PORTFOLIO RECOVERY ASSOCIATES INC
Form 10-Q
April 30, 2007

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

FORM 10-Q

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

For the quarterly period ended March 31, 2007

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

For the transition period from __________ to __________

Commission File Number: 000-50058

Portfolio Recovery Associates, Inc.

(Exact name of registrant as specified in its charter)

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

(888) 772-7326

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO ¨

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨

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

Class	Outstanding as of April 16, 2007
Common Stock, $0.01 par value	15,996,104

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PORTFOLIO RECOVERY ASSOCIATES, INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2007 and December 31, 2006
(unaudited)

	March 31, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 27,882,628	$ 25,100,834
Finance receivables, net	243,568,411	226,447,495
Property and equipment, net	12,201,282	11,192,974
Income tax receivable		1,512,823
Goodwill	18,287,511	18,287,511
Intangible assets, net	6,263,345	6,754,014
Other assets	4,614,203	4,082,780
Total assets	$ 312,817,380	$ 293,378,431
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable	$ 4,219,997	$ 2,891,469
Accrued expenses	3,063,331	2,578,896
Income taxes payable	1,764,955	
Accrued payroll and bonuses	4,203,067	6,244,852
Deferred tax liability	37,848,918	33,452,670
Long-term debt	571,679	689,892
Obligations under capital lease	208,115	242,385
Total liabilities	51,880,062	46,100,164
Commitments and contingencies (Note 10)		
Stockholders equity:		
Preferred stock, par value $0.01, authorized shares, 2,000,000, issued and outstanding shares - 0		
Common stock, par value $0.01, authorized shares, 30,000,000, issued and outstanding shares - 15,996,104 at March 31, 2007, and 15,987,432 at December 31, 2006	159,961	159,874
Additional paid in capital	116,383,214	115,527,975
Retained earnings	144,394,143	131,590,418
Total stockholders equity	260,937,318	247,278,267
Total liabilities and stockholders equity	$ 312,817,380	$ 293,378,431

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

PORTFOLIO RECOVERY ASSOCIATES, INC.
CONSOLIDATED INCOME STATEMENTS
For the Three Months Ended March 31, 2007 and 2006
(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenues:		
Income recognized on finance receivables, net	$ 45,465,615	$ 39,373,409
Commissions	8,541,953	5,967,868
Total revenue	54,007,568	45,341,277
Operating expenses:		
Compensation and employee services	16,434,765	14,096,577
Outside legal and other fees and services	11,437,134	9,060,279
Communications	1,883,912	1,613,952
Rent and occupancy	659,234	560,568
Other operating expenses	1,383,259	1,076,456
Depreciation and amortization	1,294,883	1,252,640
Total operating expenses	33,093,187	27,660,472
Income from operations	20,914,381	17,680,805
Other income and (expense):		
Interest income	178,926	72,894
Interest expense	(66,507)	(167,946)
Income before income taxes	21,026,800	17,585,753
Provision for income taxes	8,146,075	6,855,736
Net income	$ 12,880,725	$ 10,730,017
Net income per common share		
Basic	$ 0.81	$ 0.68
Diluted	$ 0.80	$ 0.67
Weighted average number of shares outstanding		
Basic	15,993,208	15,871,563
Diluted	16,139,501	16,064,968

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

PORTFOLIO RECOVERY ASSOCIATES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
For the Three Months Ended March 31, 2007
(unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at December 31, 2006	$ 159,874	$ 115,527,975	$ 131,590,418	$ 247,278,267
Net income			12,880,725	12,880,725
Exercise of stock options and vesting of nonvested shares	87	67,150		67,237
Amortization of share-based compensation		526,606		526,606
Income tax benefit from share-based compensation		71,483		71,483
Adoption of FIN 48		190,000	(77,000)	113,000
Balance at March 31, 2007	$ 159,961	$ 116,383,214	$ 144,394,143	$ 260,937,318

