PORTFOLIO RECOVERY ASSOCIATES INC
Form 10-K
February 28, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

For the transition period from to

Commission File Number: 000-50058

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

Delaware (State or other jurisdiction of incorporation or organization)	75-3078675 (I.R.S. Employer Identification No.)
120 Corporate Boulevard, Norfolk, Virginia (Address of principal executive offices)	23502 (Zip Code)

Registrant's telephone number, including area code: (888) 772-7326

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value per share (Title of Class)	NASDAQ Global Select Market (Name of Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. YES ¨ NO þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2013 was $2,513,773,743 based on the $51.21 closing price as reported on the NASDAQ Global Select Market.

The number of shares of the registrant's Common Stock outstanding as of February 19, 2014 was 49,899,024.

Documents incorporated by reference: Portions of the registrant's definitive Proxy Statement for our 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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

- a prolonged economic recovery or a deterioration in the economic or inflationary environment in the United States or Europe, particularly the United Kingdom, including the interest rate environment, may have an adverse effect on our collections, results of operations, revenue and stock price or on the stability of the financial system as a whole;
- changes in the credit or capital markets, which affect our ability to borrow money or raise capital;
- our ability to purchase defaulted consumer receivables at appropriate prices;
- our ability to replace our defaulted consumer receivables with additional receivables portfolios;
- our ability to obtain accurate and authentic account documents relating to accounts that we acquire and the possibility that documents that we provide could contain errors;
- our ability to successfully acquire receivables of new asset types;
- our ability to collect sufficient amounts on our defaulted consumer receivables;
- changes in tax laws regarding earnings of our subsidiaries located outside of the United States;
- changes in, or interpretations of, bankruptcy or collection laws that could negatively affect our business, including by causing an increase in certain types of bankruptcy filings involving liquidations, which may cause our collections to decrease;
- changes in, or interpretations of, state or federal laws or the administrative practices of various bankruptcy courts, which may impact our ability to collect on our defaulted receivables;
- our ability to collect and enforce our finance receivables may be limited under federal and state laws;
- our ability to employ and retain qualified employees, especially collection personnel, and our senior management team;
- our work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs;
- the degree, nature, and resources of our competition;
- the possibility that we could incur goodwill or other intangible asset impairment charges;
- our ability to retain existing clients and obtain new clients for our fee-for-service businesses;
- our ability to comply with existing and new regulations of the collection industry, the failure of which could result in penalties, fines, litigation, damage to our reputation or the suspension or termination of our ability to conduct our business;
- changes in, or interpretations of, governmental laws and regulations which could increase our costs and liabilities or impact our operations;
- the possibility that new business acquisitions prove unsuccessful or strain or divert our resources;
- our ability to maintain, renegotiate or replace our credit facility;
- our ability to satisfy the restrictive covenants in our debt agreements;
- our ability to manage risks associated with our international operations;
- the possibility that compliance with foreign and U.S. laws and regulations that apply to our international operations could increase our cost of doing business in international jurisdictions;
- the imposition of additional taxes on us, arising from such events as changes in the mix of earnings in different countries, changes in the valuation of deferred tax assets and liabilities, changes in tax laws or their interpretation, and/or an adverse ruling in our IRS audit matter;
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changes in interest or exchange rates, which could reduce our net income, and the possibility that future hedging strategies may not be successful, which could adversely affect our results of operations and financial condition, as could our failure to comply with hedge accounting principles and interpretations;
- the possibility that we could incur significant allowance charges on our finance receivables;
- our loss contingency accruals may not be adequate to cover actual losses;
- our ability to manage growth successfully;
- the possibility that we could incur business or technology disruptions or cyber incidents, or not adapt to technological advances;
- the possibility that we or our industry could experience negative publicity or reputational attacks; and
- the risk factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC").

You should assume that the information appearing in this annual report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the "Risk Factors" section beginning on page 18, as well as the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section beginning on page 37 and the "Business" section beginning on page 5.

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

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

PART I

Item 1. Business.

General

Our business focuses upon the detection, collection, and processing of both unpaid and normal-course accounts receivable originally owed to credit grantors, governments, retailers and others. Our primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. These are the unpaid obligations of individuals to credit originators, which include banks, credit unions, consumer and auto finance companies and retail merchants. We also provide fee-based services, including vehicle location, skip tracing and collateral recovery services for auto lenders, governments and law enforcement via PRA Location Services, LLC ("PLS"), revenue administration, audit and debt discovery/recovery services for local government entities through PRA Government Services, LLC and MuniServices, LLC (collectively "PGS") and class action claims recovery services and related payment processing via Claims Compensation Bureau, LLC ("CCB"). In addition, with the acquisition of 100% of the equity interest of Mackenzie Hall Holdings, Limited, and its subsidiaries ("PRA UK") on January 16, 2012, we expanded our contingent collection and purchase of defaulted consumer receivables businesses to the United Kingdom. We believe that the strengths of our business are our sophisticated approach to portfolio pricing, segmentation and servicing, our emphasis on developing and retaining our collection personnel, our sophisticated processing systems and procedures and our relationships with many of the largest consumer lenders in the United States.

Our debt purchase business specializes in receivables that have been charged-off by the credit originator. Because the credit originator and/or other debt servicing companies have unsuccessfully attempted to collect these receivables, we are able to purchase them at a substantial discount to their face value. From our 1996 inception through December 31, 2013, we acquired 3,098 portfolios, representing more than 34.8 million customer accounts and aggregated into 152 pools for accounting purposes, with a face value of $78.6 billion for a total purchase price of $3.3 billion. The success of our business depends on our ability to purchase portfolios of defaulted consumer receivables at appropriate valuations and to collect on those receivables effectively and efficiently. We have one reportable segment, receivables management, based on similarities among the operating units including homogeneity of services, service delivery methods and use of technology.

We have achieved strong financial results since inception. For example, over the past ten years, our cash collections increased from $117.1 million in 2003 to $1.14 billion in 2013, representing a compound annual growth rate of 25.3%. Total revenue has grown from $84.9 million in 2003 to $735.1 million in 2013, representing a compound annual growth rate of 24.1%. Similarly, net income has grown from $20.7 million in 2003 to net income attributable to Portfolio Recovery Associates, Inc. ("PRA") of $175.3 million in 2013, representing a compound annual growth rate of 23.8%.

We were initially formed as Portfolio Recovery Associates, L.L.C., a Delaware limited liability company, on March 20, 1996. In connection with our 2002 initial public offering (our “IPO”), all of the membership units of Portfolio Recovery Associates, L.L.C. were exchanged, simultaneously with the effectiveness of our registration statement, for a single class of PRA common stock, and a new Delaware corporation formed on August 7, 2002. Accordingly, the members of Portfolio Recovery Associates, L.L.C. became the common stockholders of PRA, which became the parent company of Portfolio Recovery Associates, L.L.C. and its subsidiaries.

Definitions

We use the following terminology throughout this document:

- "Allowance charges" refers to a reduction in income recognized on finance receivables on pools of finance receivables whose cash collection estimates are not received or projected to not be received.
- "Amortization rate" refers to cash collections applied to principal on finance receivables as a percentage of total cash collections.
- "Buybacks" refers to purchase price refunded by the seller due to the return of non-compliant accounts.
- "Cash collections" refers to collections on our owned portfolios.
- "Cash receipts" refers to collections on our owned portfolios plus fee income.
- "Core" accounts or portfolios refer to accounts or portfolios that are defaulted consumer receivables and are not in a bankrupt status upon purchase. These accounts are aggregated separately from purchased bankruptcy accounts. Unless otherwise noted, Core accounts do not include the accounts we purchase in the United Kingdom.
- "EBITDA" refers to earnings before interest, taxes, depreciation and amortization.
- "Estimated remaining collections" or "ERC" refers to the sum of all future projected cash collections on our owned portfolios.
- "Fee income" refers to revenues generated from our fee-for-service businesses.
- "Income recognized on finance receivables" refers to income derived from our owned debt portfolios.
- "Income recognized on finance receivables, net" refers to income derived from our owned debt portfolios net of allowance charges.
- "Net finance receivable balance" is recorded on our balance sheet and refers to the purchase price less principal amortization and net allowance charges.
- "Principal amortization" refers to cash collections applied to principal on finance receivables.
- "Purchase price" refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized costs, less buybacks.
- "Purchase price multiple" refers to the total estimated collections on owned debt portfolios divided by purchase price.
- "Purchased bankruptcy" accounts or portfolios refer to accounts or portfolios that are in bankruptcy when we purchase them and as such are purchased as a pool of bankrupt accounts.
- "Total estimated collections" refers to the actual cash collections, including cash sales, plus estimated remaining collections.

Available Information

PRA maintains an Internet website at the following address: www.portfoliorecovery.com.

We make available on or through our website certain reports that we file with or furnish to the SEC in accordance with the Securities Exchange Act of 1934. These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with or furnish it to the SEC. The information that is filed with the SEC may be read or copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. In addition, information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at: www.sec.gov.

Reports filed with or furnished to the SEC are also available free of charge upon request by contacting our corporate office at:

Portfolio Recovery Associates, Inc.
Attn: Corporate Communications
120 Corporate Boulevard, Suite 100
Norfolk, Virginia 23502

Competitive Strengths

We Offer a Compelling Alternative to Debt Owners and Governmental Entities

We offer debt owners the ability to immediately realize value for their charged-off receivables, through either one time spot purchase contracts or forward flow contracts that arrange for regular purchases from the debt owner. Our transactional flexibility helps us to meet the needs of debt owners, leverages our access to capital, and provides us with the opportunity to create consistent and enduring supply relationships. Through our government services business, and our UK subsidiary, we have the ability to service receivables in various ways including collecting on a contingent fee basis. For our government services business, this also includes such services as processing tax payments on behalf of the client and extends to more complicated tax audit and discovery work, as well as additional services that fill the needs of our clients.

Disciplined and Proprietary Underwriting Process

One of the key components of our growth has been our ability to price portfolio acquisitions at levels that have generated profitable returns on investment. Since inception, we have been able to consistently collect more than our purchase price and costs over the collection life cycle of the defaulted consumer receivables portfolios we have acquired. In doing so, we have generated increasing profits and operational cash flow from these portfolio acquisitions, without relying on the resale of portfolios to achieve these results. We have not resold any of our purchased portfolios since 2002, and the portfolios we sold then were primarily in Chapter 13 bankruptcy proceedings. We stopped reselling these portfolios as we began the effort to build our own bankruptcy portfolio buying group which started purchasing bankrupt accounts in 2004.

By holding and collecting the accounts we purchase over the long-term, we create static pool history that we believe is unique among our peers. Our portfolio underwriting process utilizes the collection results, customer data, and account attributes held in our data warehouse. The warehouse contains data from more than 3,000 portfolios representing over 34 million accounts purchased over the last 17 years from large issuers and owners of consumer receivables. Our modeling capabilities continuously evolve as we incorporate new data and develop, test, and adopt new analysis tools that help us improve our underwriting accuracy.

The Core portfolio underwriting process includes both quantitative analytical modeling and qualitative judgment-based analysis that considers the effects of the origination, servicing, and collection history of the portfolios we price. The combination of our deep sample of purchase data, our sophisticated analytical modeling, and the underwriting judgment gained from underwriting thousands of portfolios affords PRA a significant competitive advantage over our competition.

Ability to Hire, Develop and Retain Collection Staff

We place considerable focus on our ability to hire, motivate and retain effective employees throughout the organization, especially our collection staff. We offer our employees competitive wages with the opportunity to receive incentive compensation based on performance while maintaining a focus on compliance. For collection staff, compliance failures may cause them to lose incentive pay that they would have otherwise earned; those payments may be distributed to other collection staff with outstanding compliance records. In addition we offer an attractive benefits package, a comfortable working environment and the ability to work on a flexible schedule. We are also committed to an environment that promotes diversity and inclusion.

As of December 31, 2013, we employed approximately 3,500 persons on a full-time basis worldwide. None of our employees are represented by a union or covered by a collective bargaining agreement. We believe that our relations with our employees are positive.

Established Systems and Infrastructure

We have devoted significant effort to developing our systems, including statistical models, databases and reporting packages, to optimize our portfolio purchases and collection efforts. In addition, we believe that our technology infrastructure is flexible, secure, reliable and redundant, to protect the privacy of our sensitive data and to mitigate exposure to systems failure or unauthorized access.

We have developed financial models and systems for pricing portfolio acquisitions, managing the collections process and monitoring operating results. We prepare a static pool report monthly for each of our portfolios, populating actual results back into our acquisition models to enhance their accuracy. We monitor collection results continuously, seeking to identify and resolve negative trends promptly. In addition, we do not sell our purchased defaulted consumer receivables. Instead, we work them over the long-term enhancing our knowledge of a portfolio’s long-term performance. This combination of hardware, software and proprietary modeling and systems has been developed by our management team through years of experience in this industry and we believe provides us with an important competitive advantage from the acquisition process all the way through collection and payment operations.

Our systems and infrastructure also enhance our compliance activities. We employ a staff of Quality Control and Compliance employees whose role it is to monitor calls and observe collection system entries as well as design, implement, monitor and test our daily activities. We monitor and research daily exception reports that track significant account status movements and account changes. To enhance this process, where permissible, we employ sophisticated call and work action recording systems which allow us to better monitor compliance and quality of our customer contacts.

Strong Relationships with Major Credit Originators

We have done business with most of the largest consumer lenders in the United States. We maintain an active marketing effort and our senior management team is in contact on a regular basis with existing and potential sellers of defaulted consumer receivables. We believe that we have earned a reputation as a reliable and compliant purchaser of defaulted consumer receivables portfolios and as compliant collectors. From the perspective of the receivables seller, the failure to close on a negotiated sale of a portfolio consumes valuable time and expense and can have an adverse effect on pricing when the portfolio is re-marketed. Similarly, if a credit originator sells a portfolio to a debt buyer who has a reputation for violating laws or deviating from industry standard collection practices, the reputation of the credit originator can be damaged. We consistently attempt to negotiate reasonable and mutually acceptable contract terms, resulting in a confident and expeditious closing process for both parties. We go to great lengths to collect from consumers in a responsible, professional, and legally compliant manner. We believe our strong relationships with major credit originators provide us with access to quality opportunities for portfolio purchases.

Experienced Management Team

We have an experienced management team with considerable expertise in the accounts receivable management industry. Prior to our formation, our founders played key roles in the development and management of a consumer receivables acquisition and divestiture operation of Household Recovery Services, a subsidiary of Household International. As we have grown, the original management team has been expanded substantially to include a group of experienced, seasoned executives. Following is a summary of our executive management team.

Name	Position	Prior Experience	PRA Tenure (Years)	Relevant Industry Experience (Years)
Steve Fredrickson	Chairman, President and Chief Executive Officer	Household Recovery Services, Continental Illinois National Bank and Trust Company	17	30+
Kevin Stevenson	Executive Vice President, Chief Financial and Administrative Officer, Treasurer and Assistant Secretary	Household Recovery Services, Household Bank	17	26+
Neal Stern	Executive Vice President, Operations	Target Financial Services, US Bank, Transamerica	5	23+
Chris Graves	Executive Vice President, Core Asset Acquisitions	Capital One, Signet Bank, First Union	8	22+
Judith Scott	Executive Vice President, General Counsel and Corporate Secretary	Commonwealth of Virginia, Virginia Housing Development Authority	15	30+
Kent McCammon	Executive Vice President, Strategy and Business Development	Trader Publishing Company, Atlantic Capital Management, Inc., Scott and Stringfellow, Smith Barney, Lehman Brothers, Shamrock Holdings, Inc.	6	25+
Michael Petit	President, Bankruptcy Services	Pacific Crest Securities, Caterpillar, Banc One Capital Markets, Ford Motor Company, Jefferies and Company, Continental Bank	10	25+
Steve Roberts	President, Business and Government Services	ShopText, Interpublic Group, Otis, Carrier, Digitas, United Technologies	1	29+
Michelle Link	Senior Vice President, Human Resources	Amerigroup, Corning, Cigna, Blue Cross Blue Shield	3	17+

Portfolio Acquisitions

Our portfolio of defaulted consumer receivables includes a diverse set of accounts that can be categorized by asset type, age and size of account, level of previous collection efforts and geography. To identify attractive buying opportunities, we maintain an extensive marketing effort with our senior officers contacting known and prospective sellers of defaulted consumer receivables. We have acquired receivables of Visa®, MasterCard®, private label and other credit cards, installment loans, lines of credit, bankrupt accounts, deficiency balances of various types, legal judgments, and trade payables, all from a variety of debt owners. These debt owners include major banks, credit unions, consumer finance companies, telecommunication providers, retailers, utilities, insurance companies, medical groups, hospitals, auto finance companies, student loan companies, and other debt buyers. In addition, we make periodic visits to the operating sites of debt sellers and attend numerous industry events in an effort to develop account purchase opportunities. We also maintain active relationships with brokers of defaulted consumer receivables.

