LPL Financial Holdings Inc.
Form 10-Q
October 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014

or

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: 001-34963

LPL Financial Holdings Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-3717839
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

75 State Street, Boston, MA 02109
(Address of Principal Executive Offices) (Zip Code)

(617) 423-3644
(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. x Yes o 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of Common Stock, par value $0.001 per share, outstanding as of October 27, 2014 was 98,808,921.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended ("Exchange Act"), with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's internet site at http://www.sec.gov.

On our internet site, http://www.lpl.com, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. Hard copies of all such filings are available free of charge by request via email (investor.relations@lpl.com), telephone (617) 897-4574, or mail (LPL Financial Investor Relations at 75 State Street, 24th Floor, Boston, MA 02109). The information contained or incorporated on our website is not a part of this Quarterly Report on Form 10-Q.

When we use the terms "LPLFH," "we," "us," "our" and the "Company," we mean LPL Financial Holdings Inc., a Delaware corporation, and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Quarterly Report on Form 10-Q regarding the Company's future financial and operating results, growth, business strategies, plans, liquidity, future share repurchases, and future dividends, including statements regarding projected savings, projected expenses, and anticipated improvements to the Company's operating model, services, and technology as a result of the Service Value Commitment, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates, and expectations as of October 30, 2014. The words "anticipates," "believes," "expects," "may," "plans," "predicts," "will" and sin expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive, and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the value of brokerage and advisory assets; fluctuations in levels of net new advisory assets and the related impact on fee revenue; effects of competition in the financial services industry; changes in the number of the Company's financial advisors and institutions, and their ability to market effectively financial products and services; changes in interest rates and fees payable by banks participating in the Company's cash sweep program, including the Company's success in negotiating agreements with current or additional counterparties; changes in the growth of the Company's fee-based business; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by federal and state securities regulators and self-regulatory organizations; the costs of settling and remediating issues related to pending or future regulatory matters; the Company's success in integrating the operations of acquired businesses; execution of the Company's plans related to the Service Value Commitment, including the Company's ability to successfully transform and transition business processes to third party service providers; the Company's success in negotiating and developing commercial arrangements with third party service providers that will enable the Company to realize the service improvements and efficiencies expected to result from the Service Value Commitment; the performance of third party service providers to which business processes are transitioned from the Company; the Company's ability to control operating risks, information technology systems risks, cybersecurity risks, and sourcing risks; and the other factors set forth in Part I, "Item 1A. Risk Factors" in the Company's 2013 Annual Report on Form 10-K, as may be amended or updated in our Quarterly Reports on Form 10-Q. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date

of this quarterly report, even if its estimates change, and you should not rely on statements contained herein as representing the Company's views as of any date subsequent to the date of this quarterly report.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUES:				
Commission	$520,388	$527,419	$1,590,139	$1,521,390
Advisory	340,369	299,101	998,016	878,421
Asset-based	121,283	107,447	354,494	318,718
Transaction and fee	94,674	93,799	276,284	271,808
Interest income, net of interest expense	4,727	4,509	14,279	13,343
Other	7,793	20,937	36,182	43,248
Total net revenues	1,089,234	1,053,212	3,269,394	3,046,928
EXPENSES:				
Commission and advisory	746,001	724,835	2,242,206	2,086,075
Compensation and benefits	106,290	102,310	317,459	299,317
Promotional	36,669	36,807	93,581	85,276
Depreciation and amortization	24,519	21,432	70,618	61,451
Occupancy and equipment	19,043	16,568	62,922	49,649
Professional services	38,174	18,955	82,736	47,588
Brokerage, clearing and exchange	12,090	11,360	36,594	32,958
Communications and data processing	11,476	11,017	32,598	31,401
Regulatory fees and other	8,476	8,234	25,437	23,339
Restructuring charges	9,928	6,482	26,473	19,851
Other	8,218	20,547	25,958	37,116
Total operating expenses	1,020,884	978,547	3,016,582	2,774,021
Non-operating interest expense	12,897	13,363	38,651	38,190
Loss on extinguishment of debt	—	—	—	7,962
Total expenses	1,033,781	991,910	3,055,233	2,820,173
INCOME BEFORE PROVISION FOR INCOME TAXES	55,453	61,302	214,161	226,755
PROVISION FOR INCOME TAXES	22,181	23,671	84,663	89,316
NET INCOME	$33,272	$37,631	$129,498	$137,439
EARNINGS PER SHARE (NOTE 12)				
Earnings per share, basic	$0.33	$0.36	$1.29	$1.30
Earnings per share, diluted	$0.33	$0.36	$1.26	$1.29
Weighted-average shares outstanding, basic	100,052	104,271	100,519	105,670
Weighted-average shares outstanding, diluted	101,834	105,705	102,384	106,934

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME	$33,272	$37,631	$129,498	$137,439
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on cash flow hedges, net of tax expense (benefit) of ($63), ($155), $863, and ($155) for the three and nine months ended September 30, 2014 and 2013, respectively	(101)	(250)	1,361	(250)
Reclassification adjustment for realized gain on cash flow hedges included in net income, net of tax expense of $85, $0, $113, and $0 for the three and nine months ended September 30, 2014 and 2013, respectively	(135)	—	(180)	—
Total other comprehensive income (loss), net of tax	(236)	(250)	1,181	(250)
TOTAL COMPREHENSIVE INCOME	$33,036	$37,381	$130,679	$137,189

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition
(Unaudited)
(Dollars in thousands, except par value)

	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$459,494	$516,584
Cash and securities segregated under federal and other regulations	418,507	512,351
Receivables from:		
Clients, net of allowance of $1,237 at September 30, 2014 and $588 at December 31, 2013	342,304	373,675
Product sponsors, broker-dealers and clearing organizations	178,439	174,070
Others, net of allowance of $9,383 at September 30, 2014 and $7,091 at December 31, 2013	281,411	272,018
Securities owned:		
Trading — at fair value	12,926	8,964
Held-to-maturity	9,345	6,853
Securities borrowed	8,327	7,102
Income taxes receivable	25,404	—
Fixed assets, net of accumulated depreciation and amortization of $300,823 at September 30, 2014 and $263,321 at December 31, 2013	207,413	189,059
Debt issuance costs, net of accumulated amortization of $10,991 at September 30, 2014 and $7,751 at December 31, 2013	13,040	16,281
Goodwill	1,365,838	1,361,361
Intangible assets, net of accumulated amortization of $295,332 at September 30, 2014 and $266,285 at December 31, 2013	440,526	464,522
Other assets	155,193	139,991
Total assets	$3,918,167	$4,042,831
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$135,095	$194,971
Payables to clients	565,221	565,204
Payables to broker-dealers and clearing organizations	38,315	43,157
Accrued commission and advisory expenses payable	143,024	135,149
Accounts payable and accrued liabilities	287,219	301,644
Income taxes payable	—	4,320
Unearned revenue	68,817	73,739
Securities sold, but not yet purchased — at fair value	18	211
Senior secured credit facilities	1,526,967	1,535,096
Deferred income taxes, net	90,119	89,369
Total liabilities	2,854,795	2,942,860
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 118,124,141 shares issued at September 30, 2014 and 117,112,465 shares issued at December 31, 2013	118	117
Additional paid-in capital	1,346,701	1,292,374
	(655,822)	(506,205)

