 2009 related to tax amnesty programs in two states, which is estimated to be $7.3 million.

***Salaries and Benefits***

Salaries and benefits expense was $58.1 million for the year ended December 31, 2010, an increase of $4.4 million, or 8.2%, compared to salaries and related expense of $53.7 million for the year ended December 31, 2009. The change is due primarily to an increase in employee headcount required for the implementation of the RAC contract. Our employee headcount was 1,120 as of December 31, 2010, an increase of 61, or 5.8%, over the employee headcount of 1,059 as of December 31, 2009.

***Other Operating Expense***

Other operating expense was $33.7 million for the year ended December 31, 2010, an increase of $1.5 million, or 4.8%, compared to other operating expense of $32.1 million for the year ended December 31, 2009. The change is due mainly to increased use of subcontractors to help meet increased recovery activity, along with an increase in legal fees associated with a lawsuit.

***Income from Operations***

As a result of the factors described above, income from operations was $31.8 million for the year ended December 31, 2010 as compared to $24.0 million for the year ended December 31, 2009. The increase in income from operations was primarily due to revenues growing at a higher rate than operating expenses as a result of operating efficiencies.

***Interest Expense***

Interest expense was $15.2 million for the year ended December 31, 2010, a decrease of $0.8 million from $16.0 million for the year ended December 31, 2009. The reduction in interest expense is primarily due to lower notes payable balances resulting from principal repayments.

***Income Taxes***

Provision for income taxes of $6.7 million was recorded for the year ended December 31, 2010, an increase of $3.6 million compared to provision for income taxes for the year ended December 31, 2009. Our effective tax rate increased to 40.0% from 38.0%.

***Net Income***

As a result of the factors described above, net income was $10.0 million for the year ended December 31, 2010, which represents an increase of $5.0 million as compared to net income of $5.0 million for the year ended December 31, 2009.

Table of Contents

**Selected Quarterly Financial Data**

The following table sets forth selected unaudited consolidated quarterly operating data for each of the eleven quarters during the period from January 1, 2010 to September 30, 2012. In our management s opinion, the data has been prepared on the same basis as the audited consolidated financial statements included in this prospectus and reflect all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these data. You should read this information together with our consolidated financial statements and the related notes appearing elsewhere in this prospectus. Operating results for any fiscal quarter are not necessarily indicative of results for the full year. Historical results are not necessarily indicative of the results to be expected in future periods.

| | Three Months Ended | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar 31, 2010 | Jun 30, 2010 | Sept 30, 2010 | Dec 31, 2010 | Mar 31, 2011 | Jun 30, 2011 | Sep 30, 2011 | Dec 31, 2011 | Mar 31, 2012 | Jun 30, 2012 | Sep 30, 2012 |
| | (in thousands) | | | | | | | | | | |
| Revenues | $ 29,135 | $ 31,319 | $ 29,362 | $ 33,703 | $ 35,080 | $ 43,244 | $ 42,009 | $ 42,641 | $ 45,878 | $ 54,821 | $ 53,400 |
| Operating expenses: | | | | | | | | | | | |
| Salaries and benefits | 14,715 | 14,232 | 14,185 | 14,981 | 16,729 | 17,252 | 16,456 | 16,645 | 18,641 | 19,782 | 21,003 |
| Other operating expense | 7,231 | 8,330 | 8,414 | 9,680 | 10,073 | 11,507 | 13,613 | 14,006 | 16,141 | 18,672 | 18,240 |
| Impairment of trade name(1) | | | | | | | | 13,400 | | | |
| Total operating expenses | 21,946 | 22,562 | 22,599 | 24,661 | 26,802 | 28,759 | 30,069 | 44,051 | 34,782 | 38,454 | 39,243 |
| Income from operations | 7,189 | 8,757 | 6,763 | 9,042 | 8,278 | 14,485 | 11,940 | (1,410) | 11,096 | 16,367 | 14,157 |
| Debt extinguishment costs(2) | | | | | | | | | (3,679) | | |
| Interest expense | (3,991) | (3,971) | (3,667) | (3,601) | (3,443) | (3,404) | (3,366) | (3,317) | (3,190) | (2,964) | (3,175) |
| Interest income | 25 | 28 | 34 | 31 | 32 | 31 | 31 | 31 | 31 | 31 | 2 |
| Income before provision for income taxes | 3,223 | 4,814 | 3,130 | 5,472 | 4,867 | 11,112 | 8,605 | (4,696) | 4,258 | 13,434 | 10,984 |
| Provision for income taxes | 1,291 | 1,928 | 1,254 | 2,191 | 1,949 | 4,451 | 3,439 | (2,323) | 1,742 | 5,355 | 4,601 |
| Net income (loss) | $ 1,932 | $ 2,886 | $ 1,876 | $ 3,281 | $ 2,918 | $ 6,661 | $ 5,166 | $ (2,373) | $ 2,516 | $ 8,079 | $ 6,383 |

(1) Represents impairment expense to write off the carrying amount of the trade name intangible asset due to the plan to retire the Diversified Collection Services, Inc. trade name.
(2) Represents debt extinguishment costs comprised of approximately $3.3 million of fees paid to lenders in connection with our new credit facility and approximately $0.3 million of unamortized debt issuance costs in connection with our old credit facility.

Table of Contents

**Liquidity and Capital Resources**

Our principal sources of liquidity are cash flows from operations, term loans, and the proceeds received from our initial public offering in August 2012. Cash and cash equivalents, which totaled $32.2 million as of September 30, 2012, consist primarily of cash on deposit with banks. We expect that operating cash flows will continue to be a primary source of liquidity for our operating needs. There are currently no borrowings outstanding under our revolving credit facility other than a $1.4 million letter of credit. Due to our operating cash flows, our existing cash and cash equivalents and availability under our revolving credit facility, we believe that we have the ability to meet our working capital and capital expenditure needs for the foreseeable future.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2011 | 2012 |
| | (in thousands) | |
| Net cash provided by operating activities | $ 26,005 | $ 24,775 |
| Net cash used in investing activities | (4,237) | (8,192) |
| Net cash used in financing activities | (11,074) | (4,383) |

*Cash flows from operating activities*

Operating activities provided $24.8 million of cash during the nine months ended September 30, 2012, a decrease of $1.2 million, compared to cash provided by operating activities of $26.0 million for the nine months ended September 30, 2011. Net income for the nine months ended September 30, 2012 was $17.0 million compared to $14.7 million for the same period in 2011. The $1.2 million decrease in cash from operating activities despite the $2.3 million increase in net income during the nine months ended September 30, 2012 is due mainly to three factors. First, higher revenue levels for the nine months ended September 30, 2012 led to $1.5 million of higher growth in accounts receivable as compared to the accounts receivable in the comparable period in 2011. Second, cash used to purchase prepaid contracts and services in the nine months ended September 30, 2012 increased, with the 2012 year-to-date reduction in prepaids being $1.1 million lower than the corresponding reduction in prepaid contracts and services in the comparable period in 2011. Third, cash used to pay accrued salary and benefits equaled $0.8 million in the nine months ended September 30, 2012, as compared to $1.1 million in accrued salary and benefits payable for the comparable period in 2011.

*Cash flows from investing activities*

Investing activities resulted in cash outflow of $8.2 million during the nine months ended September 30, 2012. The primary uses of cash associated with investing activities were $7.4 million primarily for the acquisition of computer equipment and software, to enhance our technology platform and improve our telecommunications systems and $0.8 million for the purchase of a perpetual software license.

*Cash flows from financing activities*

For the nine months ended September 30, 2012, our primary financing activities were $156 million in proceeds from term loans, $12.8 million of net proceeds from our initial public offering in August 2012 which was completed in August 2012, and $4.5 million in revolving credit facility borrowings. These proceeds were offset by $100.7 million used for the repayment of our old notes payable and repayment of principal on our new term loans, $12.7 million used for the repayment of our old and new lines of credit, $60.3 million used to redeem 3.9 million shares of preferred stock, and $3.1 million used for debt issuance costs.

Table of Contents

The following table presents information regarding our cash flows for the years ended December 31, 2009, 2010 and 2011:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | | (in thousands) | |
| Net cash provided by operating activities | $ 15,633 | $ 18,214 | $ 28,985 |
| Net cash used in investing activities | (4,877) | (4,921) | (6,111) |
| Net cash used in financing activities | (10,940) | (11,139) | (13,948) |

*Cash flows from operating activities*

We generated $29.0 million of cash from operating activities during the year ended December 31, 2011, primarily resulting from our net income of $12.4 million, non-cash depreciation and amortization of $7.8 million, an impairment expense to write off the carrying amount of the trade name intangible asset due to the retirement of the Diversified Collection Services, Inc. trade name of $13.4 million and changes in operating assets and liabilities of $3.8 million, offset by non-cash deferred income taxes of $9.6 million. We generated $18.2 million of cash from operating activities during the year ended December 31, 2010, primarily resulting from our net income of $10.0 million, non-cash depreciation, amortization and impairment of intangible assets of $7.2 million and interest expense from debt issuance costs of $2.0 million, partially offset by non-cash changes in operating assets and liabilities of $1.5 million. We generated $15.6 million of cash from operating activities during the year ended December 31, 2009, primarily resulting from our net income of $5.0 million, non-cash depreciation, amortization and impairment of intangible assets of $9.6 million and interest expense from debt issuance costs of $3.0 million, partially offset by non-cash deferred income taxes of $2.9 million.

