PRA GROUP INC
Form 10-Q
November 10, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014.

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

For the transition period from to

Commission File Number: 000-50058

PRA Group, 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 ý 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 ý NO ¨

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

Large accelerated filer	ý	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 ý

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

Class	Outstanding as of November 6, 2014
Common Stock, $0.01 par value	50,079,501

PRA GROUP, INC.
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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
CONSOLIDATED BALANCE SHEETS
September 30, 2014 and December 31, 2013
(unaudited)
(Amounts in thousands, except per share amounts)

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$70,300	$162,004
Finance receivables, net	1,913,710	1,239,191
Other receivables, net	18,217	12,359
Income taxes receivable	11,506	11,710
Net deferred tax asset	4,639	1,361
Property and equipment, net	45,969	31,541
Goodwill	594,401	103,843
Intangible assets, net	12,315	15,767
Other assets	86,372	23,456
Total assets	$2,757,429	$1,601,232
Liabilities and Equity		
Liabilities:		
Accounts payable	$15,352	$14,819
Accrued expenses and other liabilities	65,294	27,655
Income taxes payable	5,547	—
Accrued compensation	21,466	27,431
Net deferred tax liability	237,201	210,071
Interest-bearing deposits	27,300	—
Borrowings	1,425,409	451,780
Total liabilities	1,797,569	731,756
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, par value $0.01, authorized shares, 2,000, issued and outstanding shares - 0	—	—
Common stock, par value $0.01, 100,000 authorized shares, 50,077 issued and outstanding shares at September 30, 2014, and 49,840 issued and outstanding shares at December 31, 2013	501	498
Additional paid-in capital	141,490	135,441
Retained earnings	859,019	729,505
Accumulated other comprehensive (loss)/income	(41,150)	4,032
Total stockholders' equity	959,860	869,476
Total liabilities and equity	$2,757,429	$1,601,232

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

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PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
CONSOLIDATED INCOME STATEMENTS
For the three and nine months ended September 30, 2014 and 2013
(unaudited)
(Amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Income recognized on finance receivables, net	$224,326	$171,456	$584,814	$494,818
Fee income	12,882	26,306	43,659	55,464
Other revenue	1,765	—	1,765	—
Total revenues	238,973	197,762	630,238	550,282
Operating expenses:				
Compensation and employee services	65,237	52,882	169,083	146,081
Legal collection fees	13,778	10,206	35,982	31,343
Legal collection costs	20,367	19,801	72,329	63,020
Agency fees	5,988	1,404	8,902	4,293
Outside fees and services	17,221	8,707	40,125	24,789
Communications	8,907	6,645	26,019	21,398
Rent and occupancy	3,018	1,950	7,384	5,462
Depreciation and amortization	4,949	3,753	13,107	10,653
Other operating expenses	11,311	6,549	25,068	17,665
Impairment of goodwill	—	6,397	—	6,397
Total operating expenses	150,776	118,294	397,999	331,101
Income from operations	88,197	79,468	232,239	219,181
Other income and (expense):				
Interest income	—	—	2	—
Interest expense	(11,808)	(3,995)	(21,736)	(9,607)
Foreign exchange gain/(loss)	3,251	—	(2,961)	—
Income before income taxes	79,640	75,473	207,544	209,574
Provision for income taxes	28,473	26,262	78,030	78,432
Net income	$51,167	$49,211	$129,514	$131,142
Adjustment for net income attributable to redeemable noncontrolling interest	—	1,873	—	1,605
Net income attributable to PRA Group, Inc.	$51,167	$47,338	$129,514	$129,537
Net income per common share attributable to PRA Group, Inc:				
Basic	$1.02	$0.94	$2.59	$2.56
Diluted	$1.01	$0.93	$2.57	$2.54
Weighted average number of shares outstanding:				
Basic	50,075	50,154	50,023	50,571
Diluted	50,439	50,660	50,413	51,039

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

PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended September 30, 2014 and 2013
(unaudited)
(Amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$51,167	$49,211	$129,514	$131,142
Other comprehensive (loss)/income:				
Foreign currency translation adjustments	(47,541)	4,425	(45,182)	1
Total other comprehensive (loss)/income	(47,541)	4,425	(45,182)	1
Comprehensive income	3,626	53,636	84,332	131,143
Comprehensive income attributable to noncontrolling interest	—	1,873	—	1,605
Comprehensive income attributable to PRA Group, Inc.	$3,626	$51,763	$84,332	$129,538