Portfolios by Type and Geography (Domestic Portfolio Only)
The following chart categorizes our life to date domestic portfolio purchases as of December 31, 2013 into the major asset types represented (amounts in thousands):

Asset Type	No. of Accounts	%		Face Value [1]	%		Original Purchase Price [2]	%	
Major Credit Cards	18,767	55	%	$53,499,462	69	%	$ 2,250,307	68	%
Consumer Finance	6,703	19		8,652,017	11		148,523	5	
Private Label Credit Cards	8,115	24		11,040,563	14		797,289	24	
Auto Deficiency	655	2		4,640,914	6		100,724	3	
Total:	34,240	100	%	$77,832,956	100	%	$ 3,296,843	100	%

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

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

Since our formation, we have purchased accounts from approximately 150 debt owners. We have acquired portfolios at various price levels, depending on the age of the portfolio, its geographic distribution, our historical experience with a certain asset type or credit originator and similar factors. A typical defaulted consumer receivables portfolio that we acquire ranges from $1 million to $150 million in face value and contains defaulted consumer receivables from diverse geographic locations with average initial individual account balances of $400 to $7,000.

We refer to the groups of domestic charged-off (non-bankrupt) defaulted consumer receivables we purchase as Core portfolios. The age of a Core portfolio (the time since an account has been charged-off) is an important factor in determining the value we place on the portfolio. Generally, there is an inverse relationship between the age of a Core portfolio and the price we can pay to purchase the portfolio. This relationship is due to the fact that older Core portfolio receivables typically liquidate at lower rates. The accounts receivables management industry places Core portfolio receivables into categories depending on the number of collection agencies that have previously attempted to collect on the receivables. Fresh accounts are typically past due 120 to 270 days, charged-off by the credit originator and are typically sold prior to the seller conducting any post-charge-off collection activity. These accounts typically sell for the highest purchase price. Primary accounts are charged-off, are typically 360 to 450 days past due, and have been previously placed with one contingent fee servicer and receive a lower purchase price. Secondary and tertiary accounts are charged-off, are typically more than 660 days past due, and have been placed with two or three contingent fee servicers and receive even lower purchase prices. We also purchase portfolios of charged-off accounts previously worked by four or more agencies and these are typically two to three years or more past due and receive an even lower price. In addition, we purchase portfolios of accounts that are included in consumer bankruptcies. These bankrupt accounts are typically filed under Chapter 13 of the U.S. Bankruptcy Code and have an associated payment plan that can range from 3 to 5 years in duration. We purchase portfolios of bankrupt accounts in both forward flow and spot transactions and, consequently, they can be at any age in the bankruptcy plan life cycle.

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

Account Type	No. of Accounts	%		Face Value [1]	%		Original Purchase Price [2]	%	
Fresh	3,212	9	%	$7,680,592	10	%	$ 818,881	25	%
Primary	4,789	14		9,106,742	12		495,057	15	
Secondary	6,150	18		9,179,787	12		382,429	12	
Tertiary	4,307	13		6,304,937	8		104,519	3	
Bankruptcy Trustees	5,344	16		22,496,916	29		1,338,134	40	
Other	10,438	30		23,063,982	29		157,823	5	

Total:	34,240	100	%	$77,832,956	100	%	$ 3,296,843	100 %

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

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

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We also review the geographic distribution of accounts within a portfolio because we have found that state specific laws and rules can have an effect on the collectability of accounts located there. In addition, economic factors and bankruptcy trends vary regionally and are factored into our purchase price equation.
The following table summarizes our life to date domestic portfolio purchases as of December 31, 2013, by geographic location (amounts in thousands):

Geographic Distribution	No. of Accounts	%		Face Value (1)	%		Original Purchase Price (2)	%	
California	3,687	11	%	$10,321,143	13	%	$ 419,670	13	%
Texas	4,791	14		8,425,708	11		280,132	8	
Florida	2,730	8		7,356,289	9		295,328	9	
New York	1,925	6		4,519,270	6		171,252	5	
Ohio	1,610	5		2,928,792	4		137,296	4	
Pennsylvania	1,227	4		2,833,775	4		118,307	4	
Illinois	1,295	4		2,778,831	4		128,867	4	
North Carolina	1,225	4		2,716,528	3		112,849	3	
Georgia	1,118	3		2,559,975	3		125,284	4	
Michigan	916	3		2,135,785	3		99,939	3	
New Jersey	797	2		2,105,793	3		93,115	3	
Arizona	623	2		1,689,429	2		70,545	2	
Virginia	909	3		1,646,631	2		76,324	2	
Tennessee	734	2		1,611,983	2		75,573	2	
Massachusetts	584	2		1,428,007	2		59,027	2	
Indiana	625	2		1,396,328	2		71,851	2	
Other(3)	9,444	25		21,378,689	27		961,484	30	
Total:	34,240	100	%	$77,832,956	100	%	$ 3,296,843	100	%

(1) "Face Value" represents the original face amount purchased from sellers and has not been reduced by any adjustments, including payments and buybacks.
(2) "Original Purchase Price" represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables and has not been reduced by any adjustments, including payments and buybacks.
(3) Each state included in "Other" represents less than 2% of the face value of total life-to-date domestic purchases.

Purchasing Process

We acquire portfolios from debt owners through auctions and negotiated sales. In an auction process, the seller will assemble a portfolio of receivables and will either broadly offer the portfolio to the market or seek purchase prices from specifically invited potential purchasers. In a privately negotiated sale process, the debt owner will contact known purchasers directly, take bids and negotiate the terms of sale. We also acquire accounts in forward flow contracts. Under a forward flow contract we agree to purchase defaulted consumer receivables from a debt owner on a periodic basis, at a set percentage of face value of the receivables over a specified time period, generally from three to twelve months. These agreements often contain a provision requiring that the attributes and selection criteria of the receivables to be sold will not significantly change each month. If this provision is not adhered to, the contract will typically allow for the early termination of the forward flow contract by the purchaser or other appropriate remedies as mutually agreed upon. Forward flow contracts provide receivable owners with a consistent source of value for defaulted accounts, and provide the debt buyer with a steady and reliable source of consumer receivables for its collection operation.
In a typical Core portfolio sale transaction, after signing a non-disclosure agreement, a debt owner distributes a computer data file containing ten to fifteen essential data fields on each consumer account in the portfolio offered for sale. Such fields typically include but are not limited to the customer's name, address, outstanding balance, date of charge-off, date of last payment and the date the account was opened. Information that is not typically provided includes the original underwriting documentation, charge and payment history prior to charge-off, and collection

notations. We perform our initial due diligence on the portfolio by electronically cross-checking the data fields provided through secured delivery against the accounts in our owned portfolios and other databases. We compile a variety of portfolio level reports examining all available data.

In order to determine a purchase price for a Core portfolio, we use two separate internally developed computer models. We analyze the portfolio using our proprietary multiple linear regression model, which analyzes the accounts of the portfolio using predictive variables and projects a portfolio liquidation rate. We also analyze the portfolio as a whole using an adjustment model, which uses an appropriate cash flow model that utilizes our collections results from similar portfolios we have previously purchased. We supplement the adjustment model with qualitative background information about the origination, servicing and collection history of the portfolio. Finally, we employ a model that creates statistically similar portfolios from our existing accounts across our purchased inventory and develops estimated collection curves that are used in our price modeling. From these models we derive our quantitative projections which are used to help price transactions. The multiple linear regression model is also used to prioritize collection work efforts subsequent to purchase. With respect to prospective forward flow contracts and other long-term relationships, we obtain a representative file that we use to determine the price of the forward flow arrangement. Then each month during the flow term, we receive the actual monthly sale file to be funded, and compare it to the representative file noted above to determine if the delivered file meets the expectations of the initial pricing file. This process allows us to confirm that the accounts we are purchasing are materially consistent with the accounts we agreed to purchase under the forward flow contract. When purchasing bankrupt consumer receivables, we follow a similar analytical process but utilize completely separate, specifically designed pricing models.

We maintain a detailed static pool profile for each portfolio that we have acquired, capturing demographic data and revenue and expense items for further analysis. We use our static pool analysis to refine the underwriting models that we use to price future portfolio purchases. The results of the static pool analysis are input back into our models, increasing the accuracy of the models as the data set increases with every portfolio purchase and each day’s collection efforts. Since we do not sell our purchased defaulted consumer receivables, we work them over the long-term, enhancing our knowledge of a pool’s long-term performance.

The quantitative and qualitative data derived in our due diligence process is evaluated, considering both any subjective factors about the portfolio or the debt owner and our knowledge of the current defaulted consumer receivables market. A portfolio acquisition approval memorandum is then prepared for each prospective portfolio before a purchase price is submitted to the debt owner. This approval memorandum, which outlines the portfolio’s anticipated collectability and purchase structure, is distributed to members of our Investment Committee. The approval by the Investment Committee sets a maximum purchase price for the portfolio.

Once a portfolio purchase has been approved by our Investment Committee and the terms of the sale have been agreed to with the debt owner, the acquisition is documented in an agreement that contains customary terms and conditions. Provisions are typically incorporated for disputed, fraudulent, deceased, bankrupt (in the case of Core portfolio purchases), or other ineligible accounts and typically, the debt owner either agrees to repurchase these accounts or replace them with acceptable replacement accounts within certain time frames.

Owned Portfolio Collection Operations

Call Center Operations – Core Portfolios

Our work flow management system places, recalls and prioritizes accounts, based on our analyses of our accounts and other demographic, credit and customer behavior attributes and prior collection work activities. We use this process to focus our work effort on those customers most likely to pay.

The collectability forecast for a newly acquired portfolio will help determine our initial collection strategy. Accounts that are initially determined to have the highest predicted collection probability will be worked immediately and with greater efforts. Less collectible accounts may be set aside to be worked with less frequency or with lower cost methods. After owning an account for a month we begin reassessing the collectability on a daily basis based on a set of observed account characteristics and behaviors. Some accounts may be worked using a letter and/or settlement strategy.

Our computer system allows each collector to view the scanned documents relating to the accounts that have been received from the seller and customer, which can include the original account application, account statements, payment checks, customer correspondence and other documents.

On the initial contact call, a customer is given a standardized presentation regarding the benefits of resolving his or her account with us. Emphasis is placed on determining the reason for the customer’s default in order to better assess the customer’s situation and create a plan for repayment. The collectors work to obtain a repayment plan that is appropriate to the customer's ability to make a repayment. At times, when determined to be appropriate, and in many cases with management approval, a reduced lump-sum settlement may be agreed upon.

If a collector is unable to establish contact with a customer based on information received or stored, the system will supplement the account information by leveraging a series of automated skip tracing procedures. Skip tracing is the process of developing new phone, address, job or asset information on a customer, or verifying the accuracy of such information.

Legal Recovery – Core Portfolios

An important component of our collections effort involves our legal recovery department and the judicial collection of accounts of customers who we believe have the ability, but not the willingness, to resolve their obligations. Accounts for which the customer is not cooperative and for which we can establish garnishable wages or attachable assets are reviewed for legal action. Additionally, we review accounts using a proprietary scoring model and select those accounts reflecting a high propensity to pay in a legal environment. Depending on the balance of the defaulted consumer receivable and the applicable state collection laws, we determine whether to commence legal action to judicially collect on the receivable. The legal process can take an extended period of time, but it also generates cash collections that likely would not have been realized otherwise.

We use a combination of internal staff (attorney and support), as well as external attorneys, to pursue legal collections under certain circumstances. Over the past several years we have focused on developing our internal legal collection capability. In the United States, we have the capability in all 50 states to initiate lawsuits in amounts up to the jurisdictional limits of the respective courts. Our legal recovery department, using external vendors, also collects claims against estates in cases involving deceased debtors having assets at the time of death. Our legal recovery department oversees our internal legal collections and coordinates a nationwide collections attorney network which is responsible for the preparation and filing of judicial collection proceedings in multiple jurisdictions, determining the suit criteria, and instituting wage garnishments to satisfy judgments. Our external law firms work on a contingent fee basis. Legal cash collections generated by both our in house attorneys and outside independent contingent fee attorneys constituted approximately 28% of our total cash collections in 2013. As our portfolio matures, it is likely that a larger number of accounts will be directed to our legal recovery department for judicial collection; consequently, we anticipate that legal cash collections will grow commensurately and comprise a larger percentage of our total Core cash collections.

Bankruptcy Operations

Our bankruptcy department manages customer filings under the U.S. Bankruptcy Code on debtor accounts derived from three sources; (1) PRA’s Core purchased pools of charged off accounts that have filed for bankruptcy protection after being acquired by us, (2) our purchased pools of bankrupt accounts, and (3) our third party servicing client relationships. On PRA owned accounts, we file proofs of claim (“POCs”) or claim transfers and actively manage these accounts through the entire life cycle of the bankruptcy proceeding in order to substantiate our claims and ensure that we participate in any distributions to creditors. On accounts managed under a third party relationship, we work on either a full service contingency fee basis or a menu style fee-for-service basis; this is not a significant portion of our bankruptcy operations.

We developed our proprietary Bankruptcy Management System (“BMS”) as a secure and highly automated platform for providing bankruptcy notification services, filing POCs and claim transfers, managing documents, administering our case load, posting and reconciling payments and providing customized reports. BMS is a robust system designed to manage claims processing and case management in a high volume environment. The system is highly flexible and its capacity is easily expanded. Daily processing volumes are managed to meet individual bar dates associated with each bankruptcy case and specific client turnaround times. BMS and its underlying business rules were developed with emphasis first on minimizing risks through strict compliance to the bankruptcy code, and then on maximizing recoveries from automated claim filing and case administration.

Each of our bankruptcy department employees goes through an entry level training program to familiarize them with BMS and the bankruptcy process, including a general overview of how we interact with the courts, debtors' attorneys and trustees. We also use a tiered process of cross training designed to familiarize advancing employees with a variety of operational assignments and analytical tasks. For example, we utilize specially trained employees to perform advanced data matching and analytics for clients, while others are tasked with resolving objections directly with attorneys and trustees. In rare circumstances, resolution of these objections may need to be effectuated by working through our network of local counsel.

Fee-for-Service Businesses

Through our subsidiaries, we provide fee-based services, including vehicle location, skip tracing and collateral recovery services for auto lenders, governments and law enforcement via our PLS subsidiary; revenue administration, audit, and discovery/recovery services for government entities through our PGS business; class action claims recovery services and related payment processing through our CCB subsidiary and contingent fees earned on the collection of finance receivables from our PRA UK subsidiary.

PLS, through call center operations, performs national skip tracing, asset location and collateral recovery services, principally for auto finance companies, for a fee. In addition, PLS locates clients' inventories for a fee with a fleet of cars equipped with license plate recognition cameras. The amount of fee earned is generally dependent on several different outcomes: whether the debtor was found and a resolution on the account occurred, if the collateral was repossessed or if payment was made by the debtor to the debt owner.

PGS primarily derives its revenue from servicing taxing authorities in several different ways, including processing their tax payments and tax forms, collecting delinquent taxes, identifying taxes that are not being paid and auditing tax payments. The processing and collection services are standard commission based billings or fee-for-service transactions. When audits are conducted, there are two components. The first is a charge for the hours incurred on conducting the audit, based on a contractual billing rate. The gross billing amount based on the aforementioned billing rate is a component of the line item “Fee income” while the salary expense is included in the line item “Compensation and employee services.” The second item is for expenses incurred while conducting the audit. Most jurisdictions will reimburse us for direct expenses incurred for the audit including such items as travel and meals. The billed amounts are included in the line item “Fee income” and the expense component is included in its appropriate expense category, generally, “Other operating expenses.”

CCB derives its revenues from filing claims on behalf of institutional investors, retailers, manufacturers, and other businesses. CCB’s process allows clients to maximize settlement recoveries, in many cases participating in settlements they would otherwise not know existed. CCB charges fees for its services and works with clients to identify, prepare and submit claims to class action administrators charged with disbursing class action settlement funds. In addition, we purchase the rights to existing and future class action claims identified by CCB.

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

Competition

We face competition in both of the markets we serve - purchased portfolio and fee-for-service receivables management. Purchased portfolio competition comes from other purchasers of defaulted consumer receivables portfolios, third-party contingent fee collection agencies and debt owners that manage their own defaulted consumer receivables rather than outsourcing them. Fee-for-service competition comes from new and existing providers of outsourced receivables management services. Debt sellers have become more cautious recently, preferring to sell to experienced portfolio purchasers that have portfolio evaluation expertise sufficient to price portfolios and that maintain compliance with all applicable regulations. These trends effectively constitute significant barriers for successful entry for new purchased portfolio receivables companies. The receivables management industry (both owned portfolio and contingent fee) remains highly fragmented and competitive. There are few significant barriers for entry to new providers of contingent fee receivables management services and, consequently, the number of agencies serving the contingent fee market may continue to grow.

We face bidding competition in our acquisition of defaulted consumer receivables and in obtaining placements from fee-for-service receivables. We also compete on the basis of reputation, industry experience and performance. Among the positive factors which we believe influence our ability to compete effectively in this market are our ability to bid on portfolios at appropriate prices, our reputation from previous transactions regarding our ability to close transactions in a timely fashion, our relationships with originators of defaulted consumer receivables, our team of well-trained collectors who provide quality customer service and compliance with applicable collections laws and our ability to efficiently and effectively collect on various asset types. Competitors that have substantially greater financial, personnel and other resources, greater adaptability to changing market needs, longer operating histories, or more established relationships in our industry than we currently have, could influence our ability to compete effectively.