*Cash flows from investing activities*

We used $4.9 million, $4.9 million and $6.1 million of cash in investing activities for the purchase of property, equipment and leasehold improvements during the years ended December 31, 2009, 2010 and 2011, primarily for the acquisition of computer equipment and software, to enhance our technology platform and to improve our telecommunications systems.

*Cash flows from financing activities*

Our financing activities for the years ended December 31, 2009, 2010 and 2011 consisted primarily of debt payments under our credit agreement and the payment of deferred financing fees. We used $13.9 million of cash in financing activities for the repayment of notes payable during the year ended December 31, 2011. We used $11.1 million of cash in financing activities during the year ended December 31, 2010, comprised of $10.0 million used for the repayment of notes payable and $1.2 million used for debt issuance costs. We used $10.9 million of cash in financing activities during the year ended December 31, 2009, primarily due to $10.9 million used for the repayment of notes payable, $1.0 million for debt issuance costs offset by $0.9 million of net proceeds received from borrowings under our old line of credit.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

***Long-term Debt***

On March 19, 2012, we, through our wholly owned subsidiary, entered into a $147.5 million credit agreement with Madison Capital Funding LLC as administrative agent, ING Capital LLC as syndication agent, and other lenders party thereto. The senior credit facility consists of (i) a $57.0 million term A loan that matures

Table of Contents

in March 2017 , (ii) a $79.5 million term B loan that matures in March 2018 , and (iii) a $11.0 million revolving credit facility that expires in March 2017, which had a borrowing capacity of $9.6 million as of September 30, 2012. On June 28, 2012, we increased the amount of our borrowings under our term B loan by $19.5 million. We may also request the lenders to increase the size of the term B loan or other term loans by up to an additional $10.5 million at any time prior to March 19, 2014.

All borrowings under the credit agreement bear interest at a rate per annum equal to an applicable margin plus, at our option, either (i) a base rate determined by reference to the highest of (a) the prime rate published in the Wall Street Journal or another national publication, (b) the federal funds rate plus 0.5%, and (c) 2.5% or (ii) a London Interbank Offered Rate, or Libor, rate determined by reference to the highest of (a) a Libor rate published in Reuters or another national publication and (b) 1.5%. The term A loan and the revolving credit facility have an applicable margin of 4.25% for base rate loans and 5.25% for Libor rate loans. The term B loan has an applicable margin of 4.75% for base rate loans and 5.75% for Libor rate loans. The minimum per annum interest rate that we are required to pay is 6.75% for the term A loan and revolving credit facility and 7.25% for the term B loan. Interest is due at the end of each month for base rate loans and at the end of each Libor period for Libor rate loans unless the Libor period is greater than 3 months, in which case interest is due at the last day of each 3-month interval of such Libor period.

The credit agreement requires us to prepay the two term loans on a prorated basis and then to prepay the revolving credit facility under certain circumstances: (i) with 100% of the net cash proceeds of any asset sale or other disposition of assets by us or our subsidiaries where the net cash proceeds exceed $1 million, (ii) with a percentage of our annual excess cash flow each year where such percentage ranges from 25%-75% depending on our total debt to EBITDA ratio reduced by any voluntary prepayments that are made on our term loans during the same period and (iii) with any net cash proceeds from a qualified initial public offering by us, less net proceeds applied to redeem any outstanding preferred equity or convertible debt, to pay a common shareholder dividend not to exceed $20 million or, if we comply with an adjusted EBITDA ratio set forth in the agreement, to our cash balances in an amount not to exceed $75 million. We applied the proceeds from our initial public offering to our cash balances.

We have to abide by certain negative covenants for our credit agreement, which limit the ability for our subsidiaries and us to:

- incur additional indebtedness;
- create or permit liens;
- pay dividends or other distributions to our equity holders;
- purchase or redeem certain equity interests of our equity holders, including any warrants, options and other security rights;
- pay management fees or similar fees to any of our equity holders;
- make any redemption, prepayment, defeasance, repurchase or any other payment with respect to any subordinated debt;
- consolidate or merge;
- sell assets, including the capital stock of our subsidiaries;
- enter into transactions with our affiliates;

- enter into different business lines; and
- make investments.

The credit agreement also requires us to meet certain financial covenants, including maintaining a fixed charge coverage ratio and a total debt to EBITDA ratio as such terms are defined in our credit agreement. These

Table of Contents

financial covenants are tested at the end of each quarter beginning on September 30, 2012. The table below further describes these financial covenants, as well as our status under these covenants as of September 30, 2012.

| Financial Covenant | Covenant Requirement | Actual Ratio at September 30, 2012 |
|---|---|---|
| Fixed charge coverage ratio (minimum) | 1.20 to 1.0 | 1.9 |
| Total debt to EBITDA ratio (maximum) | 3.25 to 1.0 | 2.17 |

**Contractual Obligations**

The following summarizes our contractual obligations as of December 31, 2011, except for long-term debt obligations, which reflect the terms of the new credit agreement dated March 19, 2012 and as amended on June 28, 2012:

| | Payments Due by Period (in thousands) | | | | |
|---|---|---|---|---|---|
| | Less Than 1 Year | 1 3 Years | 3 5 Years | More Than 5 Years | Total |
| Long-Term Debt Obligations(1) | $ 8,134 | $ 22,080 | $ 22,080 | $ 103,706 | $ 156,000 |
| Interest Payments(1) | 8,138 | 19,615 | 16,687 | 8,393 | 52,783 |
| Operating Lease Obligations | 1,402 | 1,386 | 135 | | 2,923 |
| Purchase Obligation | 732 | | | | 732 |
| Deferred Compensation | | 1,761 | | | 1,761 |
| Total | $ 18,406 | $ 44,842 | $ 38,852 | $ 122,099 | $ 214,199 |

(1) We entered into our new credit agreement on March 19, 2012 and amended it on June 28, 2012, with all outstanding indebtedness under our prior loan facility paid in full. Long-term debt obligations and interest payments presented in this table relate solely to our new credit agreement, as amended.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Quantitative and Qualitative Disclosures about Market Risk**

We do not hold or issue financial instruments for trading purposes. We conduct all of our business in U.S. currency and therefore do not have any direct foreign currency risk. We do have exposure to changes in interest rates with respect to the borrowings under our senior secured credit facility, which bear interest at a variable rate based on the prime rate or LIBOR. For example, if the interest rate on our borrowings increased 100 basis points (1%) from the credit facility floor of 1.5%, our annual interest expense would increase by approximately $1.5 million. In July 2012, we entered into an interest rate cap agreement per the terms of our senior secured credit agreement. The interest rate cap agreement is effective beginning in October 2012, and matures in October 2014, with a total notional amount of $75 million and a cap on LIBOR at 2.0%. If the LIBOR rate were to increase by 100 basis points (1.0%) above the credit facility floor of 1.5% for a year, we would receive a payment from the interest rate cap of approximately $0.4 million.

While we currently hold our excess cash in an operating account, in the future we may invest all or a portion of our excess cash in short-term investments, including money market accounts, where returns may reflect current interest rates. As a result, market interest rate changes impact our interest expense and interest income. This impact will depend on variables such as the magnitude of interest rate changes and the level of our borrowings under our credit facility or excess cash balances.

Table of Contents

**Recent Accounting Pronouncements**

Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we do not intend to elect to take advantage of this extended transition period provided in Section 7(a)(2)(B) of the Securities Act as allowed by Section 107(b)(1) of the JOBS Act.

In December 2011, FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under GAAP with financial statements prepared under International Financial Reporting Standards (IFRS). The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. We will implement the provisions of ASU 2011-11 as of January 1, 2013.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option in GAAP to present other comprehensive income in the statement of changes in equity. An entity should apply the ASU retrospectively. For a nonpublic entity, the ASU is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted. In December 2011, the FASB decided to defer the effective date of those changes in ASU 2011-05 that relate only to the presentation of reclassification adjustments in the statement of income by issuing ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive income in Accounting Standards Update 2011-05*. We plan to implement the provisions of ASU 2011-05 by presenting a separate statement of other comprehensive income following the statement of income in 2012.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or GAAP. For GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. A nonpublic entity is required to apply the ASU prospectively for annual periods beginning after December 15, 2011. We expect that the adoption of ASU 2011-04 in 2012 will not have a material impact on our consolidated financial statements.

Table of Contents

## BUSINESS

### Overview

We provide technology-enabled recovery and related analytics services in the United States. Our services help identify and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Our clients typically operate in complex and regulated environments and outsource their recovery needs in order to reduce losses on billions of dollars of defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. We generally provide our services on an outsourced basis, where we handle many or all aspects of our clients recovery processes.

We believe we have a leading position in our markets based on our proprietary technology-enabled services platform, long-standing client relationships and the large volume of funds we have recovered for our clients. In 2011, we provided recovery services on approximately $8.7 billion of combined student loans and other delinquent federal and state receivables and recovered approximately $189 million in improper Medicare payments. Our clients include 12 of the 32 public sector participants in the student loan industry and these relationships average more than 10 years in length, including a 22-year relationship with the Department of Education. According to the Department of Education, total government-supported student loan originations were estimated to be approximately $115 billion in 2012, and, as of September 30, 2012, approximately $78 billion of government-supported student loans were in default. In the healthcare market, we are currently one of four prime Medicare Recovery Audit Contractors, or RACs, in the United States for the Centers for Medicare and Medicaid Services, or CMS. According to the Government Accountability Office, Medicare paid $554 billion of claims in 2011, of which approximately $43 billion were estimated to be improper payments.