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

PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2014
(unaudited)
(Amounts in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity
Balance at December 31, 2013	49,840	$498	$135,441	$729,505	$ 4,032	$869,476
Components of comprehensive income:						
Net income attributable to PRA Group, Inc.	—	—	—	129,514	—	129,514
Foreign currency translation adjustment	—	—	—	—	(45,182)	(45,182)
Vesting of nonvested shares	237	3	(3)	—	—	—
Amortization of share-based compensation	—	—	9,456	—	—	9,456
Income tax benefit from share-based compensation	—	—	4,159	—	—	4,159
Employee stock relinquished for payment of taxes	—	—	(7,563)	—	—	(7,563)
Balance at September 30, 2014	50,077	$501	$141,490	$859,019	$ (41,150)	$959,860

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

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PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2014 and 2013
(unaudited)
(Amounts in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$129,514	$131,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of share-based compensation	9,456	10,209
Depreciation and amortization	13,107	10,653
Impairment of goodwill	—	6,397
Amortization of debt discount	3,027	525
Amortization of debt fair value	(3,595)	—
Deferred tax expense	31,055	2,359
Changes in operating assets and liabilities:		
Other assets	1,622	(1,147)
Other receivables	4,225	(1,497)
Accounts payable	(16,507)	2,237
Income taxes receivable/payable, net	(111)	(5,062)
Accrued expenses	11,205	8,604
Accrued compensation	(13,504)	7,660
Net cash provided by operating activities	169,494	172,080
Cash flows from investing activities:		
Purchases of property and equipment	(16,513)	(9,913)
Acquisition of finance receivables, net of buybacks	(412,740)	(546,201)
Collections applied to principal on finance receivables	420,570	368,693
Business acquisitions, net of cash acquired	(851,183)	—
Net cash used in investing activities	(859,866)	(187,421)
Cash flows from financing activities:		
Income tax benefit from share-based compensation	4,159	2,742
Proceeds from lines of credit	485,000	217,000
Principal payments on lines of credit	(48,500)	(344,000)
Repurchases of common stock	—	(58,511)
Cash paid for purchase of portion of noncontrolling interest	—	(1,150)
Distributions paid to noncontrolling interest	—	(51)
Principal payments on long-term debt	(7,500)	(4,109)
Proceeds from long-term debt	169,938	—
Net increase in interest-bearing deposits	51	—
Proceeds from convertible debt, net	—	279,285
Net cash provided by financing activities	603,148	91,206
Effect of exchange rate on cash	(4,480)	153
Net (decrease)/increase in cash and cash equivalents	(91,704)	76,018
Cash and cash equivalents, beginning of period	162,004	32,687
Cash and cash equivalents, end of period	$70,300	$108,705
Supplemental disclosure of cash flow information:		
Cash paid for interest	$21,097	$9,333
Cash paid for income taxes	41,682	78,434

Supplemental disclosure of non-cash information:		
Adjustment of the redeemable noncontrolling interest measurement amount	$—	$393
Distributions payable relating to the redeemable noncontrolling interest	—	1,237
Purchase of redeemable noncontrolling interest	—	9,162
Employee stock relinquished for payment of taxes	(7,563)	(4,103)

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

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PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Business:

Throughout this report, the terms "PRA Group," "our," "we," "us," the "Company" or similar terms refer to PRA Group, Inc. and its subsidiaries (formerly known as Portfolio Recovery Associates, Inc.).

PRA Group, Inc., a Delaware corporation, and its subsidiaries, is a financial and business service company operating in North America and Europe. The Company’s primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. The Company also services receivables on behalf of clients, provides business tax revenue administration, audit, discovery and recovery services for state and local governments in the U.S. and provides class action claims settlement recovery services and related payment processing to corporate clients.

On July 1, 2014, the Company acquired certain operating assets from Pamplona Capital Management, LLP ("PCM"). These assets include PCM’s IVA ("Individual Voluntary Arrangement") Master Servicing Platform as well as other operating assets associated with PCM’s IVA business. The purchase price of these assets was approximately $5 million and was paid from the Company’s existing cash balances. The Company's consolidated income statements and statements of comprehensive income include the results of operations of PCM for the period from July 1, 2014 through September 30, 2014.

On July 16, 2014, the Company completed the purchase of the outstanding 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 a purchase price of approximately $861.3 million, and assumed approximately $433.7 million of Aktiv’s corporate debt, resulting in an acquisition of estimated total enterprise value of $1.3 billion. The Company's consolidated income statements and statements of comprehensive income include the results of operations of Aktiv for the period from July 16, 2014 through September 30, 2014.

A publicly traded company from 1997 until early 2012 (traded on the Oslo Stock Exchange under the symbol "AIK"), Aktiv has developed a mixed in-house and outsourced collection strategy. This acquisition has provided the Company entry into thirteen new markets, providing additional geographical diversity in portfolio purchasing and collection. Aktiv 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. Refer to Note 12 "Business Acquisitions" for more information.

The consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Under the guidance of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 280 “Segment Reporting” (“ASC 280”), the Company has determined that it has several operating segments that meet the aggregation criteria of ASC 280, and, therefore, it has one reportable segment, accounts receivable management, based on similarities among the operating units including the nature of the products and services, the nature of the production processes, the types or class of customer for their products and services, the methods used to distribute their products, and services and the nature of the regulatory environment.

The following table shows the amount of revenue generated for the three and nine months ended September 30, 2014 and 2013 and long-lived assets held at September 30, 2014 and 2013 for the United States, the Company's country of domicile, and outside of the United States (amounts in thousands):

	As Of And For The Three Months Ended September 30, 2014		As Of And For The Three Months Ended September 30, 2013	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets

United States	$188,134	$35,411	$194,769	$26,289
Outside the United States	50,839	10,558	2,993	1,770
Total	$238,973	$45,969	$197,762	$28,059

	As Of And For The Nine Months Ended September 30, 2014		As Of And For The Nine Months Ended September 30, 2013	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	$573,048	$35,411	$542,048	$26,289
Outside the United States	57,190	10,558	8,234	1,770
Total	$630,238	$45,969	$550,282	$28,059

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PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
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(unaudited)

Revenues are attributed to countries based on the location of the related operations. Long-lived assets consist of net property and equipment.
The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC") and, therefore, do not include all information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's consolidated balance sheet as of September 30, 2014, its consolidated income statements and statements of comprehensive income for the three and nine months ended September 30, 2014 and 2013, its consolidated statement of changes in stockholders' equity for the nine months ended September 30, 2014, and its consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013. The consolidated income statements of the Company for the three and nine months ended September 30, 2014 may not be indicative of future results. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2013 Annual Report on Form 10-K, filed on February 28, 2014.

2. Finance Receivables, net:
Changes in finance receivables, net for the three and nine months ended September 30, 2014 and 2013 were as follows (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$1,219,595	$1,236,859	$1,239,191	$1,078,951
Acquisitions of finance receivables [1]	894,779	138,854	1,146,947	546,201
Foreign currency translation adjustment	(52,247)	1,304	(51,858)	363
Cash collections	(372,743)	(291,651)	(1,005,384)	(863,511)
Income recognized on finance receivables, net	224,326	171,456	584,814	494,818
Cash collections applied to principal	(148,417)	(120,195)	(420,570)	(368,693)
Balance at end of period	$1,913,710	$1,256,822	$1,913,710	$1,256,822

(1) Acquisitions of finance receivables are net of buybacks and include certain capitalized acquisition related costs. It also includes the acquisition date finance receivable portfolio that was acquired in connection with the Aktiv acquisition. Refer to Note 12 "Business Acquisitions" for more information.
At the time of acquisition, the life of each pool is generally estimated to be between 80 and 120 months based on projected amounts and timing of future cash collections using the proprietary models of the Company. At September 30, 2014, the weighted average remaining life of the Company's pools is estimated to be approximately 97 months. Based upon current projections, cash collections applied to principal on finance receivables as of September 30, 2014 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

September 30, 2015	$537,091
September 30, 2016	432,202
September 30, 2017	342,063

September 30, 2018	249,614
September 30, 2019	146,023
September 30, 2020	93,697
September 30, 2021	87,561
September 30, 2022	25,459
	$1,913,710

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(unaudited)

At September 30, 2014, the estimated remaining collections (“ERC”) on the receivables purchased in the three and nine months ended September 30, 2014, were $1.86 billion and $2.25 billion, respectively. At September 30, 2014, the ERC on the receivables purchased in the three and nine months ended September 30, 2013, were $184.2 million and $676.0 million, respectively. At September 30, 2014, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of $21.1 million; at December 31, 2013, the amount was $26.1 million.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company’s increase in its estimate of future cash flows. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company’s decrease in its estimates of future cash flows and allowance charges that exceed the Company’s increase in its estimate of future cash flows.

Changes in accretable yield for the three and nine months ended September 30, 2014 and 2013 were as follows (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$1,481,826	$1,400,906	$1,430,067	$1,239,674
Income recognized on finance receivables, net	(224,326)	(171,456)	(584,814)	(494,818)
Additions [(1)]	1,172,796	122,976	1,377,416	472,666
Net reclassifications from nonaccretable difference	84,074	63,031	290,431	201,823
Foreign currency translation adjustment	(59,040)	509	(57,770)	(3,379)
Balance at end of period	$2,455,330	$1,415,966	$2,455,330	$1,415,966

(1) Additions include the acquisition date accretable yield that was acquired in connection with the Aktiv acquisition. Refer to Note 12 "Business Acquisitions" for more information.