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

PORTFOLIO RECOVERY ASSOCIATES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2007 and 2006
(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 12,880,725	$ 10,730,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of share-based compensation	526,606	431,817
Depreciation and amortization	1,294,883	1,252,640
Deferred tax expense	4,396,248	1,032,359
Changes in operating assets and liabilities:		
Other assets	(531,423)	(101,566)
Accounts payable	1,328,528	1,291,173
Income taxes	3,467,778	1,954,116
Accrued expenses	407,435	2,276,268
Accrued payroll and bonuses	(2,041,785)	(1,858,619)
Net cash provided by operating activities	21,728,995	17,008,205
Cash flows from investing activities:		
Purchases of property and equipment	(1,812,522)	(1,068,284)
Acquisition of finance receivables, net of buybacks	(38,964,209)	(15,318,806)
Collections applied to principal on finance receivables	21,843,293	19,116,097
Net cash (used in)/provided by investing activities	(18,933,438)	2,729,007
Cash flows from financing activities:		
Proceeds from exercise of options and warrants	67,237	1,418,901
Income tax benefit from share-based compensation	71,483	1,365,461
Principal payments on lines of credit		(15,000,000)
Principal payments on long-term debt	(118,213)	(116,604)
Principal payments on capital lease obligations	(34,270)	(38,117)
Net cash used in financing activities	(13,763)	(12,370,359)
Net increase in cash and cash equivalents	2,781,794	7,366,853

Cash and cash equivalents, beginning of period		25,100,834		15,984,855
Cash and cash equivalents, end of period	$	27,882,628	$	23,351,708
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	66,507	$	200,776
Cash paid for income taxes	$	86,900	$	2,503,800
Noncash investing and financing activities:				
SFAS 123R adoption reclass of payroll liability to additional paid in capital	$		$	426,752

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

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

1. Organization and Business:

Portfolio Recovery Associates, LLC (PRA) was formed on March 20, 1996. Portfolio Recovery Associates, Inc. (PRA Inc) was formed in August 2002. On November 8, 2002, PRA Inc completed its initial public offering (IPO) of common stock. As a result, all of the membership units and warrants of PRA were exchanged on a one to one basis for warrants and shares of a single class of common stock of PRA Inc. PRA Inc owns all outstanding membership units of PRA, PRA Holding I, LLC (PRA Holding I), PRA Holding II, LLC (PRA Holding II), PRA Receivables Management, LLC (d/b/a Anchor Receivables Management) (Anchor), PRA Location Services, LLC (d/b/a IGS Nevada) (IGS) and PRA Government Services, LLC (d/b/a Alatax and RDS) (RDS). One of PRA Inc s wholly owned subsidiaries, Thomas West Associates, LLC (TWA), was dissolved as an entity on May 8, 2006. PRA Inc, a Delaware corporation, and its subsidiaries (collectively, the Company) are full-service providers of outsourced receivables management and related services. The Company is engaged in the business of purchasing, managing and collecting portfolios of defaulted consumer receivables as well as offering a broad range of accounts receivable management services. The majority of the Company s business activities involve the purchase, management and collection of defaulted consumer receivables. These are purchased from sellers of finance receivables and collected by a highly skilled staff whose purpose is to locate and contact customers and arrange payment or resolution of their debts. The Company, through its Legal Recovery Department, collects accounts judicially, either by using its own attorneys, or by contracting with independent attorneys throughout the country through whom the Company takes legal action to satisfy consumer debts. The Company also services receivables on behalf of clients on either a commission or transaction-fee basis. Clients include entities in the financial services, auto, retail, utility, health care and government sectors. Services provided to these clients include standard collection services on delinquent accounts, obtaining location information for clients in support of their collection activities (known as skip tracing), and the management of both delinquent and non-delinquent tax receivables for government entities.