We utilize our technology platform to efficiently provide recovery and analytics services in the markets we serve. We have continuously developed and refined our technology platform for almost two decades by using our extensive domain and data processing expertise. Our technology platform allows us to disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent component steps, which we refer to as workflows, for our recovery and healthcare claims review specialists. This approach enables us to continuously refine our recovery processes to achieve higher rates of recovery with greater efficiency. By optimizing what traditionally have been manually-intensive processes, we believe we achieve higher workforce productivity versus more traditional labor-intensive outsourcing business models. For example, we generated in excess of $130,000 of revenues per employee during 2011, based on the average number of employees during the year.

We believe that our platform is easily adaptable to new markets and processes. Over the past several years, we have successfully extended our platform into additional markets with significant recovery opportunities. For example, we utilized the same basic platform previously used primarily for student loan recovery activities to enter the healthcare market. We have enhanced our platform through investment in new data and analytics capabilities, which we believe will enable us to provide additional services such as services relating to the detection of fraud, waste and abuse.

Our revenue model is generally success-based as we earn fees based on a percentage of the aggregate amount of funds that we enable our clients to recover. Our services do not require any significant upfront investments by our clients and we offer our clients the opportunity to recover significant funds otherwise lost. Because our model is based upon the success of our efforts and the dollars we enable for our clients to recover, our business objectives are aligned with those of our clients and we are generally not reliant on their spending budgets. Further, our business model does not require significant capital expenditures for us and we do not purchase loans or obligations. We believe we benefit from a significant degree of revenue visibility due to reasonably predictable recovery outcomes in a substantial portion of our business.

For the year ended December 31, 2011, we generated approximately $163.0 million in revenues, $12.4 million in net income, $57.8 million in adjusted EBITDA and $25.0 million in adjusted net income. For the nine months ended September 30, 2012, we generated approximately $154.1 million in revenues, $17.0 million in net income, $52.2 million in adjusted EBITDA and $23.5 million in adjusted net income, and our total debt was $150.5 million at September 30, 2012. For a discussion on limitations associated with using adjusted EBITDA and adjusted net income rather than GAAP measures and reconciliations of adjusted EBITDA and adjusted net income to net income see the section titled Summary Consolidated Financial Data non-GAAP financial measures.

**Our Markets**

We operate in markets characterized by strong growth, a complex regulatory environment and a significant amount of delinquent, defaulted or improperly paid assets.

***Student Lending***

Student lending is a large and critically-important market in the United States. According to the Department of Education, total government-supported student loan originations were estimated to be approximately $115 billion in the year ended September 30, 2012, and the aggregate dollar amount of these loans has grown at a compound annual growth rate of 11% from 2002 through 2012. This growth has been supported by general demographic trends, increased enrollment, and rising costs of tuition and other expenses that increase the need for borrowed funds among students. In addition to strong underlying origination growth, the default rates among student loan borrowers have increased in recent years. The cohort default rate, which is the measure utilized by the Department of Education to track the percentage of government-supported loan borrowers that enter repayment in a certain year ended September 30 and default by the end of the next year ended September 30, has risen from approximately 5% in 2006 to approximately 9% in 2010, the last year for which data is available.

Government-supported student loans are authorized under Title IV of the Higher Education Act of 1965. Historically, there have been two distribution channels for student loans: (i) the Federal Direct Student Loan Program, or FDSLP, which represents loans made and managed directly by the Department of Education; and (ii) the Federal Family Education Loan Program, or FFELP, which represents loans made by private institutions and currently backed by any of the 31 GAs.

In July 2010, the government-supported student loan sector underwent a structural change with the passage of SAFRA. This legislation transitioned all new government-supported student loan originations to the FDSLP, and away from originations made by private institutions within the FFELP that had previously utilized the GAs to guarantee, manage and service loans. The GAs are non-profit 501(c)(3) public benefit corporations operating under contract with the U.S. Secretary of Education, pursuant to the Higher Education Act of 1965, as amended, solely for the purpose of guaranteeing and managing student loans originated by lenders participating in the FFELP. Consequently, while the original distribution channels for student loans have been consolidated into one channel, the Department of Education, this does not impact the volume of government-supported student loan origination, which is a key driver of the volume of defaulted student loan inventory. In addition, despite this transition of all new loan originations to the FDSLP, GAs will continue to manage a significant amount of defaulted student loans for some period of time, due to their large outstanding portfolios of loans originated prior to July 2010. The outstanding portfolios of defaulted FFELP loans will, therefore, require recovery for the foreseeable future.

The Department of Education estimates that the balance of defaulted loans was approximately $44.7 billion in the FDSLP and approximately $32.7 billion in the FFELP as of September 30, 2012. These programs collectively guaranteed approximately $706 billion of federal government-supported student loans according to the Congressional Budget Office as of September 30, 2011. Given the operational and logistical complexity involved in managing the recovery of defaulted student loans, the Department of Education and the GAs generally choose to outsource these services to third parties.

Table of Contents

The tables below show government-supported student loan originations and government-supported default inventory for the years ended 2007 through 2012 as reported by the Department of Education.

*Healthcare*

The healthcare industry represents a significant portion of the U.S. GDP. According to CMS, U.S. healthcare spending reached $2.7 trillion in 2011 and is forecast to grow at a 6% annual rate through 2021. In particular, CMS indicates that federal government-related healthcare spending for 2011 totaled approximately $1.2 trillion. This government-related spending included approximately $554 billion for Medicare, which provides a range of healthcare coverage primarily to elderly and disabled Americans, and $408 billion for Medicaid, which provides federal matching funds for states to finance healthcare for individuals at or below the public assistance level.

The tables below show total U.S. healthcare expenditures from 2011 through 2021 and total Medicare spending from 2011 through 2021 as estimated by CMS.

Medicare was initially established as part of the Social Security Act of 1965 and consists of four parts: Part A covers hospital and other inpatient stays; Part B covers hospital outpatient, physician and other services; Part C is known as Medicare Advantage, under which beneficiaries receive benefits through private health plans; and Part D is the Medicare outpatient prescription drug benefit.

Of the $554 billion of 2011 Medicare spending, the Department of Health and Human Services estimated that approximately $43 billion, or 8%, was improper, and is the federal program with the largest amount of improper payments. Medicare improper payments generally involve incorrect coding, procedures performed which were not medically necessary, incomplete documentation or claims submitted based on outdated fee schedules, among other issues. Likewise, Medicaid improper payments were estimated to be $22 billion, or 5%, of total Medicaid payments for 2011. The following table illustrates the proportion of improper payments among federal programs in the year ended September 30, 2011, according to the Office of Management and Budget.

**Top Federal Programs with Improper Payments in the Year Ended September 30, 2011**
**Total = $115 billion**

(1) Other includes National School Lunch, Pell Grant, and 67 additional programs.

In accordance with the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, a demonstration program was conducted from March 2005 to March 2008 in six states to determine if the RAC program could be effectively used to identify improper payments for claims paid under Medicare Part A and Part B. Due to the success of this demonstration, under The Tax Relief and Health Care Act of 2006, the U.S. Congress authorized the expansion of the RAC program nationwide. CMS relies on third-party contractors to execute the RAC program to analyze millions of Medicare claims annually for improper payments that have been paid to healthcare providers. The program was implemented by designating one prime contractor in each of the four major regions in the United States: West, Midwest, South, and Northeast.

In addition to government-related healthcare spending, significant growth is expected in the private healthcare market. According to CMS National Health Expenditures Projections, the private healthcare market accounted for approximately $1.5 trillion in spending in 2011 and private expenditures are projected to grow more than 5% annually through 2021.

**Table of Contents**

***Other Markets***

*State Tax Market*

We believe that the demand for recovery of delinquent state taxes will grow as state governments struggle with revenue generation and face significant budget deficits. According to the Center on Budget and Policy Priorities, an independent think tank, 43 U.S. states faced budget shortfalls totaling $107 billion in the year ended September 30, 2012, with at least 31 states anticipating deficits for fiscal year 2013. The economic recession has led to lower income and sales taxes from both individuals and corporations, reducing overall tax revenues and leading to large budget deficits at the state government level. While many states have received federal aid, most have cut services and increased taxes to help close the budget shortfall and have evaluated outsourcing at least some aspect of delinquent tax recovery.

*Federal Agency Market*

The federal agency market consists of government debt subrogated to the Department of the Treasury by numerous different federal agencies, comprising a mix of commercial and individual obligations and a diverse range of receivables. These debts are managed by the Department of Financial Management Service, a bureau of the Department of the Treasury, or FMS. Since 1996, the FMS has recovered more than $54 billion in delinquent federal debt. For the year ended September 30, 2011, federal agency recoveries in this market totaled more than $6.2 billion, an increase of more than $700 million over 2010. A significant portion of these collections are processed by private collection firms on behalf of the FMS.

**Our Competitive Strengths**

We believe that our business is difficult to replicate, as it incorporates a combination of several important and differentiated elements, including:

***Scalable and flexible technology-enabled services platform.*** We have built a proprietary technology platform that is highly flexible, intuitive and easy to use for our recovery and claims specialists. Our platform is easily configurable and deployable across multiple markets and processes. For example, we have successfully extended our platform from the student loan market to the state tax, federal treasury receivables and the healthcare recovery markets, each having its own industry complexities and specific regulations.