Information Technology

Technology Operating Systems and Server Platform

The architecture and design of our systems provides us with a technology system that is flexible, secure, reliable and redundant to provide for the protection of our sensitive data. We utilize Intel-based servers running Microsoft Windows 2003/2008 operating systems. Our desktop PCs run the Windows XP or Windows 7 operating system. In addition, we utilize a blend of purchased and proprietary software systems tailored to the needs of our business. These systems are designed to eliminate inefficiencies in our collections and continue to meet business objectives in a changing environment.

Network Technology

To provide delivery of our applications, we employ server network architecture to support high-speed data transport. Our network system is designed to be scalable and meet expansion and inter-building bandwidth and quality of service demands.

Database and Software Systems

The ability to access and utilize data is essential to us being able to operate in a cost-effective manner. Our centralized computer-based information systems support the core processing functions of our business under a set of integrated databases and are designed to be scalable to accommodate our internal growth. This integrated approach helps to assure that data sources are processed efficiently. We use these systems for portfolio and client management, skip tracing, check taking, financial and management accounting, reporting, and planning and analysis. We use a combination of Microsoft and Oracle database software to manage our portfolios and financial, customer and sales data. PGS, PLS, PRA UK and CCB all maintain unique, proprietary software systems that manage the movement of data, accounts and information throughout these business units.

Redundancy, System Backup, Security and Disaster Recovery

Our data centers provide the infrastructure for collection services and uninterrupted support of data, applications and hardware for all of our business units. We believe our facilities and operations include sufficient redundancy, file back-up and security to ensure minimal exposure to systems failure or unauthorized access. The preparations in this area include the use of data centers in Virginia, Tennessee and London, U.K. in order to help provide redundancy for data and processes should one site be completely disabled. We have a disaster recovery plan covering our business that is tested on a periodic basis. The combination of our locally distributed call control systems provides enterprise-wide call and data distribution between our call centers for efficient portfolio collection and business operations. In addition to data replication between the sites, differential backups of both software and databases are performed on a daily basis and a full system backup is performed weekly. Backup data tapes are stored at an off-site location along with copies of schedules and production control procedures, procedures for recovery using an off-site data center, and documentation and other critical information necessary for recovery and continued operation. Our Virginia headquarters has two separate telecommunications feeds, uninterruptible power supplies and natural gas and diesel-generators, all of which provide a level of redundancy should a power outage or interruption occur. We also have generators installed at each of our domestic call centers, as well as our subsidiary locations in Alabama, California and Nevada. We also employ rigorous physical and electronic security to protect our data. Our call centers have restricted card key access and appropriate additional physical security measures. Electronic protections include data encryption, firewalls and multi-level access controls.

Display Screens for Real Time Data Utilization

We utilize multiple plasma displays at most of our collection facilities to aid in recovery of portfolios. The displays provide real-time business-critical information to our collection personnel for efficient collection efforts such as telephone, production, employee status, goal trending, training and corporate information.

Employees

As of December 31, 2013, we employed approximately 3,500 persons on a full-time basis in the United States and the United Kingdom. None of our employees are represented by a union or covered by a collective bargaining agreement. We believe that our relations with our employees are positive.

Collection Personnel

Our collectors are critical to the success of our debt collection business as a majority of our Core portfolio collection efforts occur as a result of telephone contact with customers. We have found that the tenure and productivity of our collectors are directly related. Therefore, attracting, hiring, training, retaining and motivating our collection personnel is a major focus for us. We pay our collectors competitive wages and offer employees a full benefits program. In addition to a base wage, we provide collectors with the opportunity to receive compensation through an incentive compensation program that pays bonuses above a set monthly base, based upon each collector’s collection and compliance results. Compliance failures may cause them to lose incentive pay that they would have otherwise earned; those payments may be distributed to other collection staff with outstanding compliance records. This program is designed to ensure that employees are paid based not only on performance, but also on consistency, quality and compliance.

We believe that we offer a competitive and, in many cases, a higher base wage than many local employers and therefore have access to a large number of eligible personnel in each of our call center locations.

Collections Training

We provide a comprehensive multi-week training program for all new owned portfolio collectors. Our training program begins with lectures on collection techniques, local, state and federal collection laws, systems, negotiation skills, skip tracing and telephone use. These sessions are then followed by additional weeks of practical instruction, including conducting live calls with additional managerial supervision in order to provide employees with confidence and guidance while still contributing to our profitability. Each trainee must successfully pass a comprehensive examination before being assigned to the collection floor, as well as once a year thereafter. Where permissible, we employ sophisticated call and work action recording systems which allow us to better monitor compliance and quality of customer contacts. This, in turn, allows us to offer additional training in areas of deficiency to increase productivity and compliance.

Each of our bankruptcy department employees goes through an entry level training program to familiarize them with BMS and the bankruptcy process, including a general overview of how we interact with the courts, debtor's attorneys and trustees. We also use a tiered process of cross training designed to familiarize advancing employees with a variety of operational assignments and analytical tasks. For example, we utilize specially trained employees to perform advanced data matching and analytics for clients, while others are tasked with resolving objections directly with attorneys and trustees. In rare circumstances, resolution of these objections may need to be effectuated by working through our network of local counsel.

Office of General Counsel

Our Office of General Counsel manages general corporate governance; litigation; insurance; corporate and commercial transactions; intellectual property; contract and document preparation and review; compliance with federal securities laws and other applicable regulations and statutes; business acquisitions; and dispute and complaint resolution.

Compliance

As a part of its compliance functions, our Office of General Counsel works with our office of internal audit and our compliance department in the implementation of our Code of Ethics and our Compliance Policy. Our Code of Ethics is available at the Investor Relations page of our website at www.portfoliorecovery.com. We have implemented company-wide compliance training for our employees and directors, ethics training and annual compliance testing, and have established a confidential telephone hotline and email and web-based portals to report suspected policy violations, fraud, embezzlement, deception in record keeping and reporting, accounting, auditing matters and other acts which are inappropriate, criminal and/or unethical. Our compliance department regularly audits and tests business processes and internal practices. This practice of regular internal monitoring and auditing assists in identifying compliance risks and detecting and preventing any deviations from policy. In order to ensure that our employees carry out their job responsibilities in a complaint way, our Office of General Counsel advises our employees on compliance with the laws and regulations that govern the various industries and markets within which the Company operates and provides our operations personnel and our training department with summaries and updates concerning changes in federal and state statutes and relevant case law so that they are aware of and in compliance with the laws and judicial decisions that may impact their job duties.

Regulation

Federal, state, and local statutes establish specific guidelines and procedures which debt collectors must follow when collecting customer accounts. It is our policy to comply with the provisions of all applicable federal laws and corresponding state and local statutes in all of our activities. Our failure to comply with these laws could have an adverse effect on us in the event and to the extent that they apply to some or all of our activities. Federal, state and local consumer protection, privacy and related laws and regulations extensively regulate the relationship between debt collectors and debtors, and the relationship between customers and credit card issuers. Significant federal laws and regulations applicable to our business as a debt collector include the following:

Fair Debt Collection Practices Act. This act imposes certain obligations and restrictions on the practices of debt collectors, including specific restrictions regarding communications with customers, including the time, place and manner of the communications. This act also gives consumers certain rights, including the right to dispute the validity of their obligations and a right to sue debt collectors who fail to comply with its provisions, including the right to recover their attorney fees.

Fair Credit Reporting Act. This act places certain requirements on credit information providers regarding the verification of the accuracy of information provided to credit reporting agencies and investigating consumer disputes concerning the accuracy of such information. We provide information concerning our accounts to the three major credit reporting agencies, and it is our practice to correctly report this information and to investigate credit reporting disputes. The Fair and Accurate Credit Transactions Act amended the Fair Credit Reporting Act to include additional duties applicable to data furnishers with respect to information in the consumer's credit file that the consumer identifies as resulting from identity theft, and requires that data furnishers have procedures in place to prevent such information from being furnished to credit reporting agencies.

Gramm-Leach-Bliley Act. This act requires that certain financial institutions, including collection agencies, develop policies to protect the privacy of consumers' private financial information and provide notices to consumers advising them of their privacy policies. This act also requires that if private personal information concerning a consumer is shared with another unrelated institution, the consumer must be given an opportunity to opt out of having such information shared. Since we do not share consumer information with non-related entities, except as required by law, or except as needed to collect on the receivables, our consumers are not entitled to any opt-out rights under this act. This act is enforced by the Federal Trade Commission, which has retained exclusive jurisdiction over its enforcement, and does not afford a private cause of action to consumers who may wish to pursue legal action against a financial institution for violations of this act.

Electronic Funds Transfer Act. This act regulates the use of the Automated Clearing House ("ACH") system to make electronic funds transfers. All ACH transactions must comply with the rules of the National Automated Check Clearing House Association ("NACHA") and Uniform Commercial Code §3-402. This act, the NACHA regulations and the Uniform Commercial Code give the consumer, among other things, certain privacy rights with respect to electronic fund transfer transactions, the right to stop payments on a pre-approved fund transfer, and the right to receive certain documentation of the transaction. This act also gives consumers a right to sue institutions which cause financial damages as a result of their failure to comply with its provisions.

Telephone Consumer Protection Act. In the process of collecting accounts, we use a variety of methods to communicate with our customers. This act and similar state laws place certain restrictions on users of certain automated dialing equipment and pre-recorded messages that place telephone calls to consumers.

Servicemembers Civil Relief Act. The Soldiers' and Sailors' Civil Relief Act of 1940 was amended in December 2003 as the Servicemembers Civil Relief Act (“SCRA”). The SCRA gives U.S. military service personnel relief from credit obligations they may have incurred prior to entering military service, and may also apply in certain circumstances to obligations and liabilities incurred by a servicemember while serving on active duty. The SCRA prohibits creditors from taking specified actions to collect the defaulted accounts of servicemembers. The SCRA impacts many different types of credit obligations, including installment contracts and court proceedings, and tolls the statute of limitations during the time that the servicemember is engaged in active military service. The SCRA also places a cap on interest bearing obligations of servicemembers to an amount not greater than 6% per year, inclusive of all related charges and fees.

Health Insurance Portability and Accountability Act. The Health Insurance Portability and Accountability Act (“HIPAA”) provides standards to protect the confidentiality of patients' personal healthcare and financial information. Pursuant to HIPAA, business associates of health care providers, such as agencies which collect healthcare receivables, must comply with certain privacy and security standards established by HIPAA to ensure that the information provided will be safeguarded from misuse. This act is enforced by the Department of Health and Human Services and does not afford a private cause of action to consumers who may wish to pursue legal action against an institution for violations of this act.

U.S. Bankruptcy Code. In order to prevent any collection activity with bankrupt debtors by creditors and collection agencies, the U.S. Bankruptcy Code provides for an automatic stay, which prohibits certain contacts with consumers after the filing of bankruptcy petitions. The U.S. Bankruptcy Code also dictates what types of claims will or will not be allowed in a bankruptcy proceeding and how such claims may be discharged.

Dodd-Frank Wall Street Reform and Consumer Protection Act. On July 21, 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) became law, and along with it, the unfair, deceptive, or abusive acts or practices (“UDAAP”) provisions included therein. The Dodd-Frank Act restructured the regulation and supervision of the financial services industry and created the Consumer Financial Protection Bureau (the "CFPB”), with rulemaking, supervisory, and enforcement authority over larger consumer debt collectors. The Dodd-Frank Act also provides for the CFPB to have the authority to adopt rules describing specified acts and practices as being “unfair,” “deceptive,” or “abusive,” and hence unlawful. The ultimate impact of the Dodd-Frank Act on our business cannot be determined at this time.

U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. Our operations outside the United States are subject to the United States Foreign Corrupt Practices Act (FCPA), which prohibits United States companies and their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in order to obtain an unfair advantage, to help, obtain or retain business. Violations of these laws and related rules and regulations can result in the imposition of significant civil and criminal fines, penalties and sanctions.

Additionally, there are some state statutes and regulations comparable to the above federal laws, and specific licensing requirements which affect our operations. State laws may also limit credit account interest rates and fees, as well as limit the time frame in which judicial and non-judicial actions may be undertaken.

Some of the following laws, which apply principally to credit originators, may also affect our operations to some extent:
• Truth in Lending Act;
• Fair Credit Billing Act; and
• Equal Credit Opportunity Act.
Federal laws which regulate credit originators require, among other things, that credit card issuers disclose to consumers the interest rates, fees, grace periods and balance calculation methods associated with their credit card accounts. Consumers are entitled under current laws to have payments and credits applied to their accounts promptly, to receive prescribed notices and to require billing errors to be resolved promptly. Some laws prohibit discriminatory practices in connection with the extension of credit. Federal statutes further provide that, in some cases, consumers cannot be held liable for, or their liability is limited with respect to, charges to the credit card account that were a result of an unauthorized use of the credit card. These laws, among others, may give consumers a legal cause of action against us, or may limit our ability to recover amounts owing with respect to the receivables, whether or not we committed any wrongful act or omission in connection with the account. If the credit originator fails to comply with applicable statutes, rules and regulations, it could create claims and rights for consumers that could reduce or eliminate their obligations to repay the account and have a possible adverse effect on us.
Accordingly, when we acquire defaulted consumer receivables, typically we contractually require credit originators to indemnify us against any losses caused by their failure to comply with applicable statutes, rules and regulations relating to the receivables before they are sold to us.

The U.S. Congress and several states have enacted legislation concerning identity theft. Additional consumer protection and privacy protection laws may be enacted in the U.S and the U.K. that would impose additional requirements on the enforcement of and recovery on consumer credit card or installment accounts. Any new laws, rules or regulations that may be adopted, as well as existing consumer protection and privacy protection laws, may adversely affect our ability to recover the receivables. In addition, our failure to comply with these requirements could adversely affect our ability to enforce the receivables.
We cannot assure you that some of our receivables were not established as a result of identity theft or unauthorized use of a credit card. In the event that a receivable was established as a result of identity theft or unauthorized use, we could not recover the amount of the defaulted consumer receivables. As a purchaser of defaulted consumer receivables, we may acquire receivables subject to legitimate defenses on the part of the consumer. Typically our account purchase contracts allow us to return to the debt owners certain defaulted consumer receivables that may not be collectible, due to these and other circumstances. Upon return, the debt owners are required to compensate us or replace the receivables with similar receivables or repurchase the receivables. These provisions limit to some extent our losses on such accounts.
In addition to our obligation to comply with applicable federal, state and local laws and regulations, we are also obligated to comply with judicial decisions reached in court cases involving legislation passed by any such governmental bodies.
As a result of our acquisition of PRA UK and its subsidiaries, we are subject to regulatory oversight under the Financial Services Act (the "FSA"), which became effective in April 2013. The FSA modified the U.K. financial services regulatory structure, creating a new regulatory framework for the supervision and management of the financial services industry, and transferring consumer accredit regulation from the Office of Fair Trading to the Financial Conduct Authority and the Prudential Regulatory Authority. We must also comply with the provisions of the Data Protection Act of 1998 and licensure requirements specific to our operations in the United Kingdom.

Item 1A. Risk Factors.

An investment in our Company involves risk, including the possibility that the value of the investment could fall substantially. The following are risks that could materially affect our financial results and condition, and the value of, and return on, an investment in our Company.

A prolonged economic recovery or a deterioration in the economic or inflationary environment in the United States or Europe, particularly in the United Kingdom, may have an adverse effect on our collections, results of operations, revenue and stock price.

Our performance may be affected by economic or inflationary conditions in the United States and Europe, particularly in the United Kingdom. Economic conditions in the United States and Europe may be impacted by domestic conditions or by global political and economic conditions such as the sovereign debt crises experienced in several European countries. There are currently concerns regarding the action or inaction of the United States government relating to the federal debt ceiling, the federal deficit and government spending cuts. For example, the United States domestic economy may be negatively impacted if the Congress does not pass legislation to raise the federal debt ceiling. Deterioration in economic conditions, a prolonged economic recovery, or a significant rise in inflation could cause personal bankruptcy filings to increase, and the ability of consumers to pay their debts could be adversely affected. This may in turn adversely impact our financial results. Deteriorating economic conditions or a prolonged recovery could also adversely impact businesses and governmental entities to which we provide fee-based services, which could reduce our fee income and cash flow. Other factors associated with the economy that could influence our performance include the financial stability of the lenders on our line of credit, our access to capital and credit, and financial factors affecting consumers.

The financial turmoil which affected the banking system and financial markets in recent years resulted in a tightening in credit markets. There could be a number of follow-on effects from the financial turmoil on our business, including a decrease in the value of our financial investments and the insolvency of lending institutions, including the lenders on our line of credit, resulting in our inability to obtain credit. These and other economic factors could have an adverse effect on our financial condition and results of operations.

We may not be able to continually replace our defaulted consumer receivables with additional receivables portfolios sufficient to operate efficiently and profitably, and/or we may not be able to purchase defaulted consumer receivables at appropriate prices.

To operate profitably, we must acquire and service a sufficient amount of defaulted consumer receivables to generate revenue that exceeds our expenses. Fixed costs such as salaries and lease or other facility costs constitute a significant portion of our overhead and, if we do not replace the defaulted consumer receivables portfolios we service with additional portfolios, we may have to reduce the number of our collection personnel. We would then have to rehire collection staff if we subsequently obtain additional defaulted consumer receivables portfolios. These practices could lead to:

- low employee morale;
- fewer experienced employees;
- higher training costs;
- disruptions in our operations;
- loss of efficiency; and
- excess costs associated with unused space in our facilities.