Treasury stock, at cost — 18,187,765 shares at September 30, 2014 and 15,216,301 shares at December 31, 2013		
Accumulated other comprehensive income	1,296	115
Retained earnings	371,079	313,570
Total stockholders’ equity	1,063,372	1,099,971
Total liabilities and stockholders’ equity	$3,918,167	$4,042,831

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Shares	Amount		Shares	Amount		
BALANCE — December 31, 2012	115,714	$116	$1,228,075	9,422	$(287,998)	$—	$
Net income and other comprehensive loss, net of tax expense						(250)	137,439
Treasury stock purchases				4,910	(184,318)		

The Company s stock-based compensation arrangements are described b

Stock Options

The 2005 Plan permits the granting of stock options to employees, officer
Company. The Company uses the Black-Scholes option-pricing model to
amortized ratably over the requisite service periods of the awards, which

The fair value for options granted was estimated at the date of grant using
weighted-average assumptions:

Weighted average fair value of options granted
Risk free interest rate
Dividend yield
Volatility factor of the expected market price of the Cor common stock
Weighted-average expected life of options

Unrecognized compensation cost related to stock options as of September
period, based on the unamortized value of these outstanding stock options

A summary of the Company s stock option activity as of September 30,

Outstanding at December 31, 2009

Granted
Cancelled/forfeited
Exercised
Outstanding at September 30, 2010
Exercisable at September 30, 2010

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The total intrinsic value of options exercised during the nine months ende
respectively. As of September 30, 2010, the weighted-average remaining
years and 4.6 years, respectively.

Non-Vested Shares

Under the Company s 2005 Plan, employees, officers and executives and
receive restricted stock units and restricted stock awards. In accordance w
is equal to the closing sale price of the Company s common stock on the
adjusted by estimated forfeiture rates. As of September 30, 2010, 88,825
two years based on certain performance goals (Performance-Based Awa
the expected vesting period, net of estimated forfeitures. If performance g
recognized would be reversed. No reversals of compensation expense rela
September 30, 2010. The remaining 621,157 non-vested shares are not pe
continuous service.

A summary of the status of the Company s non-vested shares as of Septe
presented below:

Non-Vested Shares
Non-vested at December 31, 2009
Awarded
Vested
Cancelled/forfeited
Non-vested at September 30, 2010

Unrecognized compensation expense related to non-vested shares as of S
expense period, based on the unamortized value of these outstanding non-
shares during the nine months ended September 30, 2010 and 2009 was $

Note 6: Investment in Receivable Portfolios, Net

In accordance with the authoritative guidance for loans and debt securitie
purchases during a quarter are aggregated into pools based on common ri
permanently assigned to the pool. The discount (*i.e.*, the difference betwe
receivable balance) is not recorded because the Company expects to colle
receivable balance. As a result, receivable portfolios are recorded at cost a
certain fees paid to third parties incurred in connection with the direct acq

In compliance with the authoritative guidance, the Company accounts for
interest method or the cost recovery method. The interest method applies
remains unchanged throughout the life of the pool, unless there is an incre
expected cash flows are generally recognized prospectively through an up
decreases in expected cash flows do not change the IRR, but are recogniz
consolidated statements of income as a reduction in revenue, with a corre
portfolios in the consolidated statements of financial condition.

The Company accounts for each static pool as a unit for the economic life
receivable portfolios, for collections applied to the cost basis of receivabl

receivable portfolios is accrued based on each pool s IRR applied to each
revenue earned and decreased by gross collections and portfolio allowanc

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If the amount and timing of future cash collections on a pool of receivabl
portfolios on the cost recovery method as Cost Recovery Portfolios. The a
included in other portfolios acquired during the same quarter, or the neces
accordingly, they were not aggregated with other portfolios. Under the co
purchase price of a Cost Recovery Portfolio has been fully recovered.

Accretable yield represents the amount of revenue the Company expects t
receivable portfolios based on estimated future cash flows. Total accretab
current carrying value of a portfolio. All estimated cash flows on portfoli
basis cash flows.

The following table summarizes the Company s accretable yield and an e
current period *(in thousands)*:

Balance at December 31, 2009
Revenue recognized, net
Net additions to existing portfolios
Additions for current purchases
Balance at March 31, 2010
Revenue recognized, net
Additions to existing portfolios, net
Additions for current purchases
Balance at June 30, 2010
Revenue recognized, net
(Reductions) additions to existing portfolios, net
Additions for current purchases
Balance at September 30, 2010

Balance at December 31, 2008
Revenue recognized, net
Net additions to existing portfolios
Additions for current purchases
Balance at March 31, 2009
Revenue recognized, net
(Reductions) additions to existing portfolios, net
Additions for current purchases

Balance at June 30, 2009

Revenue recognized, net
(Reductions) additions to existing portfolios, net
Additions for current purchases

Balance at September 30, 2009

During the three months ended September 30, 2010, the Company purcha
million, or a purchase cost of 3.0% of face value. The estimated future co
During the nine months ended September 30, 2010, the Company purchas
million, or a purchase cost of 3.5% of face value. The estimated future co

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All collections realized after the net book value of a portfolio has been fu
Basis Revenue) or allowance reversal if applicable. Zero Basis Revenue
million during the three months ended September 30, 2010 and 2009, resp
reversals of $0.5 million) and $7.0 million during the nine months ended

The following tables summarize the changes in the balance of the investm
except percentages):

Balance, beginning of period
Purchases of receivable portfolios
Gross collections[1]
Put-backs and recalls[2]
Revenue recognized[3]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period
Revenue as a percentage of collections[4]

Balance, beginning of period
Purchases of receivable portfolios
Gross collections[1]
Put-backs and recalls[2]
Revenue recognized[3]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period
Revenue as a percentage of collections[4]

Balance, beginning of period
Purchases of receivable portfolios
Gross collections[1]
Put-backs and recalls[2]
Revenue recognized[3]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period

Revenue as a percentage of collections[4]

1:

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Balance, beginning of period
Purchases of receivable portfolios
Gross collections[(1)]
Put-backs and recalls[(2)]
Revenue recognized[(3)]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period
Revenue as a percentage of collections[(4)]

(1) Does not include amounts collected on behalf of others.

(2) Put-backs represent accounts that are returned to the seller in accordance with
accounts that are recalled by the seller in accordance with the respective purcl

(3) Includes retained interest.