A valuation allowance is recorded for significant decreases in expected cash flows or a change in the expected timing of cash flows that would otherwise require a reduction in the stated yield on a pool of accounts. In any given period, the Company may be required to record valuation allowances due to pools of receivables underperforming previous expectations. Factors that may contribute to the recording of valuation allowances include both external and internal factors. External factors that may have an impact on the collectability, and subsequently on the overall profitability of purchased pools of defaulted consumer receivables, would include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors that may have an impact on the collectability, and subsequently the overall profitability of purchased pools of defaulted consumer receivables, would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relate to the collection and movement of accounts on both the collection floor of the Company and external channels), and decreases in productivity related to turnover and tenure of the Company’s collection staff. The following is a summary of activity within the Company’s valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three and nine months ended September 30, 2014 and 2013 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013

Beginning balance	$86,849	$94,111	$91,101	$93,123
Allowance charges	2,992	1,500	5,765	7,060
Reversal of previous recorded allowance charges	(4,690)	(4,081)	(11,715)	(8,653)
Net allowance reversals	(1,698)	(2,581)	(5,950)	(1,593)
Ending balance	$85,151	$91,530	$85,151	$91,530

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PRA GROUP, INC.
(Formerly known as Portfolio Recovery Associates, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

3. Borrowings:

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

	September 30, 2014	December 31, 2013
Domestic revolving credit	$436,500	$—
Domestic term loan	187,500	195,000
Seller note payable	169,938	—
Aktiv revolving credit	239,680	—
Aktiv term loan	79,712	—
Aktiv multicurrency term loan bridge facility	22,833	—
Aktiv subordinated loan	29,439	—
Convertible senior notes	287,500	287,500
Less: Debt discount	(27,693)	(30,720)
Total	$1,425,409	$451,780

Domestic Revolving Credit and Term Loan

On December 19, 2012, the Company entered into a credit facility with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the "Credit Agreement"). The credit facility contained an accordion loan feature that allowed the Company to request an increase of up to $214.5 million in the amount available for borrowing under the facility, whether from existing or new lenders, subject to terms of the Credit Agreement. The Credit Agreement was amended and modified during 2013. On April 1, 2014, the Company entered into a Lender Joinder Agreement and Lender Commitment Agreement (collectively, the "Commitment Increase Agreements") to exercise the accordion feature. The Commitment Increase Agreements expanded the maximum amount of revolving credit availability under the Credit Agreement by $214.5 million, by elevating the revolving credit commitments of certain lenders and added three new lenders to the Credit Agreement. Giving effect to the $214.5 million increase in the amount of revolving credit availability pursuant to the Commitment Increase Agreements, the total credit facility under the Credit Agreement now includes an aggregate principal amount of $837.5 million (subject to compliance with a borrowing base and applicable debt covenants), which consists of (i) a fully-funded $187.5 million term loan, (ii) a $630 million domestic revolving credit facility, of which $193.5 million is available to be drawn, and (iii) a $20 million multi-currency revolving credit facility, of which $20 million is available to be drawn. The facilities all mature on December 19, 2017. The term and revolving loans accrue interest, at the option of the Company, at either the base rate or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.50% per annum in the case of the Eurodollar rate loans and 1.50% in the case of the base rate loans. The base rate is the highest of (a) the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%. The Company's revolving credit facility includes a $20 million swingline loan sublimit, a $20 million letter of credit sublimit and a $20 million alternative currency equivalent sublimit.

Effective June 5, 2014, the Company entered into a Third Amendment to the Credit Agreement to amend a provision of the Credit Agreement to increase a basket for permitted indebtedness for the issuance of senior, unsecured convertible notes or other unsecured financings from an aggregate amount not to exceed $300 million to an aggregate amount not to exceed $500 million (without respect to the Company's 3.00% Convertible Senior Notes due 2020).

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

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

consolidated tangible net worth (as defined in the Credit Agreement) must equal or exceed $455.1 million plus 50% of positive cumulative consolidated net income for each fiscal quarter beginning with the quarter ended December 31, 2012, plus 50% of the cumulative net proceeds of any equity offering;

- capital expenditures during any fiscal year cannot exceed $40 million;
- cash dividends and distributions during any fiscal year cannot exceed $20 million;

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(unaudited)

- stock repurchases during the term of the agreement cannot exceed $250 million and cannot exceed $100 million in a single fiscal year;
- investments in loans and/or capital contributions cannot exceed $950 million to consummate the acquisition of the equity of Aktiv;
- permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed $250 million except for the fiscal year ending December 31, 2014, during which fiscal year permitted acquisitions (excluding the Aktiv acquisition) cannot exceed $25 million;
- indebtedness in the form of senior, unsecured convertible notes or other unsecured financings cannot exceed $500 million in the aggregate (without respect to the Company’s 3.00% Convertible Senior Notes due 2020);
- the Company must maintain positive consolidated income from operations (as defined in the Credit Agreement) during any fiscal quarter; and
- restrictions on changes in control.