The availability of receivables portfolios at prices which generate an appropriate return on our investment depends on a number of factors both within and outside of our control, including the following:

- the continuation of high levels of consumer debt obligations;

- sales of defaulted receivables portfolios by debt owners; and
- competitive factors affecting potential purchasers and credit originators of receivables.

Furthermore, heightened regulation of the credit card and consumer lending industry or changing credit origination strategies may result in decreased availability of credit to consumers, potentially leading to a future reduction in defaulted consumer receivables available for purchase from debt owners. We cannot predict how our ability to identify and purchase receivables and the quality of those receivables would be affected if there were a shift in consumer lending practices, whether caused by changes in the regulations or accounting practices applicable to debt owners, a sustained economic downturn or otherwise.

Moreover, there can be no assurance that our existing or potential clients will continue to sell their defaulted consumer receivables at recent levels or at all, or that we will be able to continue to offer competitive bids for defaulted consumer receivables portfolios. If we are unable to expand our business or adapt to changing market needs as well as our current or future competitors, we may experience reduced access to defaulted consumer receivables portfolios at appropriate prices and reduced profitability.

Because of the length of time involved in collecting defaulted consumer receivables on acquired portfolios and the variability in the timing of our collections, we may not be able to identify trends and make changes in our purchasing strategies in a timely manner.

A portion of our collections depends on success in individual lawsuits. Additionally, in pursuing legal collections, we may be unable to obtain accurate and authentic account documents for accounts that we purchase, and despite our quality control measures, we cannot be certain that all of the documents we provide are error free.

A portion of our collections on accounts is achieved through the legal channel. Accordingly, a percentage of our future collections is dependent on success in individual lawsuits, and a portion of those are dependent on the success of third party attorney firms. In addition, when we collect accounts judicially, courts in certain jurisdictions require that a copy of certain account documents be attached to the pleadings in order to obtain a judgment against the account debtors. If we are unable to produce accurate and authentic account documents, these courts will deny our claims. We rely on the seller of accounts that we purchase to fulfill its contractual obligation, if applicable, to provide account documents to us in an accurate and timely fashion. Additionally, we rely on our employees to produce accurate and authentic documents. Our inability to obtain these documents from the seller, or our own errors in producing account documents, may negatively impact the liquidation rate on such accounts that are subject to judicial collections. Additionally, our ability to collect non-judicially may be negatively impacted by state laws which require that certain types of account documentation be in our possession prior to the institution of any collection activities.

We may not be able to collect sufficient amounts on our defaulted consumer receivables to fund our operations.

Our business primarily consists of acquiring and liquidating receivables that consumers have failed to pay and that the credit originator has deemed uncollectible and has charged-off. The debt owners have typically made numerous attempts to recover on their defaulted consumer receivables, often using a combination of in-house recovery efforts and third-party collection agencies. These defaulted consumer receivables are difficult to collect and we may not collect a sufficient amount to cover our investment associated with purchasing the defaulted consumer receivables and the costs of running our business.

We may not be successful at acquiring and collecting receivables of new asset types.

We may pursue the acquisition of receivables portfolios of asset types in which we have little current experience. We may not be successful in completing acquisitions of receivables of these asset types and our limited experience in these asset types may impair our ability to collect on these receivables. This may cause us to pay too much for these receivables and, consequently, we may not generate a profit from these receivables portfolio acquisitions.

Our collections may decrease if certain types of bankruptcy filings involving liquidations increase.

Various economic trends and potential changes to existing legislation may contribute to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings a debtor's assets may be sold to repay creditors, but because the defaulted consumer receivables we service are generally unsecured we often would not be able to collect on those receivables. We cannot ensure that our collections would not decline with an increase in personal bankruptcy filings or changes in bankruptcy regulations or practices. If our actual collection experience with respect to a defaulted bankrupt consumer receivables portfolio is significantly lower than we projected when we purchased the portfolio, our financial condition and results of operations could deteriorate.

Our ability to collect on portfolios of bankrupt consumer receivables may be impacted by changes in, or interpretations of, federal laws or changes in the administrative practices of the various bankruptcy courts.

We file claims in bankruptcy courts on consumer receivables in which consumers have filed for bankruptcy protection under available U.S. bankruptcy laws. We receive payments from the courts on consumer receivables which become bankrupt after we acquire them, and we also purchase accounts that are currently in bankruptcy proceedings. Our ability to collect on portfolios of bankrupt consumer receivables may be impacted by changes in, or interpretations of, federal laws or changes in administrative practices of the various bankruptcy courts.

Our ability to collect and enforce our finance receivables may be limited under federal and state laws.

The businesses conducted by PRA's operating subsidiaries are subject to licensing and regulation by governmental and regulatory bodies in the many jurisdictions in which we operate and conduct our business. Federal and state laws may limit our ability to collect and enforce our defaulted consumer receivables regardless of any act or omission on our part. Some laws and regulations applicable to credit issuers may preclude us from collecting on defaulted consumer receivables we purchase if the credit issuer previously failed to comply with applicable laws in generating or servicing those receivables. Collection laws and regulations also directly apply to our business. Such laws and regulations are extensive and subject to change. Additional consumer protection and privacy protection laws may be enacted that would impose additional requirements on the enforcement of and collection on consumer credit receivables. Any new laws, rules or regulations that may be adopted, as well as existing consumer protection and privacy protection laws, or changes in the ways that existing rules or laws are interpreted or enforced, may adversely affect our ability to collect on our defaulted consumer receivables and may harm our business. In addition to the creation of the Consumer Financial Protection Bureau (the "CFPB") noted below, federal, state and local governmental bodies are also considering, and may consider in the future, legislative proposals that would regulate the collection of our defaulted consumer receivables. Further, certain tax laws could negatively impact our ability to collect or cause us to incur additional expenses. Although we cannot predict if or how any future legislation would impact our business, our failure to comply with any current or future laws or regulations applicable to us could limit our ability to collect on our defaulted consumer receivables, which could reduce our profitability and harm our business.

Failure to comply with existing and new government regulation of the collections industry could result in penalties, fines, litigation, damage to our reputation or the suspension or termination of our ability to conduct our business.

The collections industry is governed by various U.S. federal, state and local laws and regulations, as well as by laws and regulations in the U.K. Many states regulate our business and require us to be a licensed debt collector. Our industry is also at times investigated by regulators and offices of state attorneys general, which could lead to enforcement actions, fines and penalties, or the assertion of private claims and law suits against us. The Federal Trade Commission has the authority to investigate consumer complaints against debt collection companies and to recommend enforcement actions and seek monetary penalties. As discussed below, our debt collection activities are also subject to supervision and enforcement action by the CFPB. If we fail to comply with applicable laws and regulations, such failure could result in penalties, litigation losses and expenses, damage to our reputation, or the suspension or termination of our ability to conduct collections, which would adversely affect our financial results and condition. In addition, new federal and state or local laws or regulations or changes in the ways that existing rules or laws are interpreted or enforced could limit our activities in the future or significantly increase the cost of compliance. Furthermore, judges or regulatory bodies could interpret current rules or laws differently than the way we do, leading to such adverse consequences described above. If it is asserted that we failed to comply with applicable laws and regulations, such failure could result in penalties, litigation losses and expenses, damage to our reputation, or the suspension or termination of our ability to conduct collections, which would adversely affect our financial results and condition.

Changes in governmental laws and regulations could increase our costs and liabilities or impact our operations.

Changes in laws and regulations or the manner in which they are interpreted or applied may alter our business environment. This could affect our results of operations or increase our liabilities. These negative impacts could result from changes in collection laws, laws related to credit reporting, laws related to consumer bankruptcy, accounting standards, taxation requirements, employment laws and communications laws, among others. For example, we know that federal and state governments are currently reviewing existing laws related to debt collection, in order to determine if any changes are needed.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Reform Act (the “Dodd-Frank Act”) became law. The Dodd-Frank Act restructures the regulation and supervision of the financial services industry. The Dodd-Frank Act created a new independent regulator, the CFPB. The CFPB has rulemaking, supervisory, and enforcement and other authorities relating to consumer financial products and services, including debt collection, provided by covered persons. We are subject to the CFPB’s supervisory and enforcement authority.

The CFPB has rulemaking authority with respect to significant federal statutes that impact the debt collection industry, including the Fair Debt Collection Practices Act and the Fair Credit Reporting Act. As a result, the CFPB has the authority to adopt regulations that interpret the FDCPA, potentially impacting the manner in which we conduct our debt collection business. The Dodd-Frank Act also provides for the CFPB to take action against a covered person in regard to an unfair, deceptive, or abusive act or practice and to adopt rules describing specified acts and practices as being “unfair,” “deceptive,” or “abusive.”

In October 2012, the CFPB issued a rule that became effective on January 2, 2013, which subjects entities that qualify as larger participants of the consumer debt collection market to a higher level of supervision by the CFPB. Entities that have more than $10 million in annual receipts from consumer debt collection activities, as defined in the rule, are subject to this additional authority. Under this authority, we are subject to examination and supervision by the CFPB. We may in the future be subject to registration and reporting requirements imposed by the CFPB.

If we become subject to additional costs or liabilities in the future resulting from our supervision or examination by the CFPB, or by changes in, or additions to laws and regulations, that could adversely affect our results of operations and financial condition.

Investigations or enforcement actions by governmental authorities may result in changes to our business practices; negatively impact our portfolio purchasing volume; make collection of account balances more difficult or expose us to the risk of fines, penalties, restitution payments and litigation.

Our business practices may be subject to review from time to time by various governmental authorities. These reviews may involve governmental authority consideration of individual consumer complaints, or could involve a broader review of our debt collection policies and practices. Such investigations could lead to assertions by governmental authorities that we are not complying with applicable laws or regulations. In such circumstances, authorities may request or seek to impose a range of remedies that could involve potential compensatory or punitive damage claims, fines, restitutionary payments, sanctions or injunctive relief, that if agreed to or granted, could require us to make payments or incur other expenditures that could have an adverse effect on our financial position. Government authorities could also request or seek to require us to cease certain of our practices or institute new practices. We may also elect to change practices that we believe are compliant with applicable law and regulations in order to respond to the concerns of governmental authorities. Such changes in practices could negatively impact our results of operations. Negative publicity relating to investigations or proceedings brought by governmental authorities could have an adverse impact on our reputation, could harm our ability to conduct business with industry participants, and could result in financial institutions reducing or eliminating sales of portfolios to us which would harm our business and negatively impact our financial results. Moreover, responding to governmental inquiries and investigations and defending lawsuits or other proceedings could require significant expenditures and could divert management's attention from our business operations. All of these factors could have an adverse effect on our business, financial condition and results of operations.

Our international operations expose us to additional risks which could harm our business, operating results, and financial condition.

In 2012, we acquired PRA UK, a United Kingdom debt collection and purchase group, and we intend to expand our international operations in the future. We have limited operating experience in international markets. In addition to risks described elsewhere in this section, our international operations expose us to numerous risks and uncertainties, including the following:

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

Any one of these factors could adversely affect our business, results of operations and financial condition.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations could increase our cost of doing business in international jurisdictions.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations could increase our cost of doing business in international jurisdictions. These laws and regulations include anti-corruption laws such as the Foreign Corrupt Practices Act ("FCPA"), the UK Bribery Act of 2010 and other local laws prohibiting corrupt payments to governmental officials, and those related to taxation. The FCPA, and similar antibribery laws in other jurisdictions generally prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. The U.K. Bribery Act 2010 prohibits certain entities from making improper payments to governmental officials and to commercial entities. Violations of these laws and regulations could result in fines and penalties; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also adversely affect our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors or agents will not violate our policies.

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

Because we conduct business in currencies other than U.S. dollars but report our financial results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. As a result, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our net income. We may or may not implement a hedging program related to currency exchange rate fluctuations. Additionally, if implemented, such hedging programs could expose us to additional risks that could adversely affect our financial condition and results of operations.

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

On February 19, 2014, we entered into an agreement to acquire the equity of Aktiv Kapital AS ("Aktiv"). Aktiv is a Norway-based company specializing in the acquisition and servicing of non-performing consumer loans throughout Europe and Canada. It maintains in-house servicing platforms in eight markets, and owns portfolios in fifteen markets.

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

The transaction is expected to close in the second quarter of 2014 upon successful completion of customary closing conditions, including approval of the transaction by applicable competition authorities and our ability to obtain the necessary financing to consummate the transaction. No assurances can be given that we will be able to close this transaction on the terms and conditions contemplated by the agreement executed on February 19, 2014, in accordance with the anticipated timing or at all. If the transaction is not consummated, investors could react negatively and could become concerned about our growth prospects over the next several years, which could negatively impact the price of our common stock.

We expect to finance this transaction with a combination of cash, seller financing, funding from our domestic revolving credit facility, and by accessing an accordion feature on our credit facility. Additionally, we have agreed to guarantee Aktiv's current corporate debt. Furthermore, if we are not able to obtain the additional financing that we expect to obtain, it may be necessary for us to raise alternative funds, potentially at a much higher cost and on less advantageous terms. There can be no assurance that we will be successful in our efforts to obtain the financing necessary to consummate the transaction on favorable terms or at all.

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

Integrating the operations of Aktiv successfully with our current operations or otherwise realizing the anticipated benefits of the acquisition of Aktiv involves a number of challenges. We may not successfully integrate the operations of Aktiv with our current operations, and we may not realize the anticipated benefits of the acquisition to the extent, or in the timeframe anticipated, or at all. The failure to successfully integrate the operations of Aktiv with our existing operations or to realize the anticipated benefits of the acquisition could have a negative effect on our business, results of operations and financial condition.

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

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

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

Goodwill or other intangible asset impairment could negatively impact our net income and stockholders' equity.

Goodwill is not amortized, but is tested for impairment at the reporting unit level. Goodwill is required to be tested for impairment annually and between annual tests if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There are numerous risks that may cause the fair value of a reporting unit to fall below its carrying amount, which could lead to the recognition of goodwill impairment. These risks include, but are not limited to, adverse changes in macroeconomic conditions, the business climate, or the market for the entity's products or services; significant variances between actual and expected financial results; negative or declining cash flows; lowered expectations of future results; failure to realize anticipated synergies from acquisitions; significant expense increases; a more likely-than-not expectation of selling or disposing all or a portion of a reporting unit; the loss of key personnel; a sustained decline in the Company's market capitalization; and an adverse action or assessment by a regulator.

Other intangible assets, such as client and customer relationships, non-compete agreements and trademarks, are amortized. Risks, such as those that could lead to the recognition of goodwill impairment, could also lead to the recognition of other intangible asset impairment.

A loss of customers in our fee-for-service businesses could negatively affect our operations.

Our fee-for-service customers, in general, may terminate their relationship with us on 30 to 90 days' prior notice. In the event a customer or customers terminate or significantly cut back any relationship with us, it could reduce our profitability and harm our business. Additionally, with respect to the acquisitions of our fee businesses, a significant portion of the valuation of such business was attributed to existing client and customer relationships. Therefore, a loss of customers in these businesses could give rise to an impairment charge related to intangible assets specifically ascribed to existing client and customer relationships.

Our senior management team is important to our continued success and the loss of one or more members of senior management could negatively affect our operations.

The loss of the services of one or more of our key executive officers or key employees could disrupt our operations. We have employment agreements with our Chief Executive Officer and several of our other senior executives. The current agreements contain non-compete provisions that survive termination of employment. However, these agreements do not and will not assure the continued services of these officers and we cannot ensure that the non-compete provisions will be enforceable. Our success depends on the continued service and performance of our key executive officers, and we cannot guarantee that we will be able to retain those individuals.

Our work force could become unionized in the future, which could adversely affect the stability of our operations and increase our costs.

Currently, none of our employees are represented by unions. However, our U.S. employees have the right at any time under the National Labor Relations Act to form or affiliate with a union. If some of our workforce were to become unionized and the terms of the collective bargaining agreement were significantly different from our current compensation arrangements, it could adversely affect the stability of our work force and increase our costs.

We experience high employee turnover rates and we may not be able to hire and retain enough sufficiently trained employees to support our operations.

The receivables management industry is very labor intensive and, similar to other companies in our industry, we typically experience a high rate of employee turnover. We experience higher productivity with more seasoned collectors. We compete for qualified personnel with companies in our industry and in other industries. Our growth requires that we continually hire and train new collectors. A higher turnover rate among our collectors will increase our recruiting and training costs and limit the number of experienced collection personnel available to service our Core defaulted consumer receivables. If this were to occur, we would not be able to service our Core defaulted consumer receivables effectively and this would reduce our ability to continue our growth and operate profitably.

We may not be able to retain, renegotiate or replace our credit facility.

Our credit facility includes an aggregate principal amount of $630.5 million which consists of a $195.0 variable rate term loan and a $435.5 million revolving facility that both mature on December 19, 2017. If we are unable to retain, renegotiate or replace our credit facility, our growth could be adversely affected, which could negatively impact liquidity and our business operations.