(4) Revenue as a percentage of collections excludes the effects of net portfolio all

The following table summarizes the change in the valuation allowance fo
thousands):

Balance at beginning of period
Provision for portfolio allowances
Reversal of prior allowances
Balance at end of period

The Company currently utilizes various business channels for the collecti
collection channel *(in thousands)*:

	Th
Collection sites	$
Legal collections	
Collection agencies	
Sales	

Other

$

Note 7: Deferred Court Costs

The Company contracts with a nationwide network of attorneys that speci
accounts to its contracted attorneys when it believes the related debtor has
unwilling to pay. In connection with the Company s agreement with the
(Deferred Court Costs). The Company capitalizes Deferred Court Cost
costs that it believes will ultimately be uncollectible. The Company deter
advanced and those that have been recovered. Deferred Court Costs not re
Collections received from these debtors are first applied against related co

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Deferred Court Costs for the three-year deferral period consist of the follo

Court costs advanced
Court costs recovered
Court costs reserve

Note 8: Other Assets

Other assets consist of the following (*in thousands*):

Debt issuance costs, net of amortization
Prepaid expenses
Security deposit India building lease
Deferred compensation assets
Other

Deferred compensation assets represent monies held in a trust associated

Note 9: Debt

The Company is obligated under borrowings, as follows *(in thousands)*:

Convertible notes
Less: Debt discount
Senior secured notes
Revolving credit facility
Capital lease obligations

Convertible Senior Notes

The Company s Convertible Notes matured on September 20, 2010. On t
outstanding under the notes.

In accordance with applicable accounting literature, the Company was rec
Convertible Notes in a manner that reflected the Company s nonconverti
component of the Convertible Notes was 10.38%. Interest expense relatec

Interest expense stated coupon rate	
Interest expense amortization of debt discount	
Total interest expense convertible notes	

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Senior Secured Notes

On September 20, 2010, the Company issued $50.0 million in senior secu
Capital Group (Prudential Capital Group) through a private placement
7.75% and mature in 2017 with principal amortization beginning in Dece
March 17, June 17, September 17 and December 17 of each year. Princip
each March 17, June 17, September 17 and December 17 thereafter, up to
outstanding). The Senior Secured Notes are guaranteed in full by certain
Company. The Senior Secured Notes may be accelerated and become aut
default, including certain events related to insolvency, bankruptcy or liqu
the election of the holder or holders of a majority in principal amount of t
including breach of affirmative covenants regarding guarantors, collateral
commitment, or the breach of any negative covenant. If the Company pre
be at the higher of par or the present value of the remaining scheduled pa
discount rate used to determine the present value shall be 50 basis points
average life. The covenants are substantially similar to those in the Revol
related to collateral. The proceeds from the Senior Secured Notes have be
Company s existing Revolving Credit Facility, including borrowings inc
matured September 20, 2010.

Pursuant to Securities and Exchange Committee rules, the Company has
financial information are not required as the guarantees related to the Sen
the subsidiary of the parent company other than the subsidiary guarantors

Revolving Credit Facility

On February 8, 2010, the Company entered into a new $327.5 million rev
purpose of purchasing receivable portfolios and for general working capit
2013.

The 2010 Revolving Credit Facility contains an accordion feature which
subject to customary conditions, to request an increase in the facility of u
more lenders or other entities with the consent of the administrative agent

On July 15, 2010, the Company obtained an additional $33.0 million in c
accordion feature.

On September 20 and 21, 2010, the Company amended its Revolving Cre
in Senior Secured Notes and include a feature that would allow the Comp
Group under terms equivalent to the Senior Secured Notes. The accordio
facility maximum from $427.5 million to $460.5 million and the maturity

Provisions of the 2010 Revolving Credit Facility include:

Interest at a floating rate equal to, at the Company s option, e
400 basis points, depending on the Company s leverage; or (
basis points, depending on the Company s leverage. ABR, as
publicly announced by JP Morgan Chase Bank as its prime ra
effective rate from time to time plus 0.5% and (iii) reserved a
plus 1%;

$10.0 million sub-limits for swingline loans and letters of cred

A borrowing base equal to (i) the lesser of (1) 30% of eligible
value of all receivable portfolios acquired on or after January
outstanding in respect of the Senior Secured Notes;

Restrictions and covenants, which limit, among other things, t
and liens;

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- Repurchases of up to $50.0 million of the Company s commo
borrowing capacity;

- A change of control definition which excludes acquisitions of
respective affiliates of up to 50% of the outstanding shares of

- Events of default which, upon occurrence, may permit the len
amounts outstanding to be immediately due and payable;

- An annual capital expenditure maximum of $12.5 million;

- An annual rental expense maximum of $12.5 million;

- An outstanding capital lease maximum of $12.5 million;

- An acquisition limit of $100.0 million; and

- Collateralization by all assets of the Company.

As of September 30, 2010, the outstanding balance on the 2010 Revolvin
interest rate of 4.68% and 4.65% for the three and nine months ended Sep
borrowing base under the Revolving Credit Facility was $360.5 million, c
Company is in compliance with all covenants under its financing arrange

Capital Lease Obligations

The Company has capital lease obligations for certain computer equipme
approximately $4.2 million. These lease obligations require monthly or q
rates that range from approximately 5.9% to 7.7%.

The Company has financed certain leasehold improvement projects with i
2010, the Company s combined obligation was approximately $0.8 milli
payments, accrue interest at 8% to 9% per annum and will mature in June

Note 10: Income Taxes

During the three months ended September 30, 2010, the Company record
35.0% of pretax income. The effective tax rate for the three months ende
of 32.8% (which is net of a benefit for state taxes of 2.2%), a provision fo
of 1.6%, a benefit of an Internal Revenue Service (IRS) refund of inter
reduction in the state effective tax rate and the applicable true-up of the st
September 30, 2009, the Company recorded an income tax provision of $
effective tax rate for the three months ended September 30, 2009, primari
net of a benefit for state taxes of 2.7%), a provision for state taxes of 7.8%
provision for the true-up of the state and federal tax accounts of 0.3%.

During the nine months ended September 30, 2010, the Company recorde
of 36.3% of pretax income. The effective tax rate for the nine months end
taxes of 32.8% (which is net of a benefit for state taxes of 2.2%), a provis
differences of 1.8%, a benefit of an IRS tax refund including interest of 0
reduction in the state effective tax rate and the applicable true-up of the st
September 30, 2009, the Company recorded an income tax provision of $
effective tax rate for the nine months ended September 30, 2009, primaril
net of a benefit for state taxes of 2.7%), a provision for state taxes of 7.8%

As of September 30, 2010, the Company had a gross unrecognized tax be
of approximately $0.5 million and would reduce the Company s effective
Company recorded a $0.3 million tax benefit, which was the result of an a

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For the three and nine months ended September 30, 2010, the Company h
withholding taxes on the quarterly undistributed earnings from continuing
Undistributed earnings of the subsidiary for the three and nine months end
million, respectively. Such undistributed earnings are considered permane

The Company s subsidiary operating outside of the United States is curre
expire on March 31, 2011. The impact of the tax holiday on the Company

Note 11: Purchase Concentrations

The following table summarizes the concentration of initial purchase cost
percentages):

Seller 1
Seller 2
Seller 3
Seller 4
Seller 5
Other sellers
Adjustments(1)
Purchases, net

(1) Adjusted for Put-backs and Recalls.