The revolving credit facility also bears an unused line fee of 0.375% per annum, payable quarterly in arrears.
The Company's borrowings on this credit facility at September 30, 2014 consisted of $187.5 million outstanding on the term loan with an annual interest rate as of September 30, 2014 of 2.65% and $436.5 million outstanding in 30-day Eurodollar rate loans on the revolving facility with a weighted average interest rate of 2.65%. At December 31, 2013, the Company's borrowings on this credit facility consisted of $195.0 million outstanding on the term loan with an annual interest rate as of December 31, 2013 of 2.67%.

Seller Note Payable

In conjunction with the closing of the Aktiv business acquisition on July 16, 2014, the Company entered into a $169.9 million promissory note (the "Seller Note") with an affiliate of the seller. The Seller Note bears interest at the three-month London Interbank Offered Rate (“LIBOR”) plus 3.75% and matures on July 16, 2015. The quarterly interest due can be paid or rolled into the Seller Note balance at the Company's option. On September 30, 2014, the Company paid the first quarterly interest payment that was due of $1.4 million. At September 30, 2014, the balance due on the Seller Note was $169.9 million with an annual interest rate of 3.99%.

Aktiv Revolving Credit

On May 4, 2012, Aktiv entered into a credit agreement with DNB Bank ASA for a Revolving Credit Facility (“the Aktiv Revolving Credit Agreement”). Under the terms of the Aktiv Revolving Credit Agreement the credit facility included an aggregate amount of up to NOK 1,500,000,000 (approximately $232 million), including an option of NOK 500,000,000 (approximately $77 million). The Aktiv revolving credit facility accrued interest at the Interbank Offered Rate ("IBOR") plus 3.00%, beared an unused fee of 1.2% per annum, payable monthly in arrears, and matured on October 28, 2014. At maturity, any outstanding balances owed on this facility were automatically transferred to the Multicurrency Revolving Credit Facility Agreement as described in Note 14 "Subsequent Event." At September 30, 2014, the balance on the Aktiv revolving credit facility was $239.7 million, with an annual interest rate of 3.53%. Due to fluctuations in foreign exchange rates, Aktiv's borrowings under this facility exceeded the facility limit. Aktiv requested and received a waiver from the lender which allowed them to be in excess of the limit until the facility matured on October 28, 2014.

Aktiv Term Loan

On March 29, 2011, Aktiv entered into a credit agreement with DNB Bank ASA for a Term Loan Facility (“the Aktiv Term Loan Credit Agreement”). Under the terms of the Aktiv Term Loan Credit Agreement, the credit facility included an aggregate amount of NOK 2,000,000,000 (approximately $310 million) in four different currencies. The Aktiv term loan credit facility accrued interest at the IBOR plus 2.25% - 2.75% (as determined by the Borrowing Base Ratio as defined in the Aktiv Term Loan Credit Agreement), and matured on October 28, 2014. At maturity, any outstanding balances owed on this facility were automatically transferred to the Multicurrency Revolving Credit Facility Agreement as described in Note 14 "Subsequent Event."

At September 30, 2014, the balance on the Aktiv term loan credit facility was $79.7 million, with an annual interest rate of 2.66%.

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Aktiv Multicurrency Term Loan Bridge Facility
On June 24, 2014, Aktiv entered into a credit agreement with DNB Bank ASA for a Multicurrency Term Loan Bridge Facility (“the Aktiv Bridge Loan Credit Agreement”). Under the terms of the Aktiv Bridge Loan Credit Agreement the credit facility included an aggregate amount of NOK 350,000,000 (approximately $54 million). The Aktiv bridge loan credit facility accrued interest at the IBOR plus 4%, beared an unused line fee of 0.35% per annum, payable quarterly in arrears, is subordinated to the Aktiv revolving and term loan credit facilities, and matured on October 28, 2014. At maturity, any outstanding balances owed on this facility were automatically transferred to the Multicurrency Revolving Credit Facility Agreement as described in Note 14 "Subsequent Event."