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

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

We may not be able to continue to satisfy the restrictive covenants in the agreements governing our debt.

The agreements governing our debt impose a number of covenants, including restrictive covenants on how we operate our business. Failure to satisfy any one of these covenants could result in negative consequences including the following, each of which could have an adverse effect on our liquidity and our ability to conduct business:

- acceleration of outstanding indebtedness;
- exercise by our lenders of rights with respect to the collateral pledged under certain of our outstanding indebtedness;
- our inability to continue to purchase receivables needed to operate our business; or

- our inability to secure alternative financing on favorable terms, if at all.

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

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

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

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

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

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

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

Changes in interest rates could increase our interest expense and reduce our net income. Our future hedging strategies may not be successful in mitigating our risks associated with changes in interest rates and could adversely affect our results of operations and financial condition, as could our failure to comply with hedge accounting principles and interpretations.

Our revolving credit facility bears interest at a variable rate. Increases in interest rates could increase our interest expense which would, in turn, lower our earnings. From time to time, we may enter into hedging transactions to mitigate our interest rate risk on a portion of our credit facility. Hedging strategies rely on assumptions and projections. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates, we may experience volatility in our earnings that could adversely affect our results of operations and financial condition. We had no interest rate hedge contracts at December 31, 2013.

In addition, hedge accounting in accordance with FASB ASC Topic 815 "Derivatives and Hedging" requires the application of significant subjective judgments to a body of accounting concepts that is complex and for which the interpretations have continued to evolve within the accounting profession and among the standard-setting bodies. Our failure to comply with hedge accounting principles and interpretations in the future could result in the loss of the applicability of hedge accounting which could adversely affect our results of operations and financial condition.

Additional taxes levied on us could harm our financial results.

PRA is subject to taxes in the U.S. and the United Kingdom. PRA's future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. Any of these changes could have an adverse effect on PRA's profitability. The determination of the worldwide provision for income taxes and other tax liabilities requires significant judgment. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may adversely affect our financial results in the period or periods for which such determination is made.

Our tax filings are subject to audit by domestic and foreign tax authorities. These audits may result in assessments of additional taxes, adjustments to the timing of taxable income or deductions or allocations of income among tax jurisdictions. If any such challenges are made and are not resolved in our favor, they could have an adverse effect on our financial condition and results of operations.

We file domestic income tax returns using the cost recovery method for tax revenue recognition as it relates to our debt purchasing business. The Internal Revenue Service ("IRS") has audited and issued a Notice of Deficiency for the tax years ended December 31, 2007, 2006 and 2005. It has asserted that cost recovery for tax revenue recognition does not clearly reflect taxable income and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. We have filed a petition in the United States Tax Court and believe we have sufficient support for the technical merits of our positions and that it is more-likely-than-not that they will ultimately be sustained; therefore, a reserve for uncertain tax positions is not necessary. If we are unsuccessful in the United States Tax Court, we can appeal to the federal Circuit Court of Appeals. If judicial appeals prove unsuccessful, we may ultimately be required to pay the related deferred taxes, any potential interest, and penalties, possibly requiring additional financing from other sources. The deferred tax liability related to revenue recognition on our debt purchasing business is $209.3 million at December 31, 2013. On June 30, 2011, we were notified by the IRS that the audit period was expanded to include the tax years ended December 31, 2009 and 2008. The statute of limitations for the 2008, 2009 and 2010 tax years has been extended to September 26, 2014.

For financial reporting purposes, we utilize the interest method of revenue recognition for determining our income recognized on finance receivables, which is based on an analysis of projected cash flows that may prove to be less than anticipated and could lead to reductions in future revenues or the incurrence of allowance charges.

We utilize the interest method to determine income recognized on finance receivables under the guidance of Financial Accounting Standards Board Accounting Standards Codification 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). Under this method, static pools of receivables we acquire are modeled upon their projected cash flows. A yield is then established which, when applied to the unamortized purchase price of the receivables, results in the recognition of income at a constant yield relative to the remaining balance in the pool. Each static pool is analyzed regularly to assess the actual performance compared to that expected by the model. Significant increases in expected future cash flows may be recognized prospectively, through an upward adjustment of the yield, over a pool's remaining life. If a valuation allowance had been previously recognized for that pool, the allowance is reversed before recording any prospective yield adjustments. Any increase to the yield then becomes the new benchmark for future impairment testing for the pool. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current yield and is shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheets. As a result, if the accuracy of the modeling process deteriorates or there is a significant decline in anticipated future cash flows, we could incur reductions in future revenues resulting from additional allowance charges, which could reduce our profitability in a given period.

Our loss contingency accruals may not be adequate to cover actual losses.

We are involved in judicial, regulatory, and arbitration proceedings or investigations concerning matters arising from our business activities. We have adopted reasonable compliance procedures and believe we have meritorious defenses in all material litigation pending against us; however, there can be no assurance as to the ultimate outcome. We establish accruals for potential liability arising from legal proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. We may still incur legal costs for a matter even if we have not accrued a liability. In addition, actual losses may be higher than the amount accrued for a certain matter, or in the aggregate. An unfavorable resolution of a legal proceeding or claim could adversely impact our financial condition, results of operations, or cash flows. For more information, refer to the “Litigation” section of Note 14 (Commitments and Contingencies).

Class action suits and other litigation could divert our management’s attention from operating our business and increase our expenses.

Originators, debt purchasers and third-party collection agencies and attorneys in the consumer credit industry are frequently subject to putative class action lawsuits and other litigation. Claims include failure to comply with applicable laws and regulations and improper or deceptive origination and servicing practices. Being a defendant in such class action lawsuits or other litigation could adversely affect our results of operations and financial condition.

We rely on our systems, including our telecommunications and computers systems, and employees, and certain failures or disruptions could adversely affect the continuity of our business operations.

We may be subject to disruptions of our operating systems arising from events that are not entirely within our control. Those events may include, for example, terrorist attacks, war and the outcome of war and threats of attacks; computer viruses; electrical or telecommunications outages; natural disasters; computer hacking attacks; malicious employee acts; other intentional destructive human acts; and disease pandemics. We could be subject to both private and public legal actions if consumer information stored in our systems is lost or misappropriated, as we are subject to extensive laws and regulations concerning the use and safeguarding of this information. Any or all of these occurrences could have an adverse effect on our results of operations and financial condition.

Additionally, our success depends in large part on sophisticated telecommunications and computer systems. The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty or operating malfunction, could disrupt our operations. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for our collection activities. Any failure of our information systems or software and our backup systems would interrupt our business operations and harm our business. Our headquarters are located in a region that is susceptible to hurricane damage, which may increase the risk of disruption of information systems and telephone service for sustained periods.

Further, our business depends heavily on services provided by various local and long distance telephone companies. A significant increase in telephone service costs or any significant interruption in telephone services could reduce our profitability or disrupt our operations and harm our business.

The occurrence of cyber incidents, or a deficiency in our cyber-security, could negatively impact our business by causing a disruption in our operations, a compromise or corruption of our confidential information or damage to our Company's image, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. More specifically, a cyber incident is an intentional or unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Our three primary risks that could directly result from the occurrence of a cyber incident are operational interruption, damage to our image, and private data exposure. Private data may include customer information or proprietary business information such as underwriting and collections methodologies. We have implemented solutions, processes, and procedures to help mitigate these risks, but these measures, as well as our organization's increased awareness of our risk of a cyber incident, do not guarantee that our financial results will not be negatively impacted by such an incident.

We serve markets that are highly competitive, and we may be unable to compete with businesses that may have greater resources than us.

We face competition in the markets we serve from new and existing providers of outsourced receivables management services, including other purchasers of defaulted consumer receivables portfolios, contingent fee businesses and debt owners that manage their own defaulted consumer receivables rather than outsourcing them. The receivables management industry is highly fragmented and competitive, consisting of thousands of consumer and commercial agencies, most of which compete in the contingent fee business.

We face bidding competition in our acquisition of defaulted consumer receivables and in our placement of fee based receivables, and we also compete on the basis of reputation, industry experience and performance. Some of our current competitors and possible new competitors may have substantially greater financial, personnel and other resources, greater adaptability to changing market needs, longer operating histories and more established relationships in our industry than we currently have. Moreover, our competitors may elect to pay prices that we determine are not reasonable and, in that event, our volume of purchases may be diminished. In the future, we may not have the resources or ability to compete successfully. As there are few significant barriers for entry to new providers of fee based receivables management services, there can also be no assurance that additional competitors with greater resources than ours will not enter the market.

We may make business acquisitions that prove unsuccessful or strain or divert our resources.

Through acquisitions, we may enter markets in which we have no or limited experience. Further, acquisitions may place additional constraints on our resources by diverting the attention of our management team from other business concerns. Moreover, any acquisition may result in a potentially dilutive issuance of equity securities or may result in the incurrence of additional debt and amortization expenses of related intangible assets, which could reduce our profitability and harm our business.

We intend to consider acquisitions of companies that could complement our business, including the acquisition of entities offering greater access and expertise in other asset types and markets that are related but that we do not currently serve. We may not be able to successfully operate future acquired entities, or integrate these businesses with our own, and we may be unable to maintain our standards, controls and policies.

We may not be able to manage our growth effectively.

We have expanded significantly since our formation and we intend to maintain our focus on growth. However, our growth will place additional demands on our resources and we cannot ensure that we will be able to manage our growth effectively. In order to successfully manage our growth, we may need to:

- expand and enhance our administrative infrastructure;
- continue to improve our management, financial and information systems and controls; and
- recruit, train, manage and retain our employees effectively.

Continued growth could place a strain on our management, operations and financial resources. We cannot ensure that our infrastructure, facilities and personnel will be adequate to support our future operations or to effectively adapt to future growth. If we cannot manage our growth effectively, our results of operations may be adversely affected.

The market price of our shares of common stock could fluctuate significantly.

Wide fluctuations in the trading price or volume of our shares of common stock could be caused by many factors, including factors relating to our company or to investor perception of our company (including changes in financial estimates and recommendations by research analysts), but also factors relating to (or relating to investor perception of) the receivables management industry, debt collection or the economy in general.

Negative publicity or reputational attacks could damage our reputation and our business.

From time to time there are negative news stories about our industry or company, especially with respect to alleged conduct in collecting debt from customers. Internet sites are maintained where consumers can list their concerns about the activities of debt collectors and seek guidance from other website posters on how to handle the situation. Advertisements by debt relief attorneys and credit counseling centers are becoming more common, adding to the negative attention given to our industry. Negative public opinion about our alleged or actual debt collection practices or about the debt collection industry, including those expressed via television, newspapers, radio, or social media such as blogs, websites or newsletters, regardless of the factual accuracy of the assertions, could adversely impact our stock price and our ability to retain and attract customers and employees and customers may be more reluctant to pay their debts and more likely to pursue legal action against us regardless of whether those actions are warranted. Furthermore, such negative publicity could result in financial institutions reducing or eliminating sales of portfolios to us which would harm our business and negatively impact our financial results.

Our certificate of incorporation, by-laws and Delaware law contain provisions that may prevent or delay a change of control or that may otherwise be in the best interest of our stockholders.

Our certificate of incorporation and by-laws contain provisions that may make it more difficult, expensive or otherwise discourage a tender offer or a change in control or takeover attempt by a third-party, even if such a transaction would be beneficial to our stockholders. The existence of these provisions may have a negative impact on the price of our common stock by discouraging third-party investors from purchasing our common stock. In particular, our certificate of incorporation and by-laws include provisions that:

- classify our board of directors into three groups, each of which will serve for staggered three-year terms;
- permit a majority of the stockholders to remove our directors only for cause;
- permit our directors, and not our stockholders, to fill vacancies on our board of directors;
- require stockholders to give us advance notice to nominate candidates for election to our board of directors or to make stockholder proposals at a stockholders' meeting;
- permit a special meeting of our stockholders to be called only by approval of a majority of the directors, the chairman of the board of directors, the chief executive officer, the president or the written request of holders owning at least 30% of our common stock;
- permit our board of directors to issue, without approval of our stockholders, preferred stock with such terms as our board of directors may determine;
- permit the authorized number of directors to be changed only by a resolution of the board of directors; and
- require the vote of the holders of a majority of our voting shares for stockholder amendments to our by-laws.

In addition, we are subject to Section 203 of the Delaware General Corporation Law which provides certain restrictions on business combinations between us and any party acquiring a 15% or greater interest in our voting stock other than in a transaction approved by our board of directors and, in certain cases, by our stockholders. These provisions of our certificate of incorporation, our by-laws and Delaware law could delay or prevent a change in control, even if our stockholders support such proposals. Moreover, these provisions could diminish the opportunities for stockholders to participate in certain tender offers, including tender offers at prices above the then-current market value of our common stock, and may also inhibit increases in the trading price of our common stock that could result from takeover attempts or speculation.

The sudden collapse of one of the financial institutions in which we are depositors could negatively affect our financial results.

We maintain depository accounts with financial institutions for daily cash flow needs. With the elimination of unlimited FDIC coverage on depository accounts at the end of 2012, we have exposure with certain financial institutions to the extent our cash balances exceed the current $250,000 in maximum coverage. If one of the financial institutions in which we have significant deposits in excess of $250,000 were to collapse suddenly, we could potentially be unable to retrieve our deposits and therefore incur significant losses relating to the lost deposits. This could have an adverse effect on our financial results.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters and primary operations facility are located in Norfolk, Virginia. Our leased PRA UK subsidiary facility is located in Kilmarnock, Scotland. In addition, we have operational centers, all of which are leased except the facilities in Kansas and Tennessee, in the following locations in the United States:

- Birmingham, Alabama	- Hutchinson, Kansas
- Conshohocken, Pennsylvania	- Jackson, Tennessee
- North Richland Hills, Texas	- Lake Forest, California
- Fresno, California	- Las Vegas, Nevada
- Hampton, Virginia	- Rosemont, Illinois
- Houston, Texas	- San Diego, California

We also lease several less significant facilities in various locations throughout the United States which are not listed above. We do not consider any specific leased or owned facility to be material to our operations. We believe that equally suitable alternative facilities are available in all areas where we currently do business.

Item 3. Legal Proceedings.

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

No legal proceedings were commenced during the period covered by this report that the Company believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations and cash flows. Refer to Note 14 “Commitments and Contingencies” of our Consolidated Financial Statements (Part II, Item 8 of this Form 10-K) for information regarding legal proceedings in which we are involved.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Price Range of Common Stock

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol “PRAA.” The following table sets forth the high and low sales price for the Company's common stock, as reported by the NASDAQ Global Select Market, for the periods indicated.

2012	High	Low
Quarter ended March 31, 2012	$24.69	$20.04
Quarter ended June 30, 2012	$30.45	$21.63
Quarter ended September 30, 2012	$35.39	$26.73
Quarter ended December 31, 2012	$35.67	$30.63

2013	High	Low
Quarter ended March 31, 2013	$42.59	$33.68
Quarter ended June 30, 2013	$54.62	$38.97
Quarter ended September 30, 2013	$61.60	$45.83
Quarter ended December 31, 2013	$63.96	$49.88

As of February 18, 2014, there were 77 holders of record of the Company's common stock. Based on information provided by our transfer agent and registrar, we believe that there were approximately 39,253 beneficial owners of the Company's common stock as of January 16, 2014.

Stock Performance

The following graph compares from December 31, 2008 to December 31, 2013, the cumulative stockholder returns assuming an initial investment of $100 in the Company's common stock at the beginning of the period, the stocks comprising the NASDAQ Global Market Composite Index, the NASDAQ Market Index (U.S.) and the stocks comprising a peer group index consisting of six peers which includes Encore Capital Group, Inc., Asta Funding, Inc., Atlanticus Holdings Corporation (formerly Compucredit Holdings Corporation), FTI Consulting Inc. and EPIQ Systems Inc. The prior year graph included Asset Acceptance Capital Corp., which merged with Encore Capital Group, Inc. during 2013. Any dividends paid during the five year period are assumed to be reinvested.

	As of December 31,					
	2008	2009	2010	2011	2012	2013
Portfolio Recovery Associates, Inc.	$100	$133	$222	$200	$316	$468
NASDAQ Market Index (U.S.)	$100	$144	$167	$168	$199	$277
NASDAQ Global Market Composite Index	$100	$145	$173	$150	$173	$289
Custom Peer Group	$100	$107	$102	$102	$99	$133

The comparisons of stock performance shown above are not intended to forecast or be indicative of possible future performance of PRA’s common stock. PRA does not make or endorse any predictions as to its future stock performance.

Dividend Policy

Our board of directors sets our dividend policy. We do not currently pay regular dividends on our common stock and did not pay dividends in 2013 or 2012; however, our board of directors may determine in the future to declare or pay dividends on our common stock. Under the terms of our credit facility, cash dividends may not exceed $20 million in any fiscal year without the consent of our lenders. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors may consider relevant.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under equity compensation plans see Note 10 "Share-Based Compensation" of our Consolidated Financial Statements.

Share Repurchase Program

On February 2, 2012, the Company's board of directors authorized a share repurchase program to purchase up to $100,000,000 of the Company's outstanding shares of common stock on the open market. There were no purchases of the Company's common stock during the fourth quarter of 2013.