Note 12: Commitments and Contingencies

Litigation

The Company, along with others in its industry, is subject to legal actions
comparable state statutes, which could have a material adverse effect on i
damages. The violations of law alleged in these actions often include clai
attempts to collect debts on which the statute of limitations has run, and h
A number of these cases are styled as class actions and a class has been c
issues on which there is no clear legal precedent. As a result, the Compan

There are a number of other lawsuits, claims and counterclaims pending c
counterclaims have arisen in the ordinary course of business and involve
improper reporting of credit information by the Company or its employee
various regulatory investigations, inquiries and other actions, relating to i

The Company has established loss provisions only for matters in which lo
pending against the Company involve potential compensatory, punitive d
damages or make other expenditures in amounts that could have a materia
Although litigation is inherently uncertain, at this time, based on past exp

of insurance and/or indemnification in some cases, the Company does not
effect on its consolidated financial position or its results of operations.

Purchase Commitments

In the normal course of business, the Company enters into forward flow p
September 30, 2010, the Company has entered into agreements to purchas
for a purchase price of approximately $66.6 million. Certain of these agre
notice or by paying a one-time cancellation fee. The Company does not a
Company has no purchase commitments extending past one year.

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Item 2 Management s Discussion and Analysis of Financial Conditi

Special Note on Forward-Looking Statements

The following discussion contains, in addition to historical information, fo
Securities Act of 1933 and Section 21E of the Securities Exchange Act of
forward-looking statements. For example, statements relating to our belie
statements that certain actions, conditions or circumstances will continue.
difficult to predict and many of which are beyond our control. Therefore,
in any forward-looking statements. For additional information regarding f
operations, see the information under the caption Risk Factors in Item
2009 and herein. We undertake no obligation to revise or update any forw

Introduction

We purchase portfolios of defaulted consumer receivables and manage th
work toward financial recovery. Defaulted receivables are consumers ur
unions, consumer finance companies, commercial retailers, auto finance c
deep discounts. Defaulted receivables include receivables subject to bank
business hinges on understanding, measuring, and predicting distressed co
industry s strongest analytic platforms. We purchase receivables based o
statistical models across the full extent of our operations. Moreover, we h
comprised of approximately 20 million accounts. As a result, we have bee
acquire. Our performance derives from our sophisticated and widespread
cost leadership position (based on our enterprise-wide, account-level cost
principled intent drive every consumer interaction. We maintain strong re
States, and possess one of the industry s best collection staff retention rat

In addition, we provide bankruptcy support services to some of the larges
subsidiary Ascension Capital Group, Inc. (Ascension). Leveraging a pr
operational platform integrates lenders, trustees, and consumers across th

Market Overview

While there has been some improvement in macroeconomic indicators du
new jobs growth and limited credit availability continue to challenge U.
consumer confidence levels. Within the credit card space, we find mixed
levels have improved at a rate that may indicate a fundamental improvem
personal bankruptcies and home foreclosures, remain elevated and indicat

Despite this macroeconomic volatility, through the first three quarters of 2
better than, what we observed in 2008 and 2009. To illustrate, payer rates
payment plan mix, remained constant. However, more of our consumers a
opposed to one-time settlements. Settlements made through payment plan
payments received over extended time periods may result in a provision f
to a one-time payment of the same amount) is discounted using a pool gro
other words, despite the absolute value of total cash received being identi
payment plan yields a lower net present value which, in turn, can result in
contain the possibility of consumers failing to complete all scheduled pay

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Despite the generally negative broad macroeconomic environment, the ra
their payment plans has increased in 2010 when compared to 2009. We b
partner effectively with consumers during their recovery process. The sec
accurate and timely decisions about how best to maximize our portfolio r
fail to fulfill all scheduled payments. When this happens, we are often su
case and in those instances where we are unable to do so, we experience a
to Management s Discussion and Analysis Revenue below for a mor
and nine months ended September 30, 2010.

Throughout the credit crisis, we strategically invested in receivable portf
that some of our competitors were (i) caught owning receivables with low
levels between 2005 and 2008 and (ii) faced with constrained access to ca
dynamics resulted in a recent supply-demand gap that dramatically reduc
prices for freshly charged-off assets (i.e., receivables sold within thirty da
in 2008 to a range of 5% 9% in 2009 and early 2010. Similar price redu
receivable asset classes (including credit cards and other consumer loans)
the last few months has started to increase incrementally, but remains fav
price declines in 2009 and 2010, some issuers have opted not to sell all of
strategies or partnering with third party agencies. We believe that as prici
charged-off portfolios.

In light of the uncertainties presented by current market conditions, we be
as well as to forecasting recoveries. Furthermore, while we believe that c
during bad economic conditions) are more likely to recover faster than co
have not factored this perspective into our forecasts.

When evaluating the long-term returns of our business, we believe that th
potential negative impact to recoveries stemming from additional consum
current environment re-attracts significant capital to our industry, causing
deteriorates further.

Purchases and Collections

Purchases

The following table summarizes the types of receivable portfolios we pur
2009 *(in thousands):*

Credit card
Consumer bankruptcy receivables[(1)]
Telecom

(1) Represents portfolio receivables subject to Chapter 13 and Chapter 7 bankrup

During the three months ended September 30, 2010, we invested $77.9 m
telecom and bankruptcy portfolios, with face values aggregating $2.6 bill
purchased receivables. This is a $0.2 million increase, or 0.2%, in the amo
months ended September 30, 2009, to acquire receivable portfolios, prima
aggregating $2.2 billion for an average purchase price of 3.6% of the face

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During the nine months ended September 30, 2010, we invested $242.9 m
telecom and bankruptcy portfolios with face values aggregating $7.0 billi
purchased receivables. This is a $27.2 million increase, or 7.0%, in the an
nine months ended September 30, 2009, to acquire receivable portfolios, p
value aggregating $5.5 billion for an average purchase price of 4.0% of th

Average purchase price, as a percentage of face value, varies from period
purchased and the length of time from charge off to the time we purchase

Collections by Channel

We utilize numerous business channels for the collection of charged-off c
table summarizes gross collections by collection channel in the respective

Collection sites
Legal collections
Collection agencies
Sales
Other

Gross collections increased $31.7 million, or 25.2%, to $157.4 million du
during the three months ended September 30, 2009. Gross collections inc
months ended September 30, 2010, from $363.3 million during the nine m