***Advanced, technology-enabled workflow processes.*** Our technology-enabled workflow processes, developed over many years of operational experience in recovery services, disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent steps that are easily configurable and applicable to different types of recovery-related applications. We believe our workflow software is highly intuitive and helps our recovery and claims specialists manage each step of the recovery process, while automating a series of otherwise manually-intensive and document-intensive steps in the recovery process. We believe our streamlined workflow technology drives higher efficiencies in our operations, as illustrated by our ability to generate in excess of $130,000 of revenues per employee during 2011, based on the average number of employees during the year. We believe our streamlined workflow technology also improves recovery results relative to more labor-intensive outsourcing models.

***Enhanced data and analytics capabilities.*** Our data and analytics capabilities allow us to achieve strong recovery rates for our clients. We have collected recovery-related data for over two decades, which we combine with large volumes of client and third-party data to effectively analyze our clients delinquent or defaulted assets and improper payments. We have also developed a number of analytics tools that we use to score our clients recovery inventory, determine the optimal recovery process and allocation of resources, and achieve higher levels of recovery results for our clients. In addition, we utilize analytics tools to continuously measure and test our recovery workflow

Table of Contents

processes to drive refinements and further enhance the quality and effectiveness of our capabilities. Finally, through a strategic investment, we have acquired enhanced data analytics capabilities, which we refer to as Performant Insight. This investment allows us to expand our capabilities into several new areas including the detection of fraud, waste and abuse in various markets and has assisted in our recovery activities for CMS.

***Long-standing client relationships.*** We believe our long-standing focus on achieving superior recovery performance for our clients and the significant value our clients derive from this focus have helped us achieve long-tenured client relationships, strong contract retention and better access to new clients and future growth opportunities. We have business relationships with 12 of the 32 public sector participants in the student loan market and these relationships average more than 10 years in length, including an approximate 22-year relationship with the Department of Education. In the healthcare market, we have a seven-year relationship with CMS and are currently one of only four prime Medicare RAC contractors.

***Extensive domain expertise in complex and regulated markets.*** We have extensive experience and domain expertise in providing recovery services for government and private institutions that generally operate in complex and regulated markets. We have demonstrated our ability to develop domain expertise in new markets such as healthcare and state tax and federal Treasury receivables. We believe we have the necessary organizational experience to understand and adapt to evolving public policy and how it shapes the regulatory environment and objectives of our clients. We believe this helps us identify and anticipate growth opportunities. For example, we successfully identified government healthcare as a potential growth opportunity that has thus far led to the award of three contracts to us by CMS. Together with our flexible technology platform, we have the ability to adapt our business strategy, to allocate resources and to respond to changes in our regulatory environment to capitalize on new growth opportunities.

***Proven and experienced management team.*** Our management team has significant industry experience and has demonstrated strong execution capabilities. Our senior management team, led by Lisa Im, has been with us for an average of approximately 10 years. This team has successfully grown our revenue base and service offerings beyond the original student loan market into healthcare and delinquent state tax and private financial institutions receivables. Our management team s industry experience, combined with deep and specialized understanding of complex and highly regulated industries, has enabled us to maintain long-standing client relationships and strong financial results.

**Our Growth Strategy**

Key elements of our growth strategy include the following:

***Expand our student loan recovery volume.*** According to the Department of Education, total government-supported student loan originations were estimated to be approximately $115 billion in 2012, and have grown at a 11% compound annual growth rate from 2002 through 2012. The balance of defaulted government-supported student loans was estimated to be approximately $78 billion as of September 30, 2012. While we have long-standing relationships with some of the largest participants in the government-supported student loan market, we believe there are significant opportunities within this growing market to increase the volume of student loans placed with us by existing and new clients. For example, under our contract with the Department of Education, we believe there is an opportunity to grow our placement volume through strong performance. Further, as a result of our relationships with five of the seven largest GAs, we believe we are well-positioned to benefit as a result of any consolidation of smaller GAs over the coming years.

***Expand our recovery services in the healthcare market.*** According to CMS, Medicare spending totaled approximately $554 billion in 2011 and is expected to increase to $1 trillion in 2021,

Table of Contents

representing a compound annual growth rate of 6%. In the private healthcare market, spending totaled $1.5 trillion in 2011 and is expected to grow more than 6% annually through 2021, according to CMS National Health Expenditures Projections. As these large markets continue to grow, we expect the need for recovery services to increase in the public and private healthcare markets. In the public healthcare space, we intend to utilize the experience gained through our contracts with CMS to pursue additional recovery opportunities in areas such as Medicare Secondary Payor Recovery and state Medicaid recovery. In addition, through our enhanced analytics capabilities, we intend to pursue opportunities to find and eliminate losses prior to payment for healthcare services including the detection of fraud, waste and abuse in the public and private healthcare markets.

***Pursue strategic alliances and acquisitions.*** We intend to selectively consider opportunities to grow through strategic alliances or acquisitions that are complementary to our business. These opportunities may enhance our existing capability or enable us to enter new markets or provide new products or services, such as our licensing of new applied data modeling analytics capabilities that can be used to identify fraudulent or erroneous healthcare claims prior to payment.

**Our Platform**

Our technology-enabled services platform is based on over two decades of experience in recovering large amounts of funds on behalf of our clients across several markets. The components of our platform include our data management expertise, analytics capabilities and technology-based workflow processes. Our platform integrates these components to allow us to achieve optimized outcomes for our clients in the form of increased efficiency and productivity and high recovery rates. Our platform and workflow processes are also intuitive and easy to use for our recovery and claims specialists and allow us to increase our employee retention and productivity.

The components of our platform include the following:

***Data Management Expertise***

Our platform manages and stores large amounts of data throughout the workflow process. This includes both proprietary data we have compiled over two decades as well as third-party data which we can integrate efficiently and in real-time to reduce errors, reduce cycle time processing and, ultimately, improve recovery rates. The strength of our data management expertise augments our analytics capabilities and provides our recovery and claims specialists with powerful workflow processes.

***Data Analytics Capabilities***

Our data analytics capabilities efficiently screen and allocate massive volumes of recovery inventory. For example, upon receipt of each placement of student loans, we utilize our proprietary algorithms to assist us in determining the most efficient recovery process and the optimal allocation of recovery specialist resources for each loan. In the healthcare market, we analyze millions of Medicare claims to find potential correlations between claims data and improper payments, which enhance our future recovery rates. Across all of our current markets, we utilize our proprietary analytics tools to continuously and rigorously test our workflow processes in real-time to drive greater process efficiency and improvement in recovery rates.

Furthermore, we believe our enhanced analytics capabilities will extend our potential markets, permitting us to pursue significant new business opportunities. We intend to accelerate the use of our data analytics capabilities in the healthcare sector to offer a variety of services from post and pre-payment audit of healthcare claims in both the public and private healthcare sector, to detection of fraud, waste and abuse of healthcare claims, to coordination of benefits and pharmacy fraud detection.

***Workflow Processes***

Over many years, we have developed and refined our recovery workflow processes, which we believe drive higher efficiency and productivity and reduce our reliance on labor-intensive methods relative to more

**Table of Contents**

traditional recovery outsourcing models. We refer to the patented technology that supports our proprietary workflows as Smart Bins. Smart Bins disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent steps that are easily configurable and applicable to different types of recovery-related applications. Our workflow processes integrate a broad range of functions that encompass each stage of a recovery process.

Smart Bins have been designed to be highly intuitive and help our recovery and claims specialists manage each step in the recovery process and enhance their productivity to high levels, regardless of skill differences among specialists. Smart Bins direct specialists toward the most efficient and effective action, or step with respect to the management and recovery of a defaulted student loan, with some input by specialists. Our technology places expert system rules into the workflow engine, allowing employees at different skill levels to manage the more complex work steps that highly experienced workers would perform, while automating document management and compliance functionality as industry regulations and compliance demands change.

The following recovery diagram illustrates how the various components of our platform work together to solve a typical client workflow:

Table of Contents

**Our Services**

We use our technology-enabled services platform to provide recovery and analytics services in a broad range of markets for the identification and recovery of student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. The table below summarizes our recovery services and related analytics capabilities and the markets we serve.

| Recovery Services<br>Student Loans | <br>Healthcare | <br>Other Markets | Analytics<br>Capabilities |
|---|---|---|---|
| Provide recovery services to the Department of Education, GAs and private institutions<br><br>Identify and track defaulted borrowers across our clients portfolios of student loans<br><br>Utilize our proprietary technology, our history of borrower data and our analytics capabilities to rehabilitate and recover past due student loans<br><br>Earn contingent, success-based fees calculated as a percentage of funds that we enable our clients to recover | Provide recovery services to identify improper healthcare payments<br><br>Analyze millions of Medicare Parts A and B claims as the prime contractor for recovery services for improper payments in the Northeast region of the United States<br><br>Identify improper payments typically resulting from incorrect coding, procedures that were not medically necessary, incomplete documentation or claims submitted based on outdated fee schedules<br><br>Earn contingent, success-based fees based on a percentage of claim amounts recovered | Provide tax recovery services to state and municipal agencies<br><br>Recover government debt for numerous different federal agencies under a contract with the Treasury<br><br>Enable financial institutions to proactively manage loan portfolios and reduce the incidence of defaulted loan assets<br><br>Earn contingent, success-based fees calculated as a percentage of the amounts recovered, fees based on dedicated headcount and hosted technology licensing fees | Provide claims audit, pharmacy management and coordination of benefits functions for one of the nation s largest health care organizations<br><br>We use our enhanced data analytics capabilities, which we refer to as Performant Insight, to offer a variety of services from post- and pre-payment audit of healthcare claims to detection of fraud, waste and abuse of healthcare claims, to coordination of benefits and pharmacy fraud detection |

***Recovery Services***

**Student Loans**

We provide recovery services primarily to the government-supported student loan industry, and our clients include the Department of Education and several of the largest GAs, as well as private financial institutions. We use our proprietary technology to identify, track and communicate with defaulted borrowers on behalf of our clients to implement suitable recovery programs for the repayment of outstanding student loan balances.