The consolidated financial statements of the Company include the accounts of PRA Inc, PRA, PRA Holding I, PRA Holding II, Anchor, IGS and RDS.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and, therefore, do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company s balance sheet as of March 31, 2007, its income statements for the three months ended March 31, 2007 and 2006, its statements of changes in stockholders equity for the three months ended March 31, 2007 and its statements of cash flows for the three months ended March 31, 2007 and 2006, respectively. The income statement of the Company for the three months ended March 31, 2007 may not be indicative of future results. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K, as filed for the year ended December 31, 2006.

2. Finance Receivables, net:

The Company s principal business consists of the acquisition and collection of accounts that have experienced deterioration of credit quality between origination and the Company s acquisition of the accounts. The amount paid for an account reflects the Company s determination that it is probable the Company will be unable to collect all amounts due according to the account s contractual terms. At acquisition, the Company reviews each account to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Company will be unable to collect all amounts due according to the account s contractual terms. If both conditions exist, the Company determines whether each such account is to be accounted for individually or whether such accounts will be assembled into pools based on common risk characteristics. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio and subsequently aggregated pools of accounts.

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

The Company determines the excess of the pool s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference) based on the Company s proprietary acquisition models. The remaining amount, representing the excess of the account s cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables over the remaining life of the account or pool (accretable yield).

Prior to January 1, 2005, the Company accounted for its investment in finance receivables using the interest method under the guidance of Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans. Effective January 1, 2005, the Company adopted and began to account for its investment in finance receivables using the interest method under the guidance of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, Accounting for Loans or Certain Securities Acquired in a Transfer. For loans acquired in fiscal years beginning prior to December 15, 2004, Practice Bulletin 6 is still effective; however, Practice Bulletin 6 was amended by SOP 03-3 as described further in this note. For loans acquired in fiscal years beginning after December 15, 2004, SOP 03-3 is effective. Under the guidance of SOP 03-3 (and the amended Practice Bulletin 6), static pools of accounts are established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost, which includes certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). SOP 03-3 (and the amended Practice Bulletin 6) requires that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of revenue or expense or on the balance sheet. SOP 03-3 initially freezes the internal rate of return, referred to as IRR, estimated when the accounts receivable are purchased as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio s remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Effective for fiscal years beginning after December 15, 2004 under SOP 03-3 (and the amended Practice Bulletin 6), rather than lowering the estimated IRR 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 IRR and is shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting the finance receivables, net, on the balance sheet. Income on finance receivables is accrued quarterly based on each static pool s effective IRR. Quarterly cash flows greater than the interest accrual will reduce the carrying value of the static pool. Likewise, cash flows that are less than the accrual will accrete the carrying balance. The IRR is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using the Company s proprietary collection models. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received. Additionally, the Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. These pools are not aggregated with other portfolios. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the portfolio, or until such time that the Company considers the collections to be probable and estimable and begins to recognize income based on the interest method as described above. At March 31, 2007 and 2006, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of $1,174,200 and $3,093,322, respectively.

The Company establishes valuation allowances for all acquired accounts subject to SOP 03-3 to reflect only those losses incurred after acquisition (that is, the present value of cash flows initially expected at acquisition that are no longer expected to be collected). Valuation allowances are established only subsequent to acquisition of the accounts. At March 31, 2007 and 2006, the Company had an allowance against its finance receivables of $1,665,000 and $375,000, respectively. Prior to January 1, 2005, in the event that a reduction of the yield to as low as zero in conjunction with estimated future cash collections that were inadequate to amortize the carrying balance, an allowance charge would be taken with a corresponding write-off of the receivable balance.

The Company capitalizes certain fees paid to third parties related to the direct acquisition of a portfolio of accounts. These fees are added to the acquisition cost of the portfolio and accordingly are amortized over the life of the portfolio using the interest method. The balance of the unamortized capitalized fees at March 31, 2007 and 2006 was $1,413,891 and $979,426, respectively.