A portion of our collections comes from the weekly remittances we recei
remittances in each quarter; however, there were 14 remittances during th
three months ended March 31, 2010 and the typical 13 remittances during
remittances have grown to approximately $6.5 million, our collections fo
the one additional weekly remittance. There were 13 remittances in each
2009 and September 2009. The fourth quarter of 2010 will have the typic
where collections decline in the third and fourth quarters. As a result of se
anticipate that collections in the fourth quarter of 2010 will decrease from

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Results of Operations

Results of operations in dollars and as a percentage of total revenue were

Revenue
Revenue from receivable portfolios, net
Servicing fees and related revenue
Total revenue
Operating expenses
Salaries and employee benefits
Stock-based compensation expense
Cost of legal collections
Other operating expenses
Collection agency commissions
General and administrative expenses
Depreciation and amortization
Total operating expenses
Income before other (expense) income and income taxes
Other (expense) income
Interest expense
Other income
Total other expense
Income before income taxes
Provision for income taxes
Net income

Revenue
Revenue from receivable portfolios, net
Servicing fees and related revenue
Total revenue
Operating expenses
Salaries and employee benefits
Stock-based compensation expense
Cost of legal collections

Other operating expenses
Collection agency commissions
General and administrative expenses
Depreciation and amortization
Total operating expenses
Income before other (expense) income and income taxes
Other (expense) income
Interest expense
Gain on repurchase of convertible notes, net
Other income (expense)
Total other expense
Income before income taxes
Provision for income taxes
Net income

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Comparison of Results of Operations

Revenue

Our revenue consists primarily of portfolio revenue and bankruptcy servic
basis revenue. Accretion revenue represents revenue derived from pools (
that has not been fully amortized. Revenue from pools with a remaining u
rate applied to each pool s remaining unamortized cost basis. The cost ba
collections and portfolio allowances. The effective interest rate is the inte
received and anticipated future cash flow projections for each pool. All co
recovered, or Zero Basis Portfolios, are recorded as revenue, or Zero Basi
investment in receivable portfolios utilizing the interest method in accord
acquired with deteriorated credit quality. Servicing fee revenue is revenue
Ascension subsidiary, a provider of bankruptcy services to the finance inc

The following tables summarize collections, revenue, end of period recei
(*in thousands, except percentages*):

	Three Mo	
	Collections[(1)]	Gross Revenue
ZBA	$ 3,078	$ 2,63
2003	490	
2004	2,020	5
2005	6,708	3,80
2006	6,439	5,0
2007	17,033	10,43
2008	31,095	18,40
2009	50,958	33,4
2010	39,508	25,48
Total	$ 157,329	$ 99,8

	Three Mo	
	Collections[(1)]	Gross Revenue
ZBA	$ 2,100	$ 2,10
2002	630	3
2003	1,770	1,24
2004	2,648	1,5
2005	10,729	6,2
2006	12,274	7,6
2007	25,659	14,7
2008	38,715	26,8
2009	31,111	20,3

Total	$ 125,636	$ 80,78

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Nine Mor

	Collections[1]	Gross Revenue
ZBA	$ 7,489	$ 7,04
2002	417	
2003	3,215	75
2004	6,369	2,47
2005	21,735	13,07
2006	20,986	17,00
2007	57,311	34,59
2008	100,560	62,24
2009	160,066	104,36
2010	77,099	43,78
Total	$ 455,247	$ 285,35

Nine Mor

	Collections[1]	Gross Revenue(
ZBA	$ 6,957	$ 6,95
2002	2,341	90
2003	6,366	5,16
2004	8,964	5,62
2005	33,892	20,90
2006	36,406	24,94
2007	89,090	50,70
2008	127,048	87,78
2009	51,966	34,01
Total	$ 363,030	$ 237,01

(1) Does not include amounts collected on behalf of others.

(2) Gross revenue excludes the effects of net portfolio allowances or net portfolio

(3) Revenue recognition rate excludes the effects of net portfolio allowances or ne

(4) Our monthly IRR is calculated based on the weighted average of each pool s purchase. Therefore, it is possible for the monthly IRR to be lower than that r

Total revenue was $98.0 million for the three months ended September 30 revenue of $80.4 million for the three months ended September 30, 2009.

September 30, 2010, an increase of $17.4 million, or 22.7%, compared to
September 30, 2009.

Total revenue was $281.5 million for the nine months ended September 3
revenue of $234.9 million for the nine months ended September 30, 2009
September 30, 2010, an increase of $45.9 million, or 20.6%, compared to
September 30, 2009.

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The increase in portfolio revenue for the three and nine months ended Sep
revenue associated with a higher portfolio balance during the three and ni
months ended September 30, 2009, respectively and an increase in the IR
forecasts. During the three months ended September 30, 2010, we recorde
portfolio allowance provision of $4.3 million in the same period of the pr
recorded a net portfolio allowance provision of $16.8 million, compared t
of the prior year. The net provision for portfolio allowances for the three
a shortfall in collections in certain pool groups as compared to our foreca
variability at the pool group level between our actual collections and our
the result of several factors, including pressure on the consumer due to a
consumer payment patterns, and the inherent challenge of forecasting col

Revenue associated with bankruptcy servicing fees earned from Ascensio
increase of $0.2 million, or 5.2%, compared to revenue of $3.9 million fo
bankruptcy servicing fees earned from Ascension was $12.9 million for th
or 6.7%, compared to revenue of $12.1 million for the three months ende
recognition of previously deferred servicing revenue.

Operating Expenses

Total operating expenses were $74.3 million for the three months ended S
total operating expenses of $61.5 million for the three months ended Sept

Total operating expenses were $212.7 million for the nine months ended
to total operating expenses of $185.2 million for the nine months ended S

Operating expenses are explained in more detail as follows:

Salaries and employee benefits

Total salaries and employee benefits increased $1.8 million, or 12.2%, to
$14.4 million during the three months ended September 30, 2009. Total s
$48.1 million during the nine months ended September 30, 2010, from $4
increase was primarily the result of increases in headcount and related co

Stock-based compensation expenses

Stock-based compensation increased $0.3 million, or 22.8%, to $1.5 milli
million during the three months ended September 30, 2009. This increase
granted in recent periods due to an increase in our stock price.

Stock-based compensation increased $1.5 million, or 42.6%, to $4.8 milli
during the nine months ended September 30, 2009. This increase was pri
the three months ended March 31, 2010 and the higher fair value of equit

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Cost of legal collections

The cost of legal collections increased $7.8 million, or 29.7%, to $33.9 m
$26.1 million during the three months ended September 30, 2009. These c
attorneys and costs of litigation. The increase in the cost of legal collectio
gross collections through our legal channel and upfront litigation costs. G
ended September 30, 2010, up from $55.6 million collected during the thr
increased as a percent of gross collections through this channel to 47.2% c
the three months ended September 30, 2009, primarily due to increased vo
the reversal in September 2009 of court costs previously deferred in conn
in the commissions percentage in 2010 compared to 2009.