At September 30, 2014, the balance on the Aktiv bridge loan credit facility was $22.8 million, with an annual interest rate of 4.22%.
The Aktiv Revolving Credit Agreement, the Aktiv Term Loan Agreement and the Aktiv Multicurrency Term Loan Bridge Agreement are all secured by i) the shares of most of the subsidiaries of Aktiv ii) all intercompany loans to its subsidiaries and iii) most of the portfolios held by its various subsidiaries. They also contain restrictive covenants and events of default including the following:

- borrowing base may not exceed 65% of portfolio book value for portfolios leveraged under the Aktiv Revolving Credit Facility
- borrowing base may not exceed 50% of portfolio book value for portfolios leveraged under the Aktiv Term Loan Facility
- the debt service-coverage ratio (as defined in the Aktiv Revolving and Term Loan Credit Agreements) must exceed 1.1 to 1.0 as of the end of any fiscal quarter;
- the leverage ratio (as defined in the Aktiv Revolving and Term Loan Credit Agreements) cannot exceed 3.5 to 1.0 as of the end of any fiscal quarter;
- interest bearing deposits in AK Nordic AB cannot exceed SEK 200,000,000 (approximately $28 million);
- cash collections must exceed 100% of Aktiv's IFRS forecast.

Aktiv Subordinated Loan
On December 16, 2011, Aktiv entered into a subordinated loan agreement with Metrogas Holding Inc., an affiliate with Geveran Trading Co. Ltd. Under the terms of the subordinated loan agreement (the “Commitment”), Aktiv is able to drawdown a commitment in the aggregate amount of up to NOK 200,000,000 (approximately $31 million) for a period of 90 days from the date of the agreement (the “Availability Period”). Aktiv may draw all or a part of the Commitment in the Availability Period, and may utilize the Commitment in up to three drawdowns. The Commitment bears interest at LIBOR plus 3.75%. The maturity date is January 16, 2016. The Commitment does not contain any covenants.

As of September 30, 2014, the balance on the Aktiv subordinated loan was $29.4 million, with an annual interest rate of 3.99%.

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

Notes will be convertible only upon the occurrence of specified events. On or after February 1, 2020, the Notes will be convertible at any time. Upon conversion, the Notes may be settled, at the Company's option, in cash, shares of the Company's common stock, or any combination thereof. Holders of the Notes have the right to require the Company to repurchase all or some of their Notes at 100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the Indenture). In addition, upon the occurrence of a make-whole fundamental change (as defined in the Indenture), the Company may, under certain circumstances, be required to increase the conversion rate for the Notes converted in connection with such a make-whole fundamental change. The conversion rate for the Notes is initially 15.2172 shares per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $65.72 per share of the Company's common stock, and is subject to adjustment in certain circumstances pursuant to the Indenture. The Company does not have the right to redeem the Notes prior to maturity. As of September 30, 2014, none of the conditions allowing holders of the Notes to convert their Notes had occurred.

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

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

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

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

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

	September 30, 2014	December 31, 2013
Liability component - principal amount	$287,500	$287,500
Unamortized debt discount	(27,693)	(30,720)
Liability component - net carrying amount	259,807	256,780
Equity component	$31,306	$31,306

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

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest expense - stated coupon rate	$2,156	$1,150	$6,469	$1,150
Interest expense - amortization of debt discount	1,023	525	3,027	525
Total interest expense - convertible notes	$3,179	$1,675	$9,496	$1,675

The Company was in compliance with all covenants under its financing arrangements as of December 31, 2013. As of September 30, 2014, the Company was in compliance with all covenants under its financing arrangements with the exception of certain of the Aktiv credit agreements, for which the Company requested and received waivers as described above under the caption, Aktiv Revolving Credit, and in Note 14, "Subsequent Event."

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The following principal payments are due on the Company's borrowings as of September 30, 2014 for the twelve month periods ending (amounts in thousands):

September 30, 2015	$555,352
September 30, 2016	18,750
September 30, 2017	35,000
September 30, 2018	556,500
September 30, 2019	—
Thereafter	287,500
Total	$1,453,102

4. Property and Equipment, net:

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

	September 30, 2014	December 31, 2013
Software	$52,377	$34,108
Computer equipment	21,365	17,072
Furniture and fixtures	10,937	8,616
Equipment	13,606	10,351
Leasehold improvements	13,497	11,147
Building and improvements	7,044	7,026
Land	1,269	1,269
Accumulated depreciation and amortization	(74,126)	(58,048)
Property and equipment, net	$45,969	$31,541

Depreciation and amortization expense relating to property and equipment for the three and nine months ended September 30, 2014, was $3.6 million and $9.5 million, respectively. Depreciation and amortization expense relating to property and equipment for the three and nine months ended September 30, 2013, was $2.6 million and $7.1 million, respectively.