Our clients contract with us to provide recovery services for large pools of student loans generally representing a portion of the total outstanding defaulted balances they manage, which they provide to us as placements on a periodic basis. Generally, the volume of placements that we receive from our clients is influenced by our performance under our contracts and our ability to recover funds from defaulted student loans,

Table of Contents

as measured against the performance of competitors who may service a similar pool of defaulted loans for the same client. To the extent we perform well under our existing contracts and differentiate our services from those of our competitors, we may receive a relatively greater number of student loan placements under these contracts and may improve our ability to obtain future contracts from these clients and other potential clients.

We believe the size and the composition of our student loan inventory at any point provides us with significant degree of revenue visibility for our student loan revenues. We use algorithms derived from over two decades of experience with defaulted student loans to make reasonably accurate estimates of the recovery outcomes likely to be derived from a placement of defaulted student loans.

We also restructure and recover student loans issued directly by banks to students outside of federal lending programs. These types of loans typically supplement government-supported student loans to meet any shortfall in supply of student loan needs that cannot be met by grants or federal loans. Unlike government-supported student loans, private student loans do not have capped interest rates and, accordingly, involve higher instances of default relative to federally-backed student loans.

**Healthcare**

We provide recovery services related to improper payments in the healthcare market. In 2009 we were awarded the role as one of four prime RAC contractors in the United States, with exclusive responsibility for the Northeast region. Under our RAC contract, we identify and facilitate the recovery of improper Parts A and B Medicare payments. Our geographical region accounted for approximately 23% of all Medicare spending in 2009 according to CMS. Our relationship with CMS began in 2005 with an initial demonstration contract to recover improper payments for Medicare Secondary Payor claims.

We utilize our technology-enabled services platform to screen Medicare claims against several criteria, including coding procedures and medical necessity standards, to determine whether a claim should be further investigated for recoupment or adjustment by CMS. We conduct automated and, where appropriate, detailed medical necessity reviews. If we determine that the likelihood of finding potential improper payment warrants further investigation, we request and review healthcare provider medical records related to the claim, utilizing experts in Medicare coding and registered nurses. We interact and communicate with healthcare providers and other administrative entities, and ultimately submit the claim to CMS for correction.

To accelerate our ability to provide Medicare audit and recovery services across our region following our award of the RAC contract, we outsource certain aspects of our healthcare recovery process to three different subcontractors. Two of these subcontractors provide a specific service to us in connection with our claims recovery process, and one subcontractor is engaged to provide all of the audit and recovery services for claims within a portion of our region. According to CMS, the geographic area allocated to this subcontractor represented approximately 17% of the total Medicare spending in our region in 2009.

**Other Markets**

We also provide recovery services to several state and municipal tax authorities, the Department of the Treasury and a number of financial institutions.

For state and municipal tax authorities, we analyze a portfolio of delinquent tax and other receivables placed with us, develop a recovery plan and execute a recovery process designed to maximize the recovery of funds. In some instances, we have also run state tax amnesty programs, which provide one-time relief for delinquent tax obligations, and other debtor management services for our clients. We currently have relationships with ten state and municipal governments. Delinquent obligations are placed with us by our clients and we utilize a process that is similar to the student loan recovery process for recovering these obligations.

For the Department of the Treasury, we recover government debt subrogated to it by numerous different federal agencies. The placements we are provided represent a mix of commercial and individual obligations. We are one of four contractors for the most recent Treasury contract.

We also provide risk management advisory services that enable these clients to proactively manage loan portfolios and reduce the incidence of defaulted loan assets over time. Our experience suggests that proactive default prevention practices produce significant net yield and earnings gains for our clients. We deliver these services in two forms. First, we contact and consult with borrowers to implement a repayment program, including payment through automatic debit arrangements, prior to the beginning of the repayment period in order to increase the likelihood that payments begin on time. Second, we offer a service that involves contacting delinquent borrowers in an effort to cure the delinquency prior to the loan entering default.

***Analytics Capabilities***

For several years, we have leveraged our data analytics tools to help filter, identify and recover delinquent and defaulted assets and improper payments as part of our core recovery services platform. Through a strategic investment, we acquired enhanced data analytics capabilities, which we refer to as Performant Insight. Performant Insight added new capabilities in data warehousing and data processing tools that accelerated our ability to review, aggregate, and synthesize very large volumes of structured and unstructured data, at high speeds, from the initial intake of disparate data sources, to the warehousing of the data, to the analysis and reporting of the data. We believe we have built a differentiated, next-generation end-to-end data processing solution that will maximize value for current and future customers.

Performant Insight provides numerous benefits for our recovery services platform. Performant Insight has not only enhanced our existing recovery services under our RAC contract by analyzing significantly higher volumes of healthcare claims at faster rates and reducing our cycle time to review and assess healthcare claims, but has also enabled us to develop improved and more sophisticated business intelligence rules that can be applied to our audit processes. We believe our enhanced analytics capabilities will extend our potential markets, permitting us to pursue significant new business opportunities. We intend to accelerate the use of our data analytics capabilities in the healthcare sector to offer a variety of services from post and pre-payment audit of healthcare claims in both the public and private healthcare sector, to detection of fraud, waste and abuse of healthcare claims, to coordination of benefits and pharmacy fraud detection.

While our revenues from analytics services are limited to date, we believe these services represent a meaningful future opportunity. We currently offer analytics services to one of the largest national healthcare organizations where our analytics services provide real-time financial and operational cost analyses to help support a broad range of compliance and fiscal management functions across the organization, including claims audit, pharmacy management and coordination of benefits. In addition, we are developing strategies to deploy these services in markets other than healthcare.

**Our Clients**

We provide our services across a broad range of government and private clients in several markets.

***Department of Education***

We have provided student loan recovery services to the Department of Education for approximately 22 years. We restructure and recover defaulted student loans distributed directly by the Department of Education as part of the FDSLP. Due to its limited resources and recovery capabilities, the Department of Education outsources much of its defaulted student loan portfolio to third-party vendors for recovery. Recovery fees are entirely contingency-based, and our fee for a particular recovery depends on the type of recovery facilitated. We also receive incremental performance incentives based upon our performance as compared to other contractors with the Department of Education, which are comprised of additional inventory allocation volumes and incentive fees. To participate in the Department of Education contracts, firms must follow a highly competitive selection process. For the latest Department of Education contract, the fourth major contract the Department of Education has outsourced to selected vendors, we were selected as one of 17 unrestricted vendors and initiated work on this contract in the fourth quarter of 2009. Because all federally-supported student loans are being originated by the Department of Education as a result of SAFRA, our relationship with the Department of Education will become

Table of Contents

increasingly more important over time. The Department of Education was responsible for approximately 11% of our revenues for the year ended December 31, 2011 and 13% of our revenues for the nine-months ended September 30, 3012.

***Guaranty Agencies***

We restructure and recover defaulted student loans issued by private lenders and backed by GAs under the FFELP. Despite the transition from FFELP to FDSLP, we believe GA default volumes will continue to rise for several years as there is a lag between originations and defaults of at least three to four years. When a borrower stops making regular payments on a FFELP loan, the GA is obligated to reimburse the lender approximately 97% of the loan s principle and accrued interest. GAs then seek to recover and restructure these obligations. The GAs with which we contract generally structure one to three-year initial term contracts with multiple renewal periods, and the fees that we receive are generally similar to the fees we receive from the Department of Education contract. For some GA clients, we provide services through MSAs, under which we manage a GA s entire portfolio of defaulted student loans and, for certain clients, engage subcontractors to provide a portion of the recovery services associated with a GA s student loan portfolio.

We have a relationship with 11 of the 31 active GAs in the U.S., including American Student Assistance Corporation, Great Lakes Higher Education Guaranty Corporation and American Education Services, each of which was responsible for 19%, 18% and 13%, respectively, of our revenues for the year ended December 31, 2011. We have had relationships with GA clients for over 25 years.

***CMS***

We have a seven-year relationship with CMS. Under our RAC contract with CMS awarded in 2009, we identify and facilitate the recovery of improper Parts A and B Medicare payments in the Northeast region of the United States and which accounted for approximately 13% of our revenues for the year ended December 31, 2011 and increased to approximately 25% of our revenues for the nine months ended September 30, 2012. The fees that we receive for identifying these improper payments from CMS are entirely contingency-based, and the contingency-fee percentage depends on the methods of recovery, and, in some cases, the type of improper payment that we identify.