The cost of legal collections increased $6.8 million, or 8.1%, to $91.5 mil
$84.7 million during the nine months ended September 30, 2009. These c
attorneys and costs of litigation. The increase in the cost of legal collectio
gross collections through our legal channel and upfront litigation costs. G
months ended September 30, 2010, up from $173.5 million collected duri
collections as a percent of gross collections through this channel decrease
48.8% during the nine months ended September 30, 2009, primarily due t
cost reversal in September 2009 related to our settled arbitration with Jeff

The following table summarizes our legal collection channel performance

	Three Months Ended Se		
	2010		
Collections	$ 71,773	100.0%	$ 5
Court costs advanced	20,961	29.2%	1
Court costs deferred	(7,850)	(10.9)%	(
Deferred court costs reversal[1]			
Court cost expense[2]	13,111	18.3%	
Other[3]	661	0.9%	
Commissions	20,079	28.0%	1
Total Costs	$ 33,851	47.2%	$ 2

[1] Primarily related to our settled arbitration with Jefferson Capital in September
were subject to Jefferson Capital s settlement with the FTC. A portion of thos
the reversal of court costs previously deferred.

[2] In connection with our agreement with contracted attorneys, we advance certa
financial statements and provide a reserve and corresponding court cost expen
amount includes changes in our anticipated recovery rate of court costs expen

[3] Other costs consist of costs related to counter claims and legal network subscr

Other operating expenses

Other operating expenses increased $3.5 million, or 57.6%, to $9.5 millio
during the three months ended September 30, 2009. The increase was pri
expenses, an increase of $0.6 million in media-related expenses, an increa
other operating expenses of $1.2 million, all to support our growth.

Other operating expenses increased $9.1 million, or 48.6%, to $27.7 milli
million during the nine months ended September 30, 2009. The increase v
campaign expenses, an increase of $1.7 million in media-related expenses
million in skip tracing expenses, and a net increase in various other opera

2:

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Collection agency commissions

During the three months ended September 30, 2010, we incurred $5.4 mil
related gross collections of $18.1 million, compared to $5.8 million in co
during the three months ended September 30, 2009. The decrease in comm
channel, offset by a higher net commission rate due to the mix of account
through this channel, vary from period to period depending on, among oth
agency. Generally, freshly charged-off accounts have a lower commission
time. During the three months ended September 30, 2010, we placed fewe
same period in the prior year.

During the nine months ended September 30, 2010, we incurred $17.1 mi
related gross collections of $57.8 million, compared to $13.5 million in co
during the nine months ended September 30, 2009. The increase in comm
offset by a lower net commission rate. The decrease in the net commissio
to the mix of accounts placed with the agencies. Commissions, as a perce
depending on, among other things, the time from charge-off of the accour
a lower commission rate than accounts that have been charged off for a lo
we placed more freshly charged-off accounts with the agencies as compar

General and administrative expenses

General and administrative expenses decreased $0.3 million, or 4.1%, to $
$7.3 million during the three months ended September 30, 2009. The decr
legal expenses due to incurring significant legal expenses in 2009 in conn
was offset by an increase of $0.3 million in legal settlements, an increase
general and administrative expenses of $0.7 million.

General and administrative expenses increased $1.2 million, or 6.0%, to $
$20.1 million during the nine months ended September 30, 2009. The inc
settlements, an increase of $0.3 million in consulting fees, an increase of $
general and administrative expenses of $2.3 million. The increase was off
incurring significant legal expenses in 2009 in connection with our settled

Cost per Dollar Collected

The following table summarizes our cost per dollar collected *(in thousand*

	2010		
	Collections	Cost	C Ch D Col
Collection sites	$ 67,089	$ 6,210[(1)]	
Legal networks	71,773	33,851	
Collection agency outsourcing	18,065	5,389	
Sales and other	445		
Other indirect costs[(2)]		23,604	
Total	$ 157,372	$ 69,054[(3)]	

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	2010		
	Collections	**Cost**	**C P Cha Do Coll**
Collection sites	$ 199,513	$ 18,578(1)	
Legal networks	196,995	91,519	
Collection agency outsourcing	57,777	17,098	
Sales and other	1,143		
Other indirect costs(2)		70,464	
Total	$ 455,428	$ 197,659(3)	

(1) Represents only account manager salaries, variable compensation and employ

(2) Other indirect costs represent non collection salaries and employee benefits, g and amortization.

(3) Represents all operating expenses excluding stock-based compensation expen order to facilitate a comparison of approximate cash costs to cash collections reconciliation of operating expenses, excluding stock-based compensation exp expenses in the table below.

During the three months ended September 30, 2010, cost per dollar collec 45.4% of gross collections during the three months ended September 30,

The cost from our collection sites, account manager salaries, collections, decreased to 4.0% in three months ended Septemb and, as a percentage of our site collections, decreased to 9.3% months ended September 30, 2009. These decreases were prin

The cost of collection agency commissions, as a percentage o September 30, 2010 from 4.6% in the three months ended Sep agency collections in the three months ended September 30, 2 cost of collection agency commissions, as a percentage of coll months ended September 30, 2009 to 29.8% in three months e accounts placed into this channel. Freshly charged-off accoun off for a longer period of time. During the three months ended with our agencies as compared to the same period in the prior

Other costs, not directly attributable to specific channel collec and administrative expenses, other operating expenses, and de collection to 15.0% in the three months ended September 30, in dollar terms these costs increased in order to support the gr reduction in other indirect costs as a percent of total collection

The decrease was offset by:

An increase in the cost of legal collections, as a percent of tota
from 20.8% in the three months ended September 30, 2009. T
expense due to growth in the legal channel. The cost of legal c
the three months ended September 30, 2010 from 46.9% in th
result of increased upfront court costs associated with our purs
percentage in 2010 compared to 2009.

During the nine months ended September 30, 2010, cost per dollar collect
47.3% of gross collections during the nine months ended September 30, 2

The cost from our collection sites, account manager salaries, v
collections, decreased to 4.1% in nine months ended Septemb
and, as a percentage of our site collections, decreased to 9.3%
months ended September 30, 2009. The decrease was primari
in our domestic compensation plan structure.

The cost of legal collections as a percent of total collections d
23.3% in the nine months ended September 30, 2009 and, as a
ended September 30, 2010 from 48.8% in the nine months end
targeted placement volumes as part of an initiative to sue high
related to our Jefferson Capital settlement in September 2009.