Item 6. Selected Financial Data.
The following selected financial data should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section below, the audited consolidated financial statements and the notes to the audited consolidated financial statements. Certain prior year amounts have been reclassified for consistency with the current period presentation.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
INCOME STATEMENT DATA:					
(In thousands, except per share data)					
Revenues:					
Income recognized on finance receivables, net	$663,546	$530,635	$401,895	$309,680	$215,612
Fee income	71,589	62,166	57,040	63,026	65,479
Total revenues	735,135	592,801	458,935	372,706	281,091
Operating expenses:					
Compensation and employee services	192,474	168,356	138,202	124,077	106,388
Legal collection fees	41,488	34,393	23,621	17,599	14,872
Legal collection costs	83,063	72,325	38,659	31,330	16,462
Agent fees	5,901	5,906	7,653	12,012	15,644
Outside fees and services	31,615	28,867	19,310	12,554	9,570
Communications	28,936	25,943	20,874	15,152	12,828
Rent and occupancy	7,536	6,781	5,891	5,313	4,761
Depreciation and amortization	14,385	14,515	12,943	12,437	9,213
Other operating expenses	25,809	19,651	14,914	12,370	10,744
Impairment of goodwill	6,397	—	—	—	—
Total operating expenses	437,604	376,737	282,067	242,844	200,482
Gain on sale of property	—	—	1,157	—	—
Income from operations	297,531	216,064	178,025	129,862	80,609
Interest income	3	10	7	65	3
Interest expense	(14,469)	(9,041)	(10,569)	(9,052)	(7,909)
Income before income taxes	283,065	207,033	167,463	120,875	72,703
Provision for income taxes	106,146	80,934	66,319	47,004	28,397
Net income	176,919	126,099	101,144	73,871	44,306
Adjustment for net (income)/loss attributable to redeemable noncontrolling interest	(1,605)	494	(353)	(417)	—
Net income attributable to Portfolio Recovery Associates, Inc.	$175,314	$126,593	$100,791	$73,454	$44,306
Net income per share attributable to Portfolio Recovery Associates, Inc:					
Basic	$3.48	$2.48	$1.96	$1.46	$0.96
Diluted	$3.45	$2.46	$1.95	$1.45	$0.96
Weighted average number of shares outstanding:					
Basic	50,366	50,991	51,330	50,460	46,260
Diluted	50,873	51,369	51,690	50,655	46,362
OPERATING AND OTHER FINANCIAL DATA:					

(Dollars in thousands)					
Cash receipts	$1,214,026	$970,852	$762,530	$592,368	$433,482
Operating expenses to cash receipts	36 %	39 %	37 %	41 %	46 %
Return on equity [1]	22 %	20 %	19 %	17 %	14 %
Acquisitions of finance receivables, at cost [2]	$656,784	$538,545	$408,408	$367,443	$288,889
Acquisitions of finance receivables, at face value [2]	$7,860,096	$6,154,973	$9,792,357	$6,804,952	$8,109,694
Employees at period end	3,543	3,221	2,641	2,473	2,213

(1) Calculated by dividing net income for each year by average monthly stockholders’ equity for the same year.

(2) Represents cash paid for finance receivables. It does not include certain capitalized costs or buybacks. It also does not include the finance receivables acquired as part of the initial acquisition of PRA UK in 2012.

Below are listed certain key balance sheet data for the periods presented:

	As of December 31, 2013	2012	2011	2010	2009
(In thousands)					
BALANCE SHEET DATA:					
Cash and cash equivalents	$162,004	$32,687	$26,697	$41,094	$20,265
Finance receivables, net	1,239,191	1,078,951	926,734	831,330	693,462
Total assets	1,601,232	1,288,956	1,071,123	995,908	794,433
Borrowings	451,780	327,542	221,246	320,396	320,799
Total stockholders' equity	869,476	708,427	595,488	490,516	335,480

Below are listed the quarterly consolidated income statements for the years ended December 31, 2013 and 2012:

	For the Quarter Ended Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
(In thousands, except per share data)								
INCOME STATEMENT DATA:								
Revenues:								
Income recognized on finance receivables, net	$168,728	$171,456	$168,570	$154,792	$138,068	$135,754	$132,587	$124,226
Fee income	16,125	26,306	14,391	14,767	16,183	14,765	15,298	15,920
Total revenues	184,853	197,762	182,961	169,559	154,251	150,519	147,885	140,146
Operating expenses:								
Compensation and employee services	46,393	52,882	48,202	44,997	44,849	41,334	42,479	39,694
Legal collection fees	10,144	10,206	10,609	10,529	9,153	8,635	8,988	7,617
Legal collection costs	20,044	19,801	22,717	20,501	14,619	15,810	18,227	23,669
Agent fees	1,608	1,404	1,280	1,609	1,411	1,545	1,323	1,627
Outside fees and services	6,827	8,707	8,634	7,447	7,292	10,131	5,584	5,860
Communications	7,537	6,645	6,675	8,079	6,255	5,996	6,195	7,496
Rent and occupancy	2,075	1,950	1,824	1,687	1,728	1,786	1,656	1,611
Depreciation and amortization	3,732	3,753	3,534	3,366	3,681	3,623	3,555	3,656
Other operating expenses	8,143	6,549	5,660	5,457	5,274	4,601	5,282	4,495
Impairment of goodwill	—	6,397	—	—	—	—	—	—
Total operating expenses	106,503	118,294	109,135	103,672	94,262	93,461	93,289	95,725
Income from operations	78,350	79,468	73,826	65,887	59,989	57,058	54,596	44,421
Interest income	3	—	—	—	2	—	7	1
Interest expense	(4,862)	(3,995)	(2,923)	(2,689)	(1,818)	(2,189)	(2,381)	(2,653)
Income before income taxes	73,491	75,473	70,903	63,198	58,173	54,869	52,222	41,769
Provision for income taxes	27,714	26,262	27,489	24,681	22,441	21,742	20,171	16,580

Net income	45,777	49,211	43,414	38,517	35,732	33,127	32,051	25,189
Adjustment for net (income)/loss attributable to redeemable noncontrolling interest	—	(1,873)	185	83	70	187	(36)	273
Net income attributable to Portfolio Recovery Associates, Inc.	$45,777	$47,338	$43,599	$38,600	$35,802	$33,314	$32,015	$25,462
Net income per share attributable to Portfolio Recovery Associates, Inc:								
Basic	$0.92	$0.94	$0.86	$0.76	$0.71	$0.66	$0.63	$0.49
Diluted	$0.91	$0.93	$0.85	$0.75	$0.70	$0.65	$0.62	$0.49
Weighted average number of shares outstanding:								
Basic	49,750	50,154	50,751	50,801	50,649	50,643	51,081	51,588
Diluted	50,375	50,660	51,183	51,273	51,216	51,066	51,399	51,801

Below are listed the quarterly consolidated balance sheets for the years ended December 31, 2013 and 2012:

	Quarter Ended as of:							
(Dollars in thousands)	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
BALANCE SHEET DATA:								
Assets								
Cash and cash equivalents	$162,004	$108,705	$43,459	$39,111	$32,687	$31,488	$42,621	$28,068
Finance receivables, net	1,239,191	1,256,822	1,236,859	1,169,747	1,078,951	973,594	966,508	945,242
Accounts receivable, net	12,359	12,047	10,421	9,234	10,486	8,417	8,580	9,107
Income taxes receivable	11,710	2,708	2,487	—	—	—	—	—
Property and equipment, net	31,541	28,059	27,278	25,470	25,312	25,506	26,016	26,369
Deferred tax asset	1,361	—	—	—	—	—	—	—
Goodwill	103,843	102,891	106,953	106,912	109,488	100,456	99,384	97,480
Intangible assets, net	15,767	16,746	17,396	18,550	20,364	21,167	22,364	27,179
Other assets	23,456	20,007	12,393	13,715	11,668	9,070	8,265	8,581
Total assets	$1,601,232	$1,547,985	$1,457,246	$1,382,739	$1,288,956	$1,169,698	$1,173,738	$1,142,026
Liabilities and Equity								
Liabilities								
Accounts payable	$14,819	$14,446	$9,356	$12,590	$12,155	$10,234	$10,508	$10,915
Accrued expenses	27,655	33,023	29,600	20,283	18,953	11,197	6,859	7,852
Income taxes payable	—	740	—	22,349	3,125	7,359	8,468	16,688
Accrued compensation	27,431	20,454	14,552	9,260	12,804	13,241	11,588	6,854
Net deferred tax liability	210,071	200,109	187,730	185,772	185,277	186,506	190,639	194,286
Borrowings	451,780	452,229	413,774	371,159	327,542	250,674	292,849	265,936
Total liabilities	731,756	721,001	655,012	621,413	559,856	479,211	520,911	502,531
Redeemable noncontrolling interest	—	10,336	10,336	10,336	20,673	19,998	19,381	18,783
Stockholders' equity								
Common stock	498	498	507	510	507	507	507	516
Additional paid in capital	729,505	129,570	156,574	159,256	150,878	149,480	147,543	165,789
	135,441	683,728	636,390	592,791	554,191	518,389	485,075	453,060

Retained earnings								
Accumulated other comprehensive income/(loss)	4,032	2,852	(1,573)	(1,567)	2,851	2,113	321	1,347
Total stockholders' equity	869,476	816,648	791,898	750,990	708,427	670,489	633,446	620,712
Total liabilities and equity	$1,601,232	$1,547,985	$1,457,246	$1,382,739	$1,288,956	$1,169,698	$1,173,738	$1,142,026

Below are certain key financial data and ratios as of and for the years ended December 31, 2013, 2012 and 2011:

FINANCIAL HIGHLIGHTS

	2013	2012	2011
EARNINGS (in thousands)			
Income recognized on finance receivables, net	$663,546	$530,635	$401,895
Fee income	71,589	62,166	57,040
Total revenues	735,135	592,801	458,935
Operating expenses	437,604	376,737	282,067
Income from operations	297,531	216,064	178,025
Net interest expense	14,467	9,031	10,562
Net income	176,919	126,099	101,144
Net income attributable to Portfolio Recovery Associates, Inc.	175,314	126,593	100,791
PERIOD-END BALANCES (in thousands)			
Cash and cash equivalents	$162,004	$32,687	$26,697
Finance receivables, net	1,239,191	1,078,951	926,734
Goodwill and intangible assets, net	119,610	129,852	76,274
Total assets	1,601,232	1,288,956	1,071,123
Borrowings	451,780	327,542	221,246
Total liabilities	731,756	559,856	457,804
Total equity	869,476	708,427	595,488
FINANCE RECEIVABLE COLLECTIONS (dollars in thousands)			
Cash collections	$1,142,437	$908,684	$705,490
Cash collections on fully amortized pools	35,520	28,972	36,929
Principal amortization without allowance charges	480,912	371,497	293,431
Principal amortization with allowance charges	478,890	378,049	303,595
Principal amortization w/ allowance charges as % of cash collections:			
Including fully amortized pools	41.9 %	41.6 %	43.0 %
Excluding fully amortized pools	43.3 %	43.0 %	45.4 %
ALLOWANCE FOR FINANCE RECEIVABLES (dollars in thousands)			
Allowance (reversal)/charge	$(2,022)	$6,552	$10,164
Allowance (reversal)/charge to period-end net finance receivables	(0.20)%	0.61 %	1.10 %
Allowance (reversal)/charge to net finance receivable income	(0.30)%	1.23 %	2.53 %
Allowance (reversal)/charge to cash collections	(0.20)%	0.72 %	1.44 %
PURCHASES OF FINANCE RECEIVABLES (dollars in thousands)			
Cash paid—core	$395,068	$259,795	$213,389
Face value—core	4,704,609	3,581,246	7,900,762
Cash paid—bankruptcy	242,649	262,630	195,019
Face value—bankruptcy	2,814,044	2,104,977	1,891,595
Cash paid—other	19,067	16,120	—
Face value—other	341,443	468,750	—
Purchase price—total	656,784	538,545	408,408
Face value—total	7,860,096	6,154,973	9,792,357

Number of portfolios—total	347	416	333
ESTIMATED REMAINING COLLECTIONS (in thousands)			
Estimated remaining collections—core	$1,824,132	$1,387,711	$1,159,086
Estimated remaining collections—bankruptcy	822,988	905,136	794,262
Estimated remaining collections—other	22,150	22,342	—
Estimated remaining collections—total	2,669,270	2,315,189	1,953,348
SHARE DATA (7) (share amounts in thousands)			
Net income per common share—diluted	$3.45	$2.46	$1.95
Weighted average number of shares outstanding—diluted	50,873	51,369	51,690
Shares repurchased	1,203	994	—
Average price paid per share repurchased (including acquisition costs)	$48.62	$22.85	$—
Closing market price	$52.84	$35.62	$22.51
RATIOS AND OTHER DATA (dollars in thousands)			
Return on average equity (1)	22.2 %	19.6 %	18.5 %
Return on revenue (2)	24.1 %	21.3 %	22.0 %
Return on average assets (3)	11.9 %	10.8 %	9.7 %
Operating margin (4)	40.5 %	36.4 %	38.8 %
Operating expense to cash receipts (5)	36.0 %	38.8 %	37.0 %
Debt to equity (6)	52.0 %	46.2 %	37.2 %
Number of collectors	2,313	2,153	1,658
Number of employees	3,543	3,221	2,641
Cash receipts (5)	$1,214,026	$970,852	$762,530
Line of credit—unused portion at period end	435,500	273,000	187,500

(1) Calculated as net income divided by average equity for the year.
(2) Calculated as net income divided by total revenues.
(3) Calculated as net income divided by average assets for the year.
(4) Calculated as income from operations divided by total revenues.
(5) "Cash receipts" is defined as cash collections plus fee income.
(6) For purposes of this ratio, "debt" equals the line of credit balance plus long-term debt plus convertible debt.
(7) Share data has been adjusted to reflect the three-for-one stock split by means of a stock dividend which was declared on June 10, 2013 and paid August 1, 2013.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
Overview

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

PRA is headquartered in Norfolk, Virginia, and employs approximately 3,500 people. The shares of PRA are traded on the NASDAQ Global Select Market under the symbol “PRAA.”

On February 19, 2014, we entered into an agreement to acquire the equity of Aktiv Kapital AS (“Aktiv”), a Norway-based company specializing in the acquisition and servicing of non-performing consumer loans throughout Europe and in Canada, for approximately $880 million, we also agreed to assume approximately $435 million of Aktiv's corporate debt, resulting in an acquisition of estimated total enterprise value of $1.3 billion. This acquisition will provide us entry into thirteen new markets, providing us additional geographical diversity in portfolio purchasing and collection, and with entry into new growth markets. We expect Aktiv's Chief Executive Officer and his executive team and the more than 400 Aktiv employees to join our workforce upon the closing of the transaction. The transaction is expected to close in the second quarter of 2014, upon successful completion of customary closing conditions, including approval of the transaction by applicable competition authorities and our ability to obtain the necessary financing to consummate the transaction.

We expect to finance this transaction with a combination of cash, $170 million of seller financing, $435 million from our domestic revolving credit facility, and by accessing an accordion feature on our credit facility of up to $214 million. We may choose to use other debt instruments to expand, replace or pay down any of these financing options. We anticipate transaction costs of approximately $15 million, which we expect to incur between both the first and second quarters of 2014. Our total borrowings are projected to be approximately $1.8 billion after closing, compared to PRA’s total borrowings of $452 million at December 31, 2013.

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

Earnings Summary

For the year ended December 31, 2013, net income attributable to PRA was $175.3 million, or $3.45 per diluted share, compared with $126.6 million, or $2.46 per diluted share, for the year ended December 31, 2012. Total revenues were $735.1 million for the year ended December 31, 2013, up 24.0% from the same year ago period. Revenues during the year ended December 31, 2013 consisted of $663.5 million in income recognized on finance receivables, net of allowance charges, and $71.6 million in fee income. Income recognized on finance receivables, net of allowance charges, for the year ended December 31, 2013 increased $132.9 million, or 25.1%, over 2012, primarily as a result of a significant increase in cash collections. Cash collections were $1,142.4 million during the year ended December 31, 2013, up 25.7% over $908.7 million in the year ended December 31, 2012. During the year ended December 31, 2013, PRA recorded $2.0 million in net allowance charge reversals, compared with $6.6 million in net allowance charges in the year ended December 31, 2012. Our performance has been positively impacted by operational efficiencies surrounding the cash collections process, including the continued refinement of account scoring analytics as it relates to both legal and non-legal collection channels. Additionally, we have continued to develop our internal legal collection staff resources, which enables us to place accounts into that channel that otherwise would have been prohibitively expensive for legal action and to collect these accounts more efficiently and profitably.