***U.S. Department of the Treasury***

We have assisted the Department of the Treasury for 15 years in the recovery of delinquent receivables owed to a number of different federal agencies. The debt obligations we help to recover on behalf of the Department of the Treasury include commercial and individual debt obligations. We are one of the four firms servicing the current Department of the Treasury contract. Similar to our other recovery contracts, our fees under this contract are contingency-based. We view this as an important strategic relationship, as it provides us valuable insight into other business opportunities within the federal government.

***State Tax and Municipal Agencies***

We provide outsourced recovery services for individuals delinquent state tax and other municipal obligations on a hosted model and under MSAs. We currently have relationships with ten state and municipal governments.

***Private Lenders***

We provide recovery services for private student loans, that supplement federally guaranteed loans, and home mortgages to private lenders.

**Sales and Marketing**

Our new business opportunities have historically been driven largely by referrals and natural extensions of our existing client relationships, as well as a targeted outreach by senior management. Our sales cycles are often lengthy, and demand high levels of attention from our senior management. At any point in time, we are

Table of Contents

typically focused on a limited number of potentially significant new business opportunities. As a result, to date, we have operated with a small staff of experienced individuals with responsibility for developing new sales, relying heavily upon our executive staff, including a Senior Vice President of Sales and Marketing and a sales team covering various markets. We expect to increase the size of our sales and marketing staff as we continue to grow our business.

**Technology Operations**

Our technology center is based in Livermore, California, with a redundant capacity in our Grants Pass, Oregon office. Additionally, Performant Insight, our new data analytics business, is supported by staff in Miami Lakes, Florida. We have designed our infrastructure for scalability and redundancy, which allows us to continue to operate in the event of an outage at either datacenter. We maintain an information systems environment with advanced network security intrusion detection and prevention with 24x7 monitoring and security incident response capabilities. We utilize encryption technologies to protect sensitive data on our systems, all data during transmission and all data on redundancy or backup media. We also maintain a comprehensive enterprise-wide information security system based upon recognized standards, including the NIST800 53 and ISO 27002 Code of Practice for Information Security Program Management, to uphold high security standards needed for the protection of sensitive information. In addition, we hold SAEE 16 SOC 1 Type II certification, which provides assurance to auditors of third parties that we maintain the necessary controls and procedures to effectively manage third-party data.

**Competition**

We face significant competition in all aspects of our business.

In recovery services for delinquent and defaulted assets, we face competition from a number of companies. Holders of these delinquent and defaulted assets typically engage several firms simultaneously to provide recovery services on different portions of their portfolios. The number of recovery firms engaged varies by client. For example, we are one of 17 unrestricted providers of recovery services on the current Department of Education contract, while some of the GAs may only engage a few recovery vendors at any time. Initially, we compete to be one of the retained firms in a competitive bidding process and, if we are successful, we then face continuing competition from the client s other retained firms based on the client s benchmarking of the recovery performance of its several vendors. Clients such as the Department of Education typically will allocate additional placements to those recovery vendors producing the highest recovery rates. We believe that we primarily compete on the basis of recovery rate performance, as well as maintenance of high standards of recovery practices and data security capabilities. We believe that we compete favorably with respect to most of these factors as evidenced by our long-standing relationships with our clients in these markets. Pricing is not usually a major competitive factor as all recovery services vendors in these markets typically receive the same contingency-based fee rate.

In the recovery of improper healthcare payments, we faced a highly competitive process, involving a large number of bidders, to become one of the four prime RAC contractors in the United States. We expect that CMS will issue a request for proposals in connection with the re-bidding for the RAC contracts in the first half of 2013. Although our RAC contract is currently set to expire in 2014, CMS may terminate our RAC contract as early as August 2013 in connection with the re-bidding process for new RAC contracts. We expect that our competition will include the other three RAC service providers: Health Management Systems, Inc., Connolly Consulting, Inc. and CGI Group. We also may face competition from the subcontractors of the current prime RAC contractors, who may seek to use their experience as subcontractors to become prime contractors, and a variety of healthcare consulting and healthcare information services companies are potential competitors. Some of these potential competitors for the second RAC contract may have greater financial and other resources than we do. We believe that the competitive factors in this market are demonstrated experience in effective recovery services, sufficient capacity to address claims volumes, maintenance of high standards of recovery practices, and recovery fee rates. We believe that our seven year relationship with CMS and our related experience in providing

Table of Contents

recovery services to identify improper payments allows us to compete favorably with respect to many of these factors. We expect that our performance in identifying claims, managing the claims processes under the current RAC contract, and established systems integration with CMS and related Medicare administrative contractors will also be key factors in determining our continued service to CMS.

**Government Regulation**

The nature of our business requires that we adhere to a complex array of federal and state laws and regulations. These include HIPAA, the FDCPA, the FCRA, and related state laws. We are also governed by a variety of state laws that regulate the collection, use, disclosure and protection of personal information. We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and we have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data. Our compliance efforts include training of personnel and monitoring our systems and personnel.

***HIPAA and Related State Laws***

Our Medicare recovery business subjects us to compliance with HIPAA and various related state laws that contain substantial restrictions and requirements with respect to the use and disclosure of an individual s protected health information. HIPAA prohibits us from using or disclosing an individual s protected health information unless the use or disclosure is authorized by the individual or is specifically required or permitted under HIPAA. Under HIPAA, we must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic protected health information maintained or transmitted by us or by others on our behalf. We are required to notify affected individuals and government authorities of data security breaches involving unsecured protected health information. The Department of Health and Human Services Office of Civil Rights enforces HIPAA privacy violations; CMS enforces HIPAA security violations and the Department of Justice enforces criminal violations of HIPAA. We are subject to statutory penalties for violations of HIPAA.

Most states have enacted patient confidentiality laws that protect against the unauthorized disclosure of confidential medical information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards and data security breach notification requirements. These state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements, and we must comply with them even though they may be subject to different interpretations by various courts and other governmental authorities. In addition, numerous other state laws govern the collection, dissemination, use, access to and confidentiality of individually identifiable health and healthcare provider information.

Our compliance efforts include the encryption of protected health information that we hold and the development of procedures to detect, investigate and provide appropriate notification if protected health information is compromised. Our employees and contractors receive initial and periodic supplemental training and are tested to ensure compliance. As part of our certification and accreditation process, we must undergo audits by federal agencies as noted below. CMS regularly audits us for, among other items, compliance with their security standards.

***Privacy Act of 1974***

The Privacy Act of 1974 governs the collection, use, storage, destruction and disclosure of personal information about individuals by a government agency and extends to government contractors who have access to agency records performing services for government agencies. The Act requires maintenance of a code of conduct for employees with access to the agency records addressing the obligations under the Privacy Act, training of employees and discipline procedures for noncompliance. The Act also requires adopting and maintaining appropriate administrative, technical and physical safeguards to insure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security or integrity.

Table of Contents

As a contractor to federal government agencies we are required to comply with the Privacy Act of 1974. Our compliance effort includes initial and ongoing training of employees and contractors in their obligations under the Act. In addition we have implemented and maintain physical, technical and administrative safeguards and processes intended to protect all personal data consistent with or exceeding our obligations under the Privacy Act.

***Certification, Accreditation and Security***

Business services that collect, store, transmit or process information for United States government agencies and organizations are required to undergo a rigorous certification and accreditation process to ensure that they operate at an acceptable level of security risk. As a government contractor, we currently have Authority to Operate, or ATO, licenses from both the Department of Education and CMS.

We maintain a comprehensive enterprise-wide information security system based upon recognized standards, including the NIST800 53 and ISO 27002 Code of Practice for Information Security Program Management, to uphold high security standards needed for the protection of sensitive information. In addition, we hold SAEE 16 SOC 1 Type II certification, which provides assurance to auditors of third parties that we maintain the necessary controls and procedures to effectively manage third party data. We undergo an independent audit by our government agency clients on the award of the contract and periodically thereafter. We also conduct periodic self-assessments.

Our regulatory compliance group is charged with the responsibility of ensuring our regulatory compliance and security. All our facilities have security perimeter controls with segregated access by security clearance level. The information systems environment maintains advanced network security intrusion detection and prevention with 24x7 monitoring and security incident response capabilities. We utilize encryption technologies to protect sensitive data on our systems, all data during transmission and all data on redundancy or backup media. Employees undergo background and security checks appropriate to their position. This can include security clearances by the Federal Bureau of Investigation. We also maintain compliant disaster recovery and business continuity plans, conduct an annually two table top disaster exercises, conduct routine security risk assessments and maintain a continuous improvement process as part of our security risk mitigation and management activity.

***FDCPA and Related State Laws***

The FDCPA regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. Certain of our debt recovery and loan restructuring activities may be subject to the FDCPA. The FDCPA establishes specific guidelines and procedures that debt recovery firms must follow in communicating with consumer debtors, including the time, place and manner of such communications. Further, it prohibits harassment or abuse by debt recovery firms, including the threat of violence or criminal prosecution, obscene language or repeated telephone calls made with the intent to abuse or harass. The FDCPA also places restrictions on communications with individuals other than consumer debtors in connection with the collection of any consumer debt and sets forth specific procedures to be followed when communicating with such third parties for purposes of obtaining location information about the consumer. In addition, the FDCPA contains various notice and disclosure requirements and prohibits unfair or misleading representations by debt recovery firms. Finally, the FDCPA imposes certain limitations on lawsuits to collect debts against consumers.