PORTFOLIO RECOVERY ASSOCIATES, INC.
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During the three months ended March 31, 2007 and 2006, the Company capitalized $244,104 and $98,043, respectively, of these direct acquisition fees. During the three months ended March 31, 2007 and 2006, the Company amortized $152,602 and $146,686, respectively, of these direct acquisition fees.

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

Changes in finance receivables, net for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance at beginning of period	$ 226,447,495	$ 193,644,670
Acquisitions of finance receivables, net of buybacks	38,964,209	15,318,806
Cash collections	(67,308,908)	(58,489,506)
Income recognized on finance receivables, net	45,465,615	39,373,409
Cash collections applied to principal	(21,843,293)	(19,116,097)
Balance at end of period	$ 243,568,411	$ 189,847,379

At the time of acquisition, the life of each pool is generally estimated to be between 72 to 96 months based on projected amounts and timing of future cash receipts using the proprietary models of the Company. As of March 31, 2007, the Company had $243,568,411 in net finance receivables. Based upon current projections, cash collections applied to principal are estimated to be as follows for the twelve months in the periods ending:

March 31, 2008	$ 59,614,078
March 31, 2009	53,746,488
March 31, 2010	45,445,782
March 31, 2011	37,190,637
March 31, 2012	29,500,796
March 31, 2013	18,070,630
	$ 243,568,411

During the three months ended March 31, 2007 and 2006, the Company purchased $2.30 billion and $3.87 billion of face value of charged-off consumer receivables. At March 31, 2007, the estimated remaining collections on the receivables purchased in the three months ended March 31, 2007 and 2006, were $90,270,183 and $16,798,484, respectively.

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

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of March 31, 2007 and 2006. Reclassifications from nonaccretable difference to accretable yield primarily result from the Company s increase in its estimate of future cash flows. Changes in accretable yield for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance at beginning of period	$ 326,775,399	$ 299,280,328
Income recognized on finance receivables, net	(45,465,615)	(39,373,409)
Additions	52,214,563	16,016,515
Reclassifications from nonaccretable difference	21,001,731	12,537,509
Balance at end of period	$ 354,526,078	$ 288,460,943

During the three months ended March 31, 2007 and 2006, the Company recorded $610,000 and $175,000, respectively, in allowance charges on pools that had recently underperformed expectations. During the three months ended March 31, 2007, the Company reversed $245,000 of allowance charges recorded in prior periods. The change in the valuation allowance for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance at beginning of period	$ 1,300,000	$ 200,000
Allowance charges recorded	610,000	175,000
Reversal of previously recorded allowance charges	(245,000)	
Change in allowance charge	365,000	175,000
Balance at end of period	$ 1,665,000	$ 375,000

3. Revolving Lines of Credit:

On November 29, 2005, the Company entered into a Loan and Security Agreement for a revolving line of credit jointly offered by Bank of America, N. A. and Wachovia Bank, National Association. The agreement was amended on May 9, 2006 to include RBC Centura Bank as an additional lender. The agreement is a revolving line of credit in an amount equal to the lesser of $75,000,000 or 20% of the Company s estimated remaining collections of all its eligible asset pools. Borrowings under the revolving credit facility bear interest at a floating rate equal to the LIBOR Market Index Rate plus 1.75% and the facility expires on November 29, 2008. The loan is collateralized by substantially all the tangible and intangible assets of the Company. The agreement provides for:

restrictions on monthly borrowings are limited to 20% of estimated remaining collections;

a funded debt to EBITDA ratio of less than 1.0 to 1.0 calculated on a rolling twelve-month average;

tangible net worth of at least 100% of prior quarter tangible net worth plus 25% of cumulative positive net income since the end of such fiscal quarter, plus 100% of the net proceeds from any equity offering; and restrictions on change of control.

The facility had no amounts outstanding as of March 31, 2007. As of March 31, 2007, the Company is in compliance with all of the covenants of the agreement.