Fee income increased from $62.2 million for the year ended December 31, 2012 to $71.6 million in 2013, primarily due to an increase in revenues generated by CCB and our PGS business. The increase in revenue from CCB is due primarily to larger distributions of class action settlements in the year ended December 31, 2013 as compared to the year ended December 31, 2012. In particular, there was one large class action settlement which generated approximately $9.3 million in fee income. This was partially offset by declines in revenue at our PLS and PRA UK businesses. The decline from PLS is due primarily to the adverse impact of the economic slowdown on automobile financing and related collateral recovery activities. The decline in fee income from PRA UK is due primarily to a decline in the amount of contingent fee work provided to us by debt owners for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

A summary of how our revenue was generated during the year ended December 31, 2013, 2012 and 2011 is as follows:

(in thousands)	2013	2012	2011
Cash collections	$1,142,437	$908,684	$705,490
Principal amortization	(480,913)	(371,497)	(293,431)
Net allowance reversals/(charges)	2,022	(6,552)	(10,164)
Income recognized on finance receivables, net	663,546	530,635	401,895
Fee income	71,589	62,166	57,040
Total revenues	$735,135	$592,801	$458,935

Operating expenses were $437.6 million for the year ended December, 31, 2013, up 16.2% as compared to the year ended December 31, 2012, due primarily to increases in compensation expense, legal collection costs, legal collection fees, other operating expenses and impairment of goodwill. Compensation expense increased primarily as a result of larger staff sizes, as well as an increase in share-based compensation expense and incentive and other performance based compensation incurred as a result of the overall strong Company performance. Compensation and employee service expenses increased as total employees grew 10.0% to 3,543 as of December 31, 2013 from 3,221 as of December 31, 2012. Legal collection costs were $83.1 million for the year ended December 31, 2013 compared to $72.3 million for the year ended December 31, 2012, an increase of $10.8 million or 14.9%. This increase was the result of an increased portfolio size as well as a refinement of our internal scoring methodology that expanded our account selections for legal action. This strategy to expand the accounts brought into the legal collection process resulted in significant initial expenses, which may drive additional future cash collections and revenue. Legal collection fees increased from $34.4 million for the year ended December 31, 2012 to $41.5 million for the year ended December 31, 2013, an increase of $7.1 million or 20.6%. This increase was the result of an increase in cash collections from outside attorneys from $157.8 million in the year ended December 31, 2012 to $192.4 million for the year ended December 31, 2013, an increase of $34.6 million or 21.9%. Other operating expenses increased from $19.7 million for the year ended December 31, 2012 to $25.8 million for the year ended December 31, 2013, an increase of $6.1 million or 31.0%. Of the $6.1 million increase, $4.1 million is related to the additional expense incurred as a result of the earn-out provision of the asset purchase agreement entered into in connection with the acquisition of certain finance receivables and operating assets of National Capital Management ("NCM") in 2012 and $0.8 million is due to an increase in insurance expenses. None of the remaining $1.2 million increase was attributable to any significant identifiable items.

During the year ended December 31, 2013, we acquired finance receivables portfolios with an aggregate face value amount of $7.9 billion at a cost of $656.8 million. During the year ended December 31, 2012, excluding the initial investment in the PRA UK portfolio, we acquired finance receivable portfolios with an aggregate face value of $6.2 billion at a cost of $538.5 million. During the year ended December 31, 2011, we acquired finance receivable portfolios with an aggregate face value of $9.8 billion at a cost of $408.4 million. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectability. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time frames, we intend to target a similar internal rate of return, after direct expenses, in pricing our portfolio acquisitions; therefore, the absolute rate paid is not necessarily relevant to the estimated profitability of a period's buying.

Results of Operations

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

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

	2013		2012		2011	
Revenues:						
Income recognized on finance receivables, net	$663,546	90.3 %	$530,635	89.5 %	$401,895	87.6 %
Fee income	71,589	9.7	62,166	10.5	57,040	12.4
Total revenues	735,135	100.0	592,801	100.0	458,935	100.0
Operating expenses:						
Compensation and employee services	192,474	26.2	168,356	28.4	138,202	30.1
Legal collection fees	41,488	5.6	34,393	5.8	23,621	5.1
Legal collection costs	83,063	11.3	72,325	12.2	38,659	8.4
Agent fees	5,901	0.8	5,906	1.0	7,653	1.7
Outside fees and services	31,615	4.3	28,867	4.9	19,310	4.2
Communications	28,936	3.9	25,943	4.4	23,372	5.1
Rent and occupancy	7,536	1.0	6,781	1.1	5,891	1.3
Depreciation and amortization	14,385	2.0	14,515	2.4	12,943	2.8
Other operating expenses	25,809	3.5	19,651	3.3	12,416	2.7
Impairment of goodwill	6,397	0.9	—	—	—	—
Total operating expenses	437,604	59.5	376,737	63.5	282,067	61.4
Gain on sale of property	—	—	—	—	1,157	0.3
Income from operations	297,531	40.5	216,064	36.5	178,025	38.9
Interest income	3	0.0	10	0.0	7	0.0
Interest expense	(14,469)	(2.0)	(9,041)	(1.5)	(10,569)	(2.3)
Income before income taxes	283,065	38.5	207,033	35.0	167,463	36.6
Provision for income taxes	106,146	14.4	80,934	13.7	66,319	14.5
Net income	176,919	24.1 %	126,099	21.3 %	101,144	22.1 %
Adjustment for net (income)/loss attributable to redeemable noncontrolling interest	(1,605)	(0.2)	494	0.1	(353)	(0.1)
Net income attributable to Portfolio Recovery Associates, Inc.	$175,314	23.9 %	$126,593	21.4 %	$100,791	22.0 %

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues

Total revenues were $735.1 million for the year ended December 31, 2013, an increase of $142.3 million or 24.0% compared to total revenues of $592.8 million for the year ended December 31, 2012.

Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net, was $663.5 million for the year ended December 31, 2013, an increase of $132.9 million or 25.1% compared to income recognized on finance receivables, net, of $530.6 million for the year ended December 31, 2012. The increase was primarily due to an increase in cash collections on our owned finance receivables to $1,142.4 million for the year ended December 31, 2013 compared to $908.7 million for the year ended December 31, 2012, an increase of $233.7 million or 25.7%. Our finance receivables amortization rate, including net allowance charges, was 41.9% for the year ended December 31, 2013 compared to 41.6% for the year ended December 31, 2012.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company’s increase in its estimate of future cash flows. Increases in future cash flows may occur as portfolios age and actual cash collections exceed those originally expected. If those cash flows are determined to be incremental to the portfolio’s original forecast, future projections of cash flows are generally increased resulting in higher expected revenue and hence increases in accretable yield. During the years ended December 31, 2013 and 2012, the Company reclassified amounts from nonaccretable difference to accretable yield due primarily to increased cash collection forecasts relating to pools acquired from 2009-2011. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company’s decrease in its estimates of future cash flows and allowance charges that exceed the Company’s increase in its estimate of future cash flows.

Income recognized on finance receivables, net, is shown net of changes in valuation allowances recognized under FASB ASC Topic 310-30 “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”), which requires that a valuation allowance be recorded for significant decreases in expected cash flows or a change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the year ended December 31, 2013, we recorded net allowance charge reversals of $2.0 million, which consisted of net allowance charge reversals of $8.9 million on our Core portfolios, mainly on pools purchased between 2005 and 2008, offset by allowance charges of $6.9 million on purchased bankruptcy portfolios acquired mainly in 2007 and 2008. For the year ended December 31, 2012, we recorded net allowance charges of $6.6 million, $8.6 million of which related to purchased bankruptcy portfolios acquired mainly in 2007 and 2008, offset by a net reversal of $2.0 million on Core portfolios. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our previous expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and decreases in productivity related to turnover of our collection staff.

Fee Income

Fee income was $71.6 million for the year ended December 31, 2013, an increase of $9.4 million or 15.1% compared to fee income of $62.2 million for the year ended December 31, 2012. Fee income increased primarily due to an increase in revenues generated by CCB and our PGS business. The increase in revenue from CCB is due primarily to larger distributions of class action settlements in the year ended December 31, 2013 as compared to the year ended

December 31, 2012. In particular, there was one large class action settlement which generated approximately $9.3 million in fee income. This was partially offset by declines in revenue at our PLS and PRA UK businesses. The decline from PLS is due primarily to the adverse impact of the economic slowdown on automobile financing and related collateral recovery activities. The decline in fee income from PRA UK is due primarily to a decline in the amount of contingent fee work provided to us by debt owners for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Operating Expenses

Total operating expenses were $437.6 million for the year ended December 31, 2013, an increase of $60.9 million or 16.2% compared to total operating expenses of $376.7 million for the year ended December 31, 2012. Total operating expenses were 36.0% of cash receipts for the year ended December 31, 2013 compared with 38.8% for the year ended December 31, 2012.

Compensation and Employee Services

Compensation and employee service expenses were $192.5 million for the year ended December 31, 2013, an increase of $24.1 million or 14.3% compared to compensation and employee service expenses of $168.4 million for the year ended December 31, 2012. Compensation expense increased primarily as a result of larger staff sizes, as well as an increase in share-based compensation expense and incentive and other performance based compensation incurred as a result of the overall strong Company performance. Total employees grew 10.0% to 3,543 as of December 31, 2013 from 3,221 as of December 31, 2012. Additionally, some existing employees received appropriate salary increases based on performance. Compensation and employee service expenses as a percentage of cash receipts decreased to 15.9% for the year ended December 31, 2013 from 17.3% of cash receipts for the year ended December 31, 2012.

Legal Collection Fees

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party attorney network. Legal collection fees were $41.5 million for the year ended December 31, 2013, an increase of $7.1 million, or 20.6%, compared to legal collection fees of $34.4 million for the year ended December 31, 2012. This increase was the result of an increase in our external legal collections which increased $34.6 million or 21.9%, from $157.8 million for the year ended December 31, 2012 to $192.4 million for the year ended December 31, 2013. Legal collection fees for the year ended December 31, 2013 were 3.4% of cash receipts, compared to 3.5% for the year ended December 31, 2012.

Legal Collection Costs

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents paid to sellers of defaulted consumer receivables. Legal collection costs were $83.1 million for the year ended December 31, 2013, an increase of $10.8 million, or 14.9%, compared to legal collection costs of $72.3 million for the year ended December 31, 2012. Beginning in early 2012 and continuing into 2013, as a result of the refinement of our internal scoring methodology that expanded our account selections for legal action, we expanded the accounts brought into the legal collection process which resulted in significant initial expenses, which may continue to drive additional future cash collections and revenue. These legal collection costs represent 6.8% and 7.4% of cash receipts for the years ended December 31, 2013 and 2012, respectively.

Agent Fees

Agent fees primarily represent costs paid to repossession agents to repossess vehicles. Agent fees were $5.9 million for both the years ended December 31, 2013, and 2012, respectively.

Outside Fees and Services

Outside fees and services expenses were $31.6 million for the year ended December 31, 2013, an increase of $2.7 million or 9.3% compared to outside fees and services expenses of $28.9 million for the year ended December 31, 2012. Of the $2.7 million increase, $1.8 million was attributable to an increase in corporate legal expenses and the remaining $0.9 million increase was attributable to other outside fees and services including increases in non-capitalized software development costs.

Communications

Communications expenses were $28.9 million for the year ended December 31, 2013, an increase of $3.0 million or 11.6% compared to communications expenses of $25.9 million for the year ended December 31, 2012. The increase was primarily due to additional postage expense resulting from an increase in special letter campaigns. The remaining increase was mainly attributable to increased telephone expenses. Expenses related to customer mailings were responsible for 66.7% or $2.0 million of this increase, while the remaining 33.3% or $1.0 million was attributable to increased telephone and telecommunication related expenses.

Rent and Occupancy

Rent and occupancy expenses were $7.5 million for the year ended December 31, 2013, an increase of $0.7 million or 10.3% compared to rent and occupancy expenses of $6.8 million for the year ended December 31, 2012. The increase was primarily due to the additional space leased at our Norfolk headquarters, the addition of NCM in December of 2012 as well as increased utility charges.

Depreciation and Amortization

Depreciation and amortization expenses were $14.4 million for the year ended December 31, 2013, a decrease of $0.1 million or 1.0% compared to depreciation and amortization expenses of $14.5 million for the year ended December 31, 2012.

Other Operating Expenses

Other operating expenses were $25.8 million for the year ended December 31, 2013, an increase of $6.1 million or 31.0% compared to other operating expenses of $19.7 million for the year ended December 31, 2012. Of the $6.1 million increase, $4.1 million is related to the additional expense incurred as a result of the earn-out provision of the NCM purchase agreement and $0.8 million is due to an increase in insurance expenses. None of the remaining $1.2 million increase was attributable to any significant identifiable items.

Impairment of Goodwill

Impairment of goodwill expense was $6.4 million for the year ended December 31, 2013, compared to $0 for the year ended December 31, 2012. During the third quarter of 2013, we evaluated the goodwill associated with our PLS reporting unit, which had experienced a revenue and profitability decline, recent net losses and the loss of a significant client during the quarter. Based on this evaluation, we recorded a $6.4 million impairment of goodwill in the third quarter of 2013. This non-cash charge represents the full amount of goodwill previously recorded for PLS. All other intangible assets related to PLS were fully amortized as of September 30, 2013.

Interest Expense

Interest expense was $14.5 million for the year ended December 31, 2013, an increase of $5.5 million or 61.1% compared to interest expense of $9.0 million for the year ended December 31, 2012. The increase was primarily due to the completion on August 13, 2013, through a private offering of $287.5 million in aggregate principal amount of our 3.00% Convertible Senior Notes due 2020, as well as an increase in average borrowings under our credit facility for the year ended December 31, 2013, compared to the year ended December 31, 2012. The average borrowings on our credit facility were $309.7 million and $258.0 million for the years ended December 31, 2013 and 2012, respectively.

Provision for Income Taxes

Income tax expense was $106.1 million for the year ended December 31, 2013, an increase of $25.2 million or 31.2% compared to income tax expense of $80.9 million for the year ended December 31, 2012. The increase was mainly due to an increase of 36.7% in income before taxes for the year ended December 31, 2013 when compared to the year ended December 31, 2012. This was partially offset by a decrease in the effective tax rate to 37.5% for the year ended December 31, 2013 compared to 39.1% for the year ended December 31, 2012. The decrease in the effective tax rate is primarily attributable to state revenue apportionment changes and tax credits.

We intend for predominantly all foreign earnings to be permanently reinvested in our foreign operations. If foreign earnings were repatriated, we would need to accrue and pay taxes; however, foreign tax credits would be available to partially reduce U.S. income taxes. The amount of cash on hand related to foreign operations with permanently reinvested earnings is $5.4 million as of December, 31, 2013.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues

Total revenues were $592.8 million for the year ended December 31, 2012, an increase of $133.9 million or 29.2% compared to total revenues of $458.9 million for the year ended December 31, 2011.

Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net, was $530.6 million for the year ended December 31, 2012, an increase of $128.7 million or 32.0% compared to income recognized on finance receivables, net, of $401.9 million for the year ended December 31, 2011. The increase was primarily due to an increase in cash collections on our owned finance receivables to $908.7 million for the year ended December 31, 2012 compared to $705.5 million for the year ended December 31, 2011, an increase of $203.2 million or 28.8%. Our finance receivables amortization rate, including net allowance charges, was 41.6% for the year ended December 31, 2012 compared to 43.0% for the year ended December 31, 2011. During the year ended December 31, 2012, excluding the initial investment in the PRA UK portfolio, we acquired finance receivables portfolios with an aggregate face value amount of $6.2 billion at a cost of $538.5 million. During the year ended December 31, 2011, we acquired finance receivable portfolios with an aggregate face value of $9.8 billion at a cost of $408.4 million. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectability. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time frames, we intend to target a similar internal rate of return, after direct expenses, in pricing our portfolio acquisitions; therefore, the absolute rate paid is not necessarily relevant to the estimated profitability of a period's buying.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company’s increase in its estimate of future cash flows. Increases in future cash flows may occur as portfolios age and actual cash collections exceed those originally expected. If those cash flows are determined to be incremental to the portfolio’s original forecast, future projections of cash flows are generally increased resulting in higher expected revenue and hence increases in accretable yield. During the years ended December 31, 2012 and 2011, the Company reclassified amounts from nonaccretable difference to accretable yield due primarily to increased cash collection forecasts relating to pools acquired from 2009-2011 and 2009-2010, respectively. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company’s decrease in its estimates of future cash flows and allowance charges that exceed the Company’s increase in its estimate of future cash flows.

Income recognized on finance receivables, net, is shown net of changes in valuation allowances recognized under FASB ASC Topic 310-30 “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”), which requires that a valuation allowance be recorded for significant decreases in expected cash flows or a change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the year ended December 31, 2012, we recorded net allowance charges of $6.6 million, $8.6 million of which related to purchased bankruptcy portfolios acquired mainly in 2007 and 2008, offset by a net reversal of $2.0 million on Core portfolios. For the year ended December 31, 2011, we recorded net allowance charges of $10.2 million, $6.6 million of which related to Core portfolios acquired mainly in 2005 through 2008 and $3.6 million of which related to purchased bankruptcy portfolios acquired mainly in 2007 through 2008. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and decreases in productivity related to turnover of our collection staff.

Fee Income

Fee income was $62.2 million for the year ended December 31, 2012, an increase of $5.2 million or 9.1% compared to fee income of $57.0 million for the year ended December 31, 2011. Fee income increased primarily due to the acquisition of PRA UK in the first quarter of 2012. This increase was partially offset by declines in revenue generated by both our PLS and CCB businesses. The decline from PLS is due primarily to the adverse impact of the economic slowdown on automobile financing and related collateral recovery activities. The decline from CCB is due primarily to larger distributions of class action settlements in the year ended December 31, 2011 as compared to the year ended December 31, 2012. We anticipate, based on available data on hand at December 31, 2012, that CCB's fee income should increase in 2013. In particular, we believe there will likely be one large class action settlement which could generate approximately $4.0 to $6.0 million or more in fee income.