The Company, in accordance with the guidance of FASB ASC Topic 350-40 “Internal-Use Software” (“ASC 350-40”), capitalizes qualifying computer software costs incurred during the application development stage and amortizes them over their estimated useful lives of three to seven years on a straight-line basis beginning when the project is completed. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company’s policy provides for the capitalization of certain direct payroll costs for employees who are directly associated with internal use computer software projects, as well as external direct costs of services associated with developing or obtaining internal use software. Capitalizable personnel costs are limited to the time directly spent on such projects. As of September 30, 2014 and December 31, 2013, the Company incurred and capitalized approximately $12.5 million and $10.3 million, respectively, of these direct payroll costs and external direct costs related to software developed for internal use. Of these costs, at September 30, 2014 and December 31, 2013, approximately $2.1 million and $1.7 million, respectively, were for projects that were in the development stage and, therefore are a component of “Other Assets.” Once the projects are completed, the costs are transferred to Software and amortized over their estimated useful lives. Amortization expense relating to these projects for the three and nine months ended September 30, 2014, was approximately $0.5 million and $1.4 million, respectively. Amortization expense relating to these projects for the three and nine months ended September 30, 2013, was approximately $0.4 million and $1.1 million, respectively. The remaining unamortized costs relating to internally developed software at September 30, 2014 and December 31, 2013 were approximately $4.9 million and $4.4 million, respectively.

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5. Goodwill and Intangible Assets, net:
In connection with the Company's business acquisitions, the Company acquired certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements, trademarks and goodwill. Pursuant to ASC 350, goodwill is not amortized but rather is reviewed at least annually for impairment. The Company underwent its annual review of goodwill on October 1, 2013. Based upon the results of this review, no impairment charges to goodwill or other intangible assets were necessary. The Company believes that no events have occurred or circumstances have changed that would more likely than not reduce the fair value of a reporting unit below its carrying amount since the review was performed, and thereby necessitate further evaluation of goodwill or other intangible assets. The Company expects to perform its next annual goodwill review during the fourth quarter of 2014.

At September 30, 2014 and December 31, 2013, the carrying value of goodwill was $594.4 million and $103.8 million, respectively. The following table represents the changes in goodwill for the three and nine months ended September 30, 2014 and 2013 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$105,122	$106,953	$103,843	$109,488
Acquisition of Aktiv and PCM	512,049	—	512,049	—
Impairment of goodwill	—	(6,397)	—	(6,397)
Foreign currency translation adjustment	(22,770)	2,335	(21,491)	(200)
Balance at end of period	$594,401	$102,891	$594,401	$102,891

Goodwill recognized from the acquisitions of Aktiv and PCM represents, among other things, a significant dataset, portfolio modeling, an established workforce, the future economic benefits arising from expected synergies and expanded geographical diversity. The acquired goodwill is not deductible for U.S. income tax purposes. Refer to Note 12 "Business Acquisitions" for more information.

Intangible assets, excluding goodwill, consisted of the following at September 30, 2014 and December 31, 2013 (amounts in thousands):

	September 30, 2014		December 31, 2013	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Client and customer relationships	$35,683	$24,346	$40,870	$26,581
Non-compete agreements	627	546	3,880	3,723
Trademarks	3,474	2,577	3,491	2,170
Total	$39,784	$27,469	$48,241	$32,474

In accordance with ASC 350, the Company amortizes intangible assets over their estimated useful lives. Total intangible asset amortization expense for the three and nine months ended September 30, 2014 was $1.3 million and $3.5 million, respectively. Total intangible asset amortization expense for the three and nine months ended September 30, 2013 was $1.2 million and $3.5 million, respectively. The Company reviews these intangible assets for possible impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount and thereby necessitate further evaluation of these intangible assets.

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6. Share-Based Compensation:

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

As of September 30, 2014, total future compensation costs related to nonvested awards of nonvested shares (not including nonvested shares granted under the Long-Term Incentive ("LTI") Program) is estimated to be $11.7 million with a weighted average remaining life for all nonvested shares of 1.9 years (not including nonvested shares granted under the LTI program).

Total share-based compensation expense was $4.0 million and $9.5 million for the three and nine months ended September 30, 2014, respectively. Total share-based compensation expense was $3.5 million and $10.2 million for the three and nine months ended September 30, 2013, respectively. Tax benefits resulting from tax deductions in excess of share-based compensation expense (windfall tax benefits) recognized under the provisions of ASC Topic 718 "Compensation-Stock Compensation" ("ASC 718") are credited to additional paid-in capital in the Company's Consolidated Balance Sheets. Realized tax shortfalls, if any, are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The total tax benefit realized from share-based compensation was approximately $0.3 million and $7.9 million for the three and nine months ended September 30, 2014, respectively. The total tax benefit realized from share-based compensation was approximately $0.1 million and $5.0 million for the three and nine months ended September 30, 2013, respectively.