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

4. Long-Term Debt:

On February 20, 2002, the Company completed the construction of a satellite parking lot at its Norfolk, Virginia location. The parking lot was financed with a commercial loan for $500,000 with a fixed rate of 6.47%. The loan is collateralized by the parking lot. The loan required only interest payments during the first six months. Beginning October 1, 2002, monthly payments on the loan are $9,797 and the loan matures on September 1, 2007.

On May 1, 2003, the Company secured financing for its computer equipment purchases related to the Hampton, Virginia office opening. The computer equipment was financed with a commercial loan for $975,000 with a fixed rate of 4.25%. This loan is collateralized by computer equipment. Monthly payments are $18,096 and the loan matures on May 1, 2008.

On January 9, 2004, the Company entered into a commercial loan agreement in the amount of $750,000 to finance equipment purchases at one of its leased Norfolk facilities. This loan bears interest at a fixed rate of 4.45% and is collateralized by the purchased equipment. Monthly payments are $13,975 and the loan matures on January 1, 2009.

These outstanding loans are collateralized by the related asset and are subject to the following covenants:

net worth greater than $20,000,000, and;

a cash flow coverage ratio of at least 1.5 to 1 calculated on a rolling twelve-month average.

As of March 31, 2007, the Company is in compliance with all the covenants of these agreements.

5. Property and Equipment, net:

Property and equipment, at cost, consist of the following as of the dates indicated:

	March 31, 2007	December 31, 2006
Software	$ 5,023,559	$ 5,007,449
Computer equipment	4,901,420	4,467,524
Furniture and fixtures	2,991,034	2,716,723
Equipment	3,908,782	3,802,427
Leasehold improvements	1,863,005	1,842,402
Building and improvements	4,224,877	3,282,620
Land	939,264	930,263
Less accumulated depreciation and amortization	11,650,659	10,856,434
Property and equipment, net	$ 12,201,282	$ 11,192,974

Depreciation and amortization expense for the three months ended March 31, 2007 and 2006 was $804,214 and $685,477, respectively.

Beginning in July 2006 upon initiation of certain internally developed software projects, in accordance with the provisions of SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company began capitalizing qualifying computer software costs incurred during the application development stage and amortizing them over their estimated useful life of three years on a straight-line basis beginning when the project is completed. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company s policy provides for the capitalization of certain direct payroll costs for employees who are directly associated with internal use computer software projects, as well as external direct costs of services associated with developing or obtaining internal use software.

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

Capitalizable personnel costs are limited to the time directly spent on such projects. As of March 31, 2007, the Company has incurred and capitalized $248,738 of these direct payroll costs related to software developed for internal use. Of these costs, $182,486 is for projects that are in the development stage and therefore are a component of Other Assets. Once the projects are completed the costs will be transferred to Software and amortized over their estimated useful life of three years. Amortization expense and remaining unamortized costs relating to this internally developed software for the three months ended March 31, 2007 was $5,521 and $60,731, respectively.

6. Intangible Assets, net:

With the acquisition of IGS on October 1, 2004 and RDS on July 29, 2005, the Company purchased certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements and goodwill. In accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS 142), the Company is amortizing the IGS client relationships over seven years, the RDS customer relationships over ten years and the non-compete agreements over three years for both the IGS and RDS acquisitions, with a combined original weighted average amortization period of 7.54 years. The Company reviews these relationships at least annually for impairment. Total amortization expense was $490,669 and $567,163 for the three months ended March 31, 2007 and 2006, respectively. In addition, goodwill, pursuant to SFAS 142, is not amortized but rather is reviewed at least annually for impairment. During the fourth quarter of 2006, the Company underwent its annual review of goodwill. Based upon the results of this review, which was conducted as of October 1, 2006, no impairment charges to goodwill or the other intangible assets were necessary as of the date of this review. The Company believes th