Operating Expenses

Total operating expenses were $376.7 million for the year ended December 31, 2012, an increase of $94.6 million or 33.5% compared to total operating expenses of $282.1 million for the year ended December 31, 2011. Total operating expenses were 38.8% of cash receipts for the year ended December 31, 2012 compared with 37.0% for the year ended December 31, 2011.

Compensation and Employee Services

Compensation and employee service expenses were $168.4 million for the year ended December 31, 2012, an increase of $30.2 million or 21.9% compared to compensation and employee service expenses of $138.2 million for the year ended December 31, 2011. Compensation expense increased primarily as a result of larger staff sizes, including the addition of new employees as a result of the acquisition of PRA UK on January 16, 2012, as well as an increase in share-based compensation expense. Total employees grew 22.0% to 3,221 as of December 31, 2012 from 2,641 as of December 31, 2011. Additionally, existing employees received normal salary increases. Compensation and employee service expenses as a percentage of cash receipts decreased to 17.3% for the year ended December 31, 2012 from 18.1% of cash receipts for the year ended December 31, 2011.

Legal Collection Fees

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party attorney network. Legal collection fees were $34.4 million for the year ended December 31, 2012, an increase of $10.8 million, or 45.8%, compared to legal collection fees of $23.6 million for the year ended December 31, 2011. This increase was the result of an increase in our external legal collections which increased $51.5 million or 48.4%, from $106.3 million for the year ended December 31, 2011 to $157.8 million for the year ended December 31, 2012. Legal collection fees for the year ended December 31, 2012 were 3.5% of cash receipts, compared to 3.1% for the year ended December 31, 2011.

Legal Collection Costs

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents paid to sellers of defaulted consumer receivables. Legal collection costs were $72.3 million for the year ended December 31, 2012, an increase of $33.6 million, or 86.8%, compared to legal collection costs of $38.7 million for the year ended December 31, 2011. This increase was the result of an increased portfolio size as well as a refinement of our internal scoring methodology that expanded our account selections for legal action. This strategy to expand the accounts brought into the legal collection process resulted in significant initial expenses, which may drive additional future cash collections and revenue. These legal collection costs represent 7.4% and 5.1% of cash receipts for the years ended December 31, 2012 and 2011, respectively.

Agent Fees

Agent fees primarily represent costs paid to repossession agents to repossess vehicles. Agent fees were $5.9 million for the year ended December 31, 2012, a decrease of $1.8 million, or 23.4%, compared to agent fees of $7.7 million for the year ended December 31, 2011. The decrease was mainly due to reduced business activity associated with PLS.

Outside Fees and Services

Outside fees and services expenses were $28.9 million for the year ended December 31, 2012, an increase of $9.6 million or 49.7% compared to outside legal and other fees and services expenses of $19.3 million for the year ended December 31, 2011. Of the $9.6 million increase, $8.1 million was attributable to an increase in legal reserve accruals and corporate legal expenses and the remaining $1.5 million increase was attributable to other outside fees and services including increases in non-capitalized software development costs.

Communications

Communications expenses were $25.9 million for the year ended December 31, 2012, an increase of $5.0 million or 23.9% compared to communications expenses of $20.9 million for the year ended December 31, 2011. The increase was primarily due to additional postage expense resulting from an increase in special letter campaigns. The remaining increase was mainly attributable to telephone expenses incurred by PRA UK. Expenses related to customer mailings were responsible for 84.0% or $4.2 million of this increase, while the remaining 16.0% or $0.8 million was attributable to increased telephone and telecommunication related expenses.

Rent and Occupancy

Rent and occupancy expenses were $6.8 million for the year ended December 31, 2012, an increase of $0.9 million or 15.3% compared to rent and occupancy expenses of $5.9 million for the year ended December 31, 2011. The increase was primarily due to the additional space leased for our Birmingham call center operations, the addition of our PRA UK foreign operations as well as increased utility charges.

Depreciation and Amortization

Depreciation and amortization expenses were $14.5 million for the year ended December 31, 2012, an increase of $1.6 million or 12.4% compared to depreciation and amortization expenses of $12.9 million for the year ended December 31, 2011. The increase was primarily due to the additional depreciation and amortization expense incurred as a result of the acquisition of PRA UK and its related property, equipment and intangible assets.

Other Operating Expenses

Other operating expenses were $19.7 million for the year ended December 31, 2012, an increase of $4.8 million or 32.2% compared to other operating expenses of $14.9 million for the year ended December 31, 2011. Of the $4.8 million increase, $0.9 million was due to an increase in the provision for doubtful accounts, $0.8 million was due to an increase in travel and travel related expenses, $0.4 million was primarily attributable to additional taxes, fees and licenses, $0.5 million was due to an increase in repairs and maintenance and $0.4 million was due to increased insurance expenses, when compared to the year ended December 31, 2011. None of the remaining $1.8 million increase was attributable to any significant identifiable items.

Gain on Sale of Property

Gain on sale of property was $0 for the year ended December 31, 2012, compared to $1.2 million for the year ended December 31, 2011. The 2011 amount was the result of the sale of a parcel of land adjacent to our Norfolk headquarters during 2011.

Interest Expense

Interest expense was $9.0 million for the year ended December 31, 2012, a decrease of $1.6 million or 15.1% compared to interest expense of $10.6 million for the year ended December 31, 2011. The decrease was mainly due to a decrease in our weighted average interest rate which decreased to 3.27% for the year ended December 31, 2012 from 3.71% for the year ended December 31, 2011, as well as a decrease in our average borrowings to $258.0 million for the year ended December 31, 2012 compared to $263.2 million for the year ended December 31, 2011.

Provision for Income Taxes

Income tax expense was $80.9 million for the year ended December 31, 2012, an increase of $14.6 million or 22.0% compared to income tax expense of $66.3 million for the year ended December 31, 2011. The increase was mainly due to an increase of 23.6% in income before taxes for the year ended December 31, 2012 when compared to the year ended December 31, 2011. This was partially offset by a decrease in the effective tax rate to 39.1% for the year ended December 31, 2012 compared to 39.6% for the year ended December 31, 2011. The decrease in the effective tax rate is primarily attributable to the tax benefits created by our international operations.

Supplemental Performance Data

Domestic Finance Receivables Portfolio Performance:

The following tables show certain data related to our domestic finance receivables portfolio. These tables describe the purchase price, actual cash collections and future estimates of cash collections, income recognized on finance receivables (gross and net of allowance charges), principal amortization, allowance charges, net finance receivable balances, and the ratio of total estimated collections to purchase price (which we refer to as purchase price multiple). Further, these tables disclose our entire domestic portfolio, as well as its subsets: the portfolio of purchased bankrupt accounts and our Core portfolio. The accounts represented in the purchased bankruptcy tables are those portfolios of accounts that were bankrupt at the time of purchase. This contrasts with accounts that file for bankruptcy after we purchase them, which continue to be tracked in their corresponding Core portfolio. Core customers sometimes file for bankruptcy protection subsequent to our purchase of the related Core portfolio. When this occurs, we adjust our collection practices accordingly to comply with bankruptcy procedures; however, for accounting purposes, these accounts remain in the related Core portfolio. Conversely, bankrupt accounts may be dismissed voluntarily or involuntarily subsequent to our purchase of the related bankrupt portfolio. Dismissal occurs when the terms of the bankruptcy are not met by the petitioner. When this occurs, we are typically free to pursue collection outside of bankruptcy procedures; however, for accounting purposes, these accounts remain in the related bankruptcy pool.

Our United Kingdom portfolio is not significant and is therefore not included in these tables.

Purchase price multiples can vary over time due to a variety of factors including pricing competition, supply levels, age of the receivables purchased, and changes in our operational efficiency. For example, increased pricing competition during the 2005 to 2008 period negatively impacted purchase price multiples of our Core portfolio compared to prior years. During the 2009 to 2010 period, for example, pricing disruptions occurred as a result of the economic downturn. This created unique and advantageous purchasing opportunities, particularly within the bankruptcy receivables market, relative to the prior four years.

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

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

Within a given portfolio type, to the extent that lower purchase price multiples are the result of more competitive pricing and lower yields, this will generally lead to higher amortization rates (payments applied to principal as a percentage of cash collections) and lower profitability. As portfolio pricing becomes more favorable on a relative basis, our profitability will tend to increase. Profitability within given Core portfolio types may also be impacted by the age and quality of the receivables, which impact the cost to collect those accounts.

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

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

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

Domestic Portfolio Data – Life-to-Date
Entire Domestic Portfolio

($ in thousands)		Inception through December 31, 2013					As of December 31, 2013			
Purchase Period	Purchase Price	Actual Cash Collections Including Cash Sales	Income Recognized on Finance Receivables	Principal Amortization	Net Allowance Charges	Income Recognized on Finance Receivables, Net	Net Finance Receivables Balance	Estimated Remaining Collections	Total Estimated Collections	Total Es Collecti to Purch Price
1996	$3,080	$10,207	$7,084	$3,123	$—	$7,084	$—	$25	$10,232	332%
1997	7,685	25,506	17,402	8,104	—	17,402	—	112	25,618	333%
1998	11,089	37,351	26,365	10,986	—	26,365	—	234	37,585	339%
1999	18,898	69,355	50,181	19,174	—	50,181	—	481	69,836	370%
2000	25,020	116,665	91,468	25,197	—	91,468	—	1,912	118,577	474%
2001	33,481	175,907	141,555	34,352	—	141,555	—	2,654	178,561	533%
2002	42,325	198,477	156,153	42,324	—	156,153	—	4,824	203,301	480%
2003	61,447	265,205	203,757	61,448	—	203,757	—	7,688	272,893	444%
2004	59,176	198,276	140,298	57,978	1,200	139,098	—	7,478	205,754	348%
2005	143,167	311,102	184,577	126,525	10,755	173,822	5,886	12,286	323,388	226%
2006	107,667	208,451	127,478	80,973	20,715	106,763	5,979	11,881	220,332	205%
2007	258,367	478,812	262,546	216,266	20,680	241,866	21,416	47,813	526,625	204%
2008	275,128	473,695	261,009	212,686	35,645	225,364	26,763	50,230	523,925	190%
2009	281,424	745,983	494,794	251,189	—	494,794	30,235	150,324	896,307	318%
2010	357,976	743,239	465,559	277,680	325	465,234	79,996	283,835	1,027,074	287%
2011	393,202	553,690	321,008	232,682	—	321,008	160,522	445,252	998,942	254%
2012	508,976	351,488	176,089	175,399	—	176,089	333,578	630,475	981,963	193%
2013	629,501	154,142	82,295	71,847	—	82,295	558,170	989,616	1,143,758	182%
Total	$3,217,609	$5,117,551	$3,209,618	$1,907,933	$89,320	$3,120,298	$1,222,545	$2,647,120	$7,764,671	241%

Purchased Bankruptcy Portfolio

($ in thousands)		Inception through December 31, 2013					As of December 31, 2013			
Purchase Period	Purchase Price	Actual Cash Collections Including Cash Sales	Income Recognized on Finance Receivables	Principal Amortization	Net Allowance Charges	Income Recognized on Finance Receivables, Net	Net Finance Receivables Balance	Estimated Remaining Collections	Total Estimated Collections	Total Estimated Collections to Purchase Price
1996-2003	$—	$—	$—	$—	$—	$—	$—	$—	$—	—%
2004	7,468	14,492	8,224	6,268	1,200	7,024	—	52	14,544	195%
2005	29,301	43,641	14,767	28,874	410	14,357	17	58	43,699	149%
2006	17,627	31,565	14,791	16,774	800	13,991	53	229	31,794	180%
2007	78,526	104,131	35,557	68,574	9,815	25,742	137	831	104,962	134%
2008	108,586	164,188	71,182	93,006	13,250	57,932	2,330	2,973	167,161	154%
2009	156,036	404,808	260,679	144,129	—	260,679	11,907	66,306	471,114	302%
2010	209,175	390,722	227,586	163,136	—	227,586	46,039	125,411	516,133	247%
2011	181,949	164,349	71,898	92,451	—	71,898	89,499	142,299	306,648	169%
2012	252,442	120,998	42,854	78,144	—	42,854	174,298	224,505	345,503	137%
2013	235,781	52,528	16,761	35,767	—	16,761	200,015	260,324	312,852	133%
Total	$1,276,891	$1,491,422	$764,299	$727,123	$25,475	$738,824	$524,295	$822,988	$2,314,410	181%

Core Portfolio

($ in thousands)		Inception through December 31, 2013					As of December 31, 2013			
Purchase Period	Purchase Price	Actual Cash Collections Including Cash Sales	Income Recognized on Finance Receivables	Principal Amortization	Net Allowance Charges	Income Recognized on Finance Receivables, Net	Net Finance Receivables Balance	Estimated Remaining Collections	Total Estimated Collections	Total Esti Collection to Purchas Price
1996	$3,080	$10,207	$7,084	$3,123	$—	$7,084	$—	$25	$10,232	332%
1997	7,685	25,506	17,402	8,104	—	17,402	—	112	25,618	333%
1998	11,089	37,351	26,365	10,986	—	26,365	—	234	37,585	339%
1999	18,898	69,355	50,181	19,174	—	50,181	—	481	69,836	370%
2000	25,020	116,665	91,468	25,197	—	91,468	—	1,912	118,577	474%
2001	33,481	175,907	141,555	34,352	—	141,555	—	2,654	178,561	533%
2002	42,325	198,477	156,153	42,324	—	156,153	—	4,824	203,301	480%
2003	61,447	265,205	203,757	61,448	—	203,757	—	7,688	272,893	444%
2004	51,708	183,784	132,074	51,710	—	132,074	—	7,426	191,210	370%
2005	113,866	267,461	169,810	97,651	10,345	159,465	5,869	12,228	279,689	246%
2006	90,040	176,886	112,687	64,199	19,915	92,772	5,926	11,652	188,538	209%
2007	179,841	374,681	226,989	147,692	10,865	216,124	21,279	46,982	421,663	234%
2008	166,542	309,507	189,827	119,680	22,395	167,432	24,433	47,257	356,764	214%
2009	125,388	341,175	234,115	107,060	—	234,115	18,328	84,018	425,193	339%
2010	148,801	352,517	237,973	114,544	325	237,648	33,957	158,424	510,941	343%
2011	211,253	389,341	249,110	140,231	—	249,110	71,023	302,953	692,294	328%
2012	256,534	230,490	133,235	97,255	—	133,235	159,280	405,970	636,460	248%
2013	393,720	101,614	65,534	36,080	—	65,534	358,155	729,292	830,906	211%
Total	$1,940,718	$3,626,129	$2,445,319	$1,180,810	$63,845	$2,381,474	$698,250	$1,824,132	$5,450,261	281%

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Domestic Portfolio Data – 2013
Entire Domestic Portfolio

($ in thousands)		For the Year Ended December 31, 2013					As of December 31, 2013			
Purchase Period	Purchase Price	Actual Cash Collections Including Cash Sales	Income Recognized on Finance Receivables	Principal Amortization	Net Allowance Charges	Income Recognized on Finance Receivables, Net	Net Finance Receivables Balance	Estimated Remaining Collections	Total Estimated Collections	Total Estimated Collections to Purchase Price
1996	$3,080	$24	$24	$—	$—	$ 24	$—	$25	$10,232	332%
1997	7,685	84	84	—	—	84	—	112	25,618	333%
1998	11,089	173	173	—	—	173	—	234	37,585	339%
1999	18,898	483	483	—	—	483	—	481	69,836	370%
2000	25,020	1,349	1,349	—	—	1,349	—	1,912	118,577	474%
2001	33,481	2,339	2,339	—	—	2,339	—	2,654	178,561	533%
2002	42,325	3,433	3,433	—	—	3,433	—	4,824	203,301	480%
2003	61,447	5,331	5,331	—	—	5,331	—	7,688	272,893	444%
2004	59,176	4,522	4,522	—	—	4,522	—	7,478	205,754	348%
2005	143,167	9,916	4,573	5,343	(2,933)	7,506	5,886	12,286	323,388	226%
2006	107,667	8,735	3,751	4,984	(1,800)	5,551	5,979	11,881	220,332	205%
2007	258,367	29,450	15,389	14,061	(2,195)	17,584	21,416	47,813	526,625	204%
2008	275,128	42,957	17,443	25,514	2,800	14,643	26,763	50,230	523,925	190%
2009	281,424	146,846	103,652	43,194	—	103,652	30,235	150,324	896,307	318%
2010	357,976	203,731	146,641	57,090	325	146,316	79,996	283,835	1,027,074	287%
2011	393,202	235,660	141,688	93,972	—	141,688	160,524	445,252	998,942	254%
2012	508,976	277,199	128,106	149,093	—	128,106	333,576	830,475	981,963	193%
2013	629,501	154,142	82,295	71,847	—	82,295	558,170	989,616	1,143,758	182%
Total	$3,217,609	$1,126,374	$661,276	$465,098						