Nonvested Shares

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

The following summarizes all nonvested share transactions, excluding those related to the LTI program, from December 31, 2012 through September 30, 2014 (share amounts in thousands):

	Nonvested Shares Outstanding	Weighted-Average Price at Grant Date
December 31, 2012	288	$20.84
Granted	110	37.31
Vested	(143)	19.75
Cancelled	(29)	20.57
December 31, 2013	226	29.58
Granted	212	56.07
Vested	(112)	29.33
Cancelled	(2)	24.76
September 30, 2014	324	$47.03

The total grant date fair value of shares vested during the three and nine months ended September 30, 2014, was $0.2 million and $3.3 million, respectively. The total grant date fair value of shares vested during the three and nine months ended September 30, 2013, was $0.2 million and $2.7 million, respectively.

Pursuant to the Plan, the Compensation Committee may grant time-vested and performance based nonvested shares. All shares granted under the LTI program were granted to key employees of the Company. The following summarizes all LTI program share transactions from December 31, 2012 through September 30, 2014 (share amounts in thousands):

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	Nonvested LTI Shares Outstanding	Weighted-Average Price at Grant Date
December 31, 2012	497	$21.71
Granted at target level	124	34.59
Adjustments for actual performance	108	17.91
Vested	(279)	19.10
Cancelled	(16)	25.01
December 31, 2013	434	25.79
Granted at target level	111	49.6
Adjustments for actual performance	95	25.17
Vested	(225)	25.17
September 30, 2014	415	$32.35

The total grant date fair value of shares vested during the three and nine months ended September 30, 2014, was $0.0 million and $5.7 million, respectively. The total grant date fair value of shares vested during the three and nine months ended September 30, 2013, was $0.0 million and $2.6 million, respectively.
At September 30, 2014, total future compensation costs, assuming the current estimated performance levels are achieved, related to nonvested share awards granted under the LTI program are estimated to be approximately $7.1 million. The Company assumed a 7.5% forfeiture rate for these grants and the remaining shares have a weighted average life of 1.0 year at September 30, 2014.

7. Income Taxes:
The Company follows the guidance of FASB ASC Topic 740 “Income Taxes” (“ASC 740”) as it relates to the provision for income taxes and uncertainty in income taxes. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The income tax expense recognized for the three and nine months ended September 30, 2014 and 2013 is comprised of the following (amounts in thousands):

	Three Months Ended September 30,							
	2014				2013			
	Federal	State	Foreign	Total	Federal	State	Foreign	Total
Current tax expense	$9,355	$1,659	$1,025	$12,039	$22,612	$3,329	$454	$26,395
Deferred tax expense/(benefit)	10,853	337	5,244	16,434	3,707	(2,769)	(1,071)	(133)
Total income tax expense/(benefit)	$20,208	$1,996	$6,269	$28,473	$26,319	$560	$(617)	$26,262

	Nine Months Ended September 30,							
	2014				2013			
	Federal	State	Foreign	Total	Federal	State	Foreign	Total
Current tax expense/(benefit)	$38,279	$7,002	$375	$45,656	$64,591	$11,755	$(269)	$76,077
Deferred tax expense/(benefit)	23,446	3,684	5,244	32,374	5,264	(2,018)	(891)	2,355
Total income tax expense/(benefit)	$61,725	$10,686	$5,619	$78,030	$69,855	$9,737	$(1,160)	$78,432

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The Company has recognized a net deferred tax liability of $232.6 million and $208.7 million as of September 30, 2014 and December 31, 2013, respectively. The components of the net deferred tax liability are as follows (amounts in thousands):

	September 30, 2014	December 31, 2013
Deferred tax assets:		
Employee compensation	$8,075	$9,365
Allowance for doubtful accounts	332	236
State tax credit carryforward	879	879
Net operating loss carryforward - International	70,938	—
Other	4,900	240
Accrued liabilities	4,643	4,642
Guaranteed payments	—	890
Intangible assets and goodwill	183	930
Depreciation expense	590	
Leases	840	531
Acquisition costs	384	687
Total deferred tax assets	91,764	18,400
Deferred tax liabilities:		
Depreciation expense	4,888	4,250
Prepaid expenses	1,392	1,604
Convertible debt	10,731	11,931
Other	339	—
Finance receivable revenue recognition - International	38,375	—
Use of cost recovery for income tax purposes - U.S.	234,985	209,325
Total deferred tax liability	290,710	227,110
Valuation allowance	33,616	—
Net deferred tax liability	$232,562	$208,710

A reconciliation of the Company's expected tax expense at the statutory federal tax rate to actual tax expense for the three and nine months ended September, 2014 and 2013 is as follows (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Expected tax expense at statutory federal rates	$27,874	$26,415	$72,641	$73,351
State tax expense, net of federal tax benefit	2,139	2,412	7,217	8,138
Other	(1,540)	(2,565)	(1,828)	(3,057