The cost of collection agency commissions, as a percentage o
September 30, 2010 and 2009. The cost in collection agency c
in the nine months ended September 30, 2010 from 31.4% in
a change in the mix of accounts placed into this channel. Fresh
that have been charged off for a longer period of time. During
charged-off accounts with our agencies as compared to the sa

Other costs not directly attributable to specific channel collect
and administrative expenses, other operating expenses, and de
collection to 15.5% in the nine months ended September 30, 2
in dollar terms these costs increased in order to support the gr
slight reduction in other indirect costs as a percent of total col

Cost per dollar collected can fluctuate based on the contribution by each c

The following table provides a reconciliation of operating expenses, exclu
operating expenses to GAAP total operating expenses, *(in thousands)*:

	T
GAAP total operating expenses, as reported	
Stock-based compensation expense	
Bankruptcy servicing operating expenses	
Operating expenses, excluding stock-based compensation expense and bankruptcy servicing operating expenses	

India Expansion

Due to the continued strong performance of our team in India and our abi
offshore collection efforts, we have negotiated a lease for an additional sp
Gurgaon, India and will allow us to expand our collector headcount up to

Interest Expense

Interest expense increased $0.9 million, or 24.1%, to $4.9 million during
the three months ended September 30, 2009. Interest expense increased $
September 30, 2010, from $12.2 million during the nine months ended Se

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The following table summarizes our interest expense (*in thousands*):

Stated interest on debt obligations
Amortization of loan fees and other loan costs
Amortization of debt discount convertible notes
Total interest expense

Stated interest on debt obligations
Amortization of loan fees and other loan costs
Amortization of debt discount convertible notes
Total interest expense

Stated interest on debt obligations increased $0.8 million during the three
prior year. Stated interest on debt obligations increased $2.0 million durin
period of the prior year. The increases in stated interest on debt obligation
primarily due to an increase in our outstanding loan balances and an incre
Facility.

Provision for Income Taxes

During the three months ended September 30, 2010, we recorded an incor
pretax income. The effective tax rate for the three months ended Septemb
(which is net of a benefit for state taxes of 2.2%), a blended provision for
of 1.6%, a benefit of an Internal Revenue Service (IRS) interest refund
reduction in the state effective tax rate and the applicable true up of the st
September 30, 2009, we recorded an income tax provision of $5.9 million
tax rate for the three months ended September 30, 2009, primarily consist
benefit for state taxes of 2.7%), a provision for state taxes of 7.8%, a bene
for the true-up of the state and federal tax accounts of 0.3%.

During the nine months ended September 30, 2010, we recorded an incon
pretax income. The effective tax rate for the nine months ended Septembe
(which is net of a benefit for state taxes of 2.2%), a blended provision for
tax differences of 1.8%, a benefit of an IRS tax and interest refund of 0.7
in the state tax effective rate and the applicable true up of the state and fe
September 30, 2009, we recorded an income tax provision of $16.1 millio
tax rate for the nine months ended September 30, 2009, primarily consiste
benefit for state taxes of 2.7%), a provision for state taxes of 7.8%, and a

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Supplemental Performance Data

Cumulative Collections to Purchase Price Multiple

The following table summarizes our purchases and related gross collectio

				Cumulative Collectio	
Year of Purchase	**Purchase Price[1]**	**<2004**	**2004**	**2005**	**2006**
<2004	$ 284,161[4]	$ 517,451	$ 192,940	$ 144,775	$ 109,379
2004	101,324		39,400	79,845	54,832
2005	192,590			66,491	129,809
2006	141,041				42,354
2007	204,292				
2008	227,912				
2009	253,533				
2010	242,083				
Total	$ 1,646,936	$ 517,451	$ 232,340	$ 291,111	$ 336,374

(1) Adjusted for put-backs, account recalls, purchase price rescissions, and the im the seller in accordance with the respective purchase agreement (Put-Backs respective purchase agreement (Recalls).

(2) Cumulative collections from inception through September 30, 2010, excludin

(3) Cumulative Collections Multiple (CCM) through September 30, 2010 co

(4) From inception through December 31, 2003.

Total Estimated Collections to Purchase Price Multiple

The following table summarizes our purchases, resulting historical gross purchase *(in thousands, except multiples)*:

	Purchase Price[1]	**Hist Colle**
<2004	$ 284,161[3]	$ 1,0
2004	101,324	2
2005	192,590	4
2006	141,041	2
2007	204,292	3
2008	227,912	3

2009	253,533	2
2010	242,083	
Total	$ 1,646,936	$ 3,0

(1) Adjusted for Put-Backs, Recalls, purchase price rescissions, and the impact of

(2) Cumulative collections from inception through September 30, 2010, excludin

(3) From inception through December 31, 2003.

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Estimated Remaining Gross Collections by Year of Purchase

The following table summarizes our estimated remaining gross collection

			Estimated Re
	2010[(2)]	2011	2012
<2004[(1)]	$ 35	$	$
2004	1,180	1,734	
2005	6,169	20,434	6,929
2006	5,707	27,022	19,290
2007	13,701	39,048	24,427
2008	27,296	89,490	55,528
2009	40,751	155,393	103,065
2010	36,173	148,844	128,341
Total	$ 131,012	$ 481,965	$ 337,580

(1) Estimated remaining collections for Zero Basis Portfolios can extend beyond

(2) 2010 amount consists of three months data from October 1, 2010 to Decembe

Unamortized Balances of Portfolios

The following table summarizes the remaining unamortized balances of o *except percentages*):

	Unamortized Balance as of September 30, 2010
2004	$ 1,964
2005	20,555
2006	31,326
2007	42,900
2008	111,207
2009	163,442
2010	208,760
Total	$ 580,154

(1) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put
the purchase price for accounts that were sold at the time of purchase to anoth

Changes in the Investment in Receivable Portfolios

Revenue related to our investment in receivable portfolios comprises two
value and are accounted for on the accrual basis (Accrual Basis Portfoli
their book value Zero Basis Portfolios and, therefore, every dollar of gros
reversal if applicable. If the amount and timing of future cash collections
such portfolios on the cost recovery method (Cost Recovery Portfolios
basis has been fully recovered, at which time they become Zero Basis Por

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The following tables summarize the changes in the balance of the investm
a percentage of collections *(in thousands, except percentages):*

Balance, beginning of period
Purchases of receivable portfolios
Gross collections[1]
Put-backs and recalls
Revenue recognized[2]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period
Revenue as a percentage of collections[3]

Balance, beginning of period
Purchases of receivable portfolios
Gross collections[1]
Put-backs and recalls
Revenue recognized[2]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period
Revenue as a percentage of collections[3]

Balance, beginning of period
Purchases of receivable portfolios
Gross collections[1]
Put-backs and recalls
Revenue recognized[2]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period
Revenue as a percentage of collections[3]

Balance, beginning of period

Purchases of receivable portfolios
Gross collections[1]
Put-backs and recalls
Revenue recognized[2]
(Portfolio allowances) portfolio allowance reversals, net
Balance, end of period
Revenue as a percentage of collections[3]

(1) Does not include amounts collected on behalf of others.