Debt recovery activities are also regulated at state level. Most states have laws regulating debt recovery activities in ways that are similar to, and in some cases more stringent than, the FDCPA. In addition, some states require debt recovery firms to be licensed.

Our compliance efforts include written procedures for compliance with the FDCPA and related state laws, employee training and monitoring, auditing client calls, periodic review, testing and retraining of employees, and procedures for responding to client complaints. In all states where we operate, we believe that we

Table of Contents

currently hold all required state licenses or are exempt from licensing. Violations of the FDCPA may be enforced by the U.S. Federal Trade Commission, or FTC, or by a private action by an individual or class. Violations of the FDCPA are deemed to be an unfair or deceptive act under the Federal Trade Commission Act, which can be punished by fines for each violation. Class action damages can total up to one percent of the net worth of the entity violating the statute. Attorney fees and costs are also recoverable. In the ordinary course of business we are sued for alleged violations of the FDCPA and comparable state laws, although the amounts involved in the disposition of settlement of any such claims have not been significant.

***FCRA***

We are also subject to the Fair Credit Reporting Act, or FCRA, which regulates consumer credit reporting and which may impose liability on us to the extent that the adverse credit information reported on a consumer to a credit bureau is false or inaccurate. State law, to the extent it is not preempted by the FCRA, may also impose restrictions or liability on us with respect to reporting adverse credit information. Our compliance efforts include initial and ongoing training of employees working with consumer credit reports, monitoring of performance, and periodic review and risk assessments. Violations of FCRA, which are deemed to be unfair or deceptive acts under the Federal Trade Commission Act, are enforced by the FTC or by a private action by an individual or class. Civil actions by consumers may seek damages per violation, with punitive damages, attorneys fees and costs also recoverable. Under the Federal Trade Commissions Act, penalties for engaging in unfair or deceptive acts can be punished by fines for each violation.

***State Law Compliance and Security Breach Response***

Many states impose an obligation on any entity that holds personally identifiable information or health information to adopt appropriate security to protect such data against unauthorized access, misuse, destruction, or modification. Many states have enacted laws requiring holders of personal information to take certain actions in response to data breach incidents, such as providing prompt notification of the breach to affected individuals and government authorities. In many cases, these laws are limited to electronic data, but states are increasingly enacting or considering stricter and broader requirements. Massachusetts has enacted a regulation that requires any entity that holds, transmits or collects certain personal information about its residents to adopt a written data security plan meeting the requirements set forth in the statute. We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data and properly responding to any security incidents. We have adopted a system security plan and security breach incident response plans to address our compliance with these laws.

**Intellectual Property**

Our intellectual property is a significant component of our business, most notably the intellectual property underlying our proprietary technology-enabled services platform through which we provide our defaulted asset recovery and other services. To protect our intellectual property, we rely on a combination of intellectual property rights, including patents, trade secrets, trademarks and copyrights. We also utilize customary confidentiality and other contractual protections, including employee and third-party confidentiality and invention assignment agreements.

As of September 30, 2012, we have two U.S. patents, both covering aspects of the workflow management systems and methods incorporated into our technology-enabled services platform. These patents will expire in December 2019. We routinely assess appropriate occasions for seeking additional patent protection for those aspects of our platform and other technologies that we believe may provide competitive advantages to our business. We also rely on certain unpatented proprietary expertise and other know-how, licensed and acquired third-party technologies, and continuous improvements and other developments of our various technologies, all intended to maintain our leadership position in the industry.

Table of Contents

As of September 30, 2012, we own four trademarks registered with the U.S. Patent and Trademark office: Performant, DCS, Looking Out For Your Future, and VFI. We are in the process of registering additional trademarks supporting our business, and we claim common law trademark rights in numerous additional trademarks.

We have registered copyrights covering various copyrighted material relevant to our business. We also have unregistered copyrights in many components of our software systems. We may not be able to use these unregistered copyrights to prevent misappropriation of such content by unauthorized parties in the future; however, we rely on our extensive information technology security measures and contractual arrangements with employees and third-party contractors to minimize the opportunities for any such misuse of this content.

We are not subject to any material intellectual property claims alleging that we infringe, misappropriate or otherwise violate the intellectual property rights of any third party, nor have we asserted any material intellectual property infringement claim against any third party.

**Employees**

As of September 30, 2012, we had approximately 1,400 full-time employees. None of our employees is a member of a labor union and we consider our employee relations to be good.

**Facilities**

As of September 30, 2012, we operated five separate office locations throughout the United States. The largest of these facilities is in Livermore, California and serves as our corporate headquarters, as well as a data center and production location. Our Livermore facility represents approximately 50,291 square feet and has a lease expiration of September, 2017. We also lease production centers in California, Oregon, Florida and Texas and own a production/data center in Oregon.

We believe that our facilities are adequate for current operations and that additional space will be available as required. See note (5) to our consolidated financial statements included elsewhere in this prospectus for information regarding our lease obligations.

**Legal Proceedings**

We are involved in various legal proceedings that arise from our normal business operations. These actions generally derive from our student loan recovery services, and generally assert claims for violations of the Fair Debt Collection Practices Act or similar federal and state consumer credit laws. While litigation is inherently unpredictable, we believe that none of these legal proceedings, individually or collectively, will have a material adverse effect on our financial condition or our results of operations.

Table of Contents

## MANAGEMENT

### Executive Officers and Directors

Our executive officers and directors, and their ages and positions as of December 31, 2012, are as set forth below:

| Name | Age | Position |
|---|---|---|
| Lisa C. Im | 48 | Chief Executive Officer and Director |
| Dr. Jon D. Shaver | 62 | Chairman of the Board of Directors |
| Harold T. Leach, Jr. | 54 | Chief Operating Officer |
| Hakan L. Orvell | 55 | Chief Financial Officer |
| John Y. Paik | 44 | Senior Vice President of Sales and Marketing |
| Bruce L. Calvin | 63 | Senior Vice President of Corporate Services |
| Todd R. Ford(1)(3) | 46 | Director |
| Brian P. Golson(2)(3) | 42 | Director |
| William D. Hansen(1)(2) | 53 | Director |
| William C. Kessinger(2)(3) | 46 | Director |
| Jeffrey S. Stein(1)(2)(3) | 47 | Director |

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Governance Committee

### Executive Officers

*Lisa C. Im* has served as our Chief Executive Officer since April 2004 and as a member of our board of directors since January 2004. From 2002 to 2004, she was Managing Director and Chief Financial Officer of our predecessor before the acquisition by Parthenon Capital Partners. Prior to that, Ms. Im was at Bestfoods Corporation, a food products manufacturer, from 1996 to 2002 with a body of experience including general management as well as executive financial positions for various regions of Bestfoods Corporation. Ms. Im received a Bachelor of Business Administration in Marketing from Loma Linda University, and a Masters in Business Administration, Finance from California State University, East Bay. Ms. Im s experiences and perspectives as our Chief Executive Officer led to the conclusion that she should serve as a member of our board of directors.

*Dr. Jon D. Shaver* has been Chairman of our board of directors and a director since June 2007. Since 2004, he has served in various board and executive roles in Performant and its subsidiaries. From 2000 to 2004, he was chief operating officer of our predecessor before the acquisition by Parthenon Capital Partners. He was senior executive vice president of Great Lakes Higher Education Corporation from 1999 to 2000, was chief executive officer of EdFund from 1997 to 1999 while also serving as executive director of the California Student Aid Commission from 1995 through 1998. Dr. Shaver received and Associate s degree from Monroe Community College, Bachelor s and Master s degrees from the State University of New York at Brockport, a Doctor of Education degree from the University of California, Los Angeles, and a Master s degree in Business Administration from Pepperdine University. Dr. Shaver s role as our Chairman benefits from his extensive expertise in educational finance, public policy development in education finance, tax policy, healthcare payment integrity, and federal and state government relations, and led to the conclusion the he should serve as a member of our board of directors. He is a board leadership fellow of the National Association of Corporate Directors.

*Harold T. Leach, Jr.* has served as Chief Operating Officer of the Company and our predecessor since May 1982. In this role, Mr. Leach was a key participant in the development of our recovery processes. He also serves as a director of each of our subsidiary corporations. Mr. Leach is responsible for operational strategy,

Table of Contents

production, and technology across all of our businesses. During his tenure, Mr. Leach led the development of our proprietary technology platform and has served as subject matter expert on key Congressional initiatives related to improving the efficacy of government debt management. Mr. Leach also led the development and implementation of our audit and recovery technology operations.

*Hakan L. Orvell* has served as our Chief Financial Officer since November 2006. He is responsible for the company s corporate finance, accounting, financial planning and analysis. Mr. Orvell has over 20 years of experience from various industries and previous experience includes service as chief financial officer of Neopost, Inc., a manufacturer of office equipment. He has also held various financial leadership positions with Corporate Express (currently known as Staples), a large business-to-business distributor of office and computer products, including vice president and controller in both a division and regional capacity. He received his Certified Public Accountant accreditation in Illinois and received an MBA from the University of Stockholm.

*John Y. Paik* has been our Senior Vice President of Sales and Marketing since November 2011. From November 2007 to November 2011, Mr. Paik held various leadership positions at Pfizer Inc., including Vice President, Customer Marketing and Innovation across all global business units for account management and sales. Prior to that, Mr. Paik served in various capacities at Aetna, Inc. including vice president, head of strategic marketing and planning for national businesses and vice president, head of strategic marketing, national accounts from April 2004 to October 2007. Mr. Paik received his Bachelor s degree in Biology from the University of Pennsylvania.

*Bruce L. Calvin* has served as our Senior Vice President of Corporate Services since August 2007 and also serves as our Compliance Officer. From April 2007 to August 2007, Mr. Calvin served as our Vice President of Human Resources. Mr. Calvin has over 30 years of administration and global business management experience. He holds a Bachelor s degree in Business Administration from Troy University and a J.D. from John F. Kennedy University School of Law.

**Board of Directors**

*Todd R. Ford* has served as a member of our board of directors since October 2011. Since June 2012, Mr. Ford has served as the co-chief executive officer and chief operating officer of IntelliBatt, Inc. Mr. Ford has also served as the managing director of Broken Arrow Capital, a venture capital firm, since he founded the firm in July 2007. From December 2002 to May 2007, Mr. Ford held various leadership positions at Rackable Systems, Inc., a manufacturer of server and storage products for large-scale data center deployments that subsequently changed its name to Silicon Graphics International Corp., including president and chief financial officer. Mr. Ford received a Bachelor s degree in Accounting from Santa Clara University. Mr. Ford s executive experience with public companies, as well as his expertise in growing technology companies, provides valuable insight for the members of our board of directors.

*Brian P. Golson* has served as a member of our board of directors since January 2008. Since February 2002, Mr. Golson has served as the managing partner of Parthenon Capital Partners. Mr. Golson received a Bachelor s degree in Economics from the University of North Carolina, Chapel Hill and an M.B.A. from Harvard University. Mr. Golson s investment experience provides valuable insight for the members of our board of directors.

*William D. Hansen* has served as a member of our board of directors since December 2011. Since July 2011, Mr. Hansen has served as the chief executive officer of Madison Education Group, LLC, an education-related consulting firm. From July 2009 to December 2010, he served as the president of Scantron Corporation, a provider of assessment and survey solutions. Mr. Hansen also served as the chairman of Scantron Corporation from September 2010 to July 2011. Prior to that, Mr. Hansen held various leadership positions at Chartwell Education Group, LLC, an education-related consulting firm, from July 2005 to July 2009, including chief executive officer and senior managing director. Mr. Hansen served as the Deputy Secretary at the United States Department of Education from May 2001 to July 2003. Mr. Hansen also serves on the board of directors of First

Table of Contents

Marblehead Corporation, a student loan company. Mr. Hansen received a Bachelor s degree in Economics from George Mason University. Mr. Hansen s extensive experience in the education market provides valuable insight for the members of our board of directors.

*William C. Kessinger* has served as a member of our board of directors since October 2003. Since October 2001, Mr. Kessinger has served as the managing partner, chief investment officer, of Parthenon Capital Partners. He has concurrently served as the managing partner of Vformation LLC, a venture capital fund, since June 2009. He received Bachelor s and Master s degrees in industrial engineering from Stanford University and an MBA from Harvard University. Mr. Kessinger s investment experience provides valuable insight for the members of our board of directors.

*Jeffrey S. Stein* has served as a member of our board of directors since January 2004. Since September 2002, Mr. Stein has served as the Executive in Residence at Parthenon Capital Partners. Mr. Stein received a Bachelor s degree in Accounting from Boston College Carroll School of Management. Mr. Stein s financial and accounting expertise provides valuable insight for the members of our board of directors.

**Board Composition**

Our amended and restated certificate of incorporation provides that our board shall consist of not fewer than five and not more than fifteen directors as the board of directors may from time to time determine. Our board of directors currently consists of seven directors. The authorized number of directors may be changed by resolution of our board of directors. Vacancies on our board of directors can be filled by resolution of our board of directors. Our board of directors is currently divided into three classes, each serving staggered, three-year terms:

- Our Class I directors are Todd R. Ford and Brian P. Golson and their terms will expire at our annual meeting of stockholders in 2013;

- Our Class II directors are Jon D. Shaver and William D. Hansen and their terms will expire at our annual meeting of stockholders in 2014; and

- Our Class III directors are Lisa C. Im, Jeffrey S. Stein and William C. Kessinger and their terms will expire at our annual meeting of stockholders in 2015.

As a result, only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms.

We have availed ourselves of the controlled company exception under the NASDAQ exchange rules which exempts us from certain requirements, including the requirements that we have a majority of independent directors on our board of directors and that we have compensation and nominating and governance committees composed entirely of independent directors. We will, however, remain subject to the requirement that we have an audit committee of at least three members composed entirely of independent directors by the first anniversary of our initial public offering that was completed in August 2012.

Our board of directors has determined that Mr. Ford and Mr. Hansen are independent directors as defined under the rules of NASDAQ. Our board of directors has yet to assess the independence of our other non-management directors.

In July 2012, we entered into a Director Nomination Agreement with Parthenon Capital Partners that provides Parthenon Capital Partners the right to designate nominees for election to our board of directors for so long as Parthenon Capital Partners owns 10% or more of the total number of shares of common stock outstanding. The number of nominees that Parthenon Capital Partners is entitled to designate under this agreement shall bear the same proportion to the total number of members of our board of directors as the number

Table of Contents

of shares of common stock beneficially owned by Parthenon Capital Partners bears to the total number of shares of common stock outstanding, rounded up to the nearest whole number. In addition, Parthenon Capital Partners shall be entitled to designate the replacement for any of its board designees whose board service terminates prior to the end of the director s term regardless of Parthenon Capital Partners beneficial ownership at such time. Parthenon Capital Partners shall also have the right to have its designees participate on committees of our board of directors proportionate to its stock ownership, subject to compliance with applicable law and stock exchange rules. This agreement will terminate at such time as Parthenon Capital Partners owns less than 10% of our outstanding common stock.

## Board Committees

### *Audit Committee*

Our audit committee consists of Messrs. Hansen, Ford and Stein. Mr. Ford serves as the chairperson of this committee. Our board of directors has determined that Mr. Ford is an audit committee financial expert, as defined by the rules promulgated by the Securities and Exchange Commission, or the SEC. Pursuant to the phase-in provisions of NASDAQ and Rule 10A-3 promulgated by the SEC under the Exchange Act, our audit committee will be composed of three directors, of which two will be independent. Within one year following the effectiveness of the registration statement for our initial public offering completed in August 2012, our audit committee will have at least three members, all of whom will be independent.

Our audit committee provides assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the services performed by our independent registered public accounting firm and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audit efforts of our independent registered public accounting firm and takes those actions as it deems necessary to satisfy itself that the independent registered public accounting firm is independent of management.

### *Compensation Committee*

Our compensation committee consists of Messrs. Golson, Hansen, Kessinger and Stein. Mr. Hansen serves as chairperson of this committee. Our compensation committee determines our general compensation policies and the compensation provided to our directors and officers. The compensation committee also reviews and determines bonuses for our officers and other employees. In addition, the compensation committee reviews and determines equity-based compensation for our directors, officers, employees and consultants and administers our stock option plans and employee stock purchase plan. The controlled company exemption available under the NASDAQ rules, exempts us from the requirement that we have a compensation committee composed entirely of independent directors.

### *Nominating and Governance Committee*

Our nominating and governance committee consists of Messrs. Ford, Golson, Kessinger and Stein. Mr. Golson serves as chairperson of this committee. The nominating and governance committee is responsible for making recommendations to the board of directors regarding candidates for directorships and the size and composition of the board. In addition, the nominating and governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations to the board of directors concerning corporate governance matters. The controlled company exemption available under the NASDAQ rules exempts us from the requirement that we have a nominating and governance committee composed entirely of independent directors.

## Role of Our Board of Directors in Risk Oversight

One of the key functions of our board of directors is informed oversight of our risk management process. Our board of directors administers this oversight function directly through our board of directors as a whole, as well as through various standing committees of our board of directors that address risks inherent in their respective areas of oversight. In particular, our board of directors is responsible for monitoring and assessing strategic risk exposure, and our audit committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures. The audit committee also has the responsibility to review with management the process by which risk assessment and management is undertaken, monitor compliance with legal and regulatory requirements, and review with our independent auditors the adequacy and effectiveness of our internal controls over financial reporting. Our nominating and governance committee is responsible for periodically evaluating the Company s risk management policies and system in light of the material risks that the Company faces and the adequacy of the Company s policies and procedures designed to address risk. Our compensation committee assesses and monitors whether any of our compensation policies and programs are reasonably likely to have a material adverse effect on the Company.

**Compensation Committee Interlocks and Insider Participation**

No interlocking relationship exists between our board of directors or compensation committee and the board of directors or compensation committee of any other entity, nor has any interlocking relationship existed in the past.

**Director Compensation**

The table below summarizes the compensation paid by the Company to our non-employee directors for the fiscal year ended December 31, 2012. Messrs. Golson, Kessinger and Stein did not receive compensation paid by the Company for service as a director in the fiscal year ended December 31, 2012.

| Name | Fees Earned or Paid in Cash | Option Awards | Total |
|---|---|---|---|
| William D. Hansen | $ 26,000 | | $ 26,000 |
| Todd R. Ford | $ 28,500 | | $ 28,500 |