(2) Includes retained interest.

(3) Revenue as a percentage of collections excludes the effects of net portfolio all

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As of September 30, 2010, we had $580.2 million in investment in receiv
projections of cash collections in excess of revenue applied to the princip
portfolio balance is as follows *(in thousands):*

Year Ended December 31,
2010[1]
2011
2012
2013
2014
2015
2016
2017
Total

[1] 2010 amount consists of three months data from October 1, 2010 to Decembe

Collections by Channel

We utilize numerous business channels for the collection of charged-off c
gross collections by collection channel *(in thousands)*:

	Th
Collection sites	$
Legal collections	
Collection agencies	
Sales	
Other	
	$

External Collection Channels and Related Direct Costs

The following tables summarize our external collection channel performa

	Legal Coll	
	Three Months Ende	
	2010	
Collections	$ 71,773	100.0%
Commissions	$ 20,079	28.0%
Court cost expense[1]	13,111	18.3%
Other[2]	661	0.9%

Total Costs	$ 33,851	47.2%

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	Legal Colle	
	Nine Months Ended	
	2010	
Collections	$ 196,995	100.0%
Commissions	$ 56,576	28.7%
Court cost expense[1]	33,068	16.8%
Other[2]	1,875	1.0%
Total Costs	$ 91,519	46.5%

(1) In connection with our agreement with contracted attorneys, we advance certa
financial statements and provide a reserve and corresponding court cost exper
amount includes changes in our anticipated recovery rate of court costs expen

(2) Other costs consist primarily of costs related to counter claims and legal netw

Legal Outsourcing Collections and Related Costs

The following tables summarize our legal outsourcing collection channel

				Gro
Placement Year	**2003**	**2004**	**2005**	
2003	$ 10,750	$ 27,192	$ 17,212	$
2004		$ 23,455	$ 37,674	$
2005			$ 21,694	$
2006				$
2007				
2008				
2009				
2010 YTD				

(1) Includes collections for accounts placed in our legal channel beginning Januar
date.

Placement Year	**2003**	**2004**	**2005**	
2003	$ 908	$ 2,046	$ 571	$
2004		$ 2,509	$ 2,937	$
2005			$ 3,271	$
2006				$
2007				
2008				
2009				
2010 YTD				

(1) Includes court cost expense for accounts placed in our legal channel beginnin
this channel prior to that date. Court cost expense in this table is calculated ba

3

Placement Year	2003	2004	2005	
2003	$ 3,574	$ 8,606	$ 5,496	$
2004		$ 7,273	$ 12,060	$
2005			$ 6,725	$
2006				$
2007				
2008				
2009				
2010 YTD				

(1) Includes commissions for accounts placed in our legal channel beginning Janu placed in this channel prior to that date.

Court C

Placement Year	2003	2004
2003	41.7%	39.2%
2004		41.7%
2005		
2006		
2007		
2008		
2009		
2010 YTD		

Placement Year[2]	2003	2004
2003	23	29
2004		59
2005		
2006		
2007		
2008		
2009		
2010 YTD		

(1) Represents the year the account was placed into litigation.

(2) Represents the year the account was placed into our legal channel.

Headcount by Function by Site

The following table summarizes our headcount by function by site:

General & Administrative
Account Manager
Bankruptcy Specialist

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Gross Collections by Account Manager

The following table summarizes our collection performance by Account M

Gross collections collection sites
Average active account managers
Collections per average active account manager

The decrease in collections per average active account manager is a result of our long-term strategy to maintain headcount at current levels in our do ramped up headcount in our new, larger India site and as we migrate more has declined. Once we are fully ramped up and the new account managers previous levels.

Gross Collections per Hour Paid

The following table summarizes our gross collections per hour paid to Ac

Gross collections collection sites
Total hours paid
Collections per hour paid

Collection Sites Direct Cost per Dollar Collected

The following table summarizes our gross collections in collection sites a

Gross collections collection sites
Direct cost[(1)]
Cost per dollar collected

(1) Represents salaries, variable compensation and employee benefits.

Salaries and Employee Benefits by Function

The following table summarizes our salaries and employee benefits by fu

Portfolio Purchasing and Collecting Activities
Collections related
General & administrative
Subtotal
Bankruptcy Services

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Purchases by Quarter

The following table summarizes the purchases we made by quarter, and th

Quarter
Q1 2007
Q2 2007
Q3 2007
Q4 2007
Q1 2008
Q2 2008
Q3 2008
Q4 2008
Q1 2009
Q2 2009
Q3 2009
Q4 2009
Q1 2010
Q2 2010
Q3 2010

(1) Allocation of the forward flow asset to the cost basis of receivable portfolio p
due to an alleged breach by Jefferson Capital and its parent, CompuCredit Co
Jefferson Capital. As part of the settlement, we purchased a receivable portfol

Liquidity and Capital Resources

Overview

Historically, we have met our cash requirements by utilizing our cash flov
cash requirements have included the purchase of receivable portfolios, op
borrowings and tax payments.

The following table summarizes our cash flows by category for the perio

Net cash provided by operating activities
Net cash used in investing activities
Net cash provided by financing activities

On February 8, 2010, we entered into a new $327.5 million, revolving cre
accordion feature, we obtained an additional $33.0 million in commitmen
September 20 and 21, 2010 we amended our revolving credit facility to re
of $460.5 million) and extended the maturity date to December 31, 2013.
discussion on our debt and our 2010 Revolving Credit Facility.

Currently, all of our portfolio purchases are funded with cash from operat
Facility.

On September 20, 2010, we issued $50.0 million in senior secured notes t
annual interest rate of 7.75% and mature in 2017 with principal amortizat
to reduce aggregate outstanding borrowings under the Company s 2010 I
remaining $42.9 million of 3.375% Convertible Senior Notes that matured

3

On February 8, 2010, our board of directors approved a new $50.0 millio
repurchase authority allowed under our prior program. Under the 2010 Re
million in any combination of our common stock and Convertible Notes,
capacity. The board s approval authorizes us to repurchase an aggregate
Convertible Notes. As discussed above, our Convertible Notes matured o
2010 Revolving Credit Facility, we are currently authorized to repurchase
ended September 30, 2010 we did not repurchase any common stock or C

Operating Cash Flows

Net cash provided by operating activities was $50.7 million for the nine n
nine months ended September 30, 2009.

Cash provided by operating activities for the nine months ended Septemb
$16.8 million in a non-cash add back related to the net provision for allow
for the nine months ended September 30, 2009, was primarily attributable
related to the net provision for allowance on our receivable portfolios and

Investing Cash Flows

Net cash used in investing activities was $71.8 million for the nine month
ended September 30, 2009.

The cash flows used in investing activities for the nine months ended Sep
of $242.9 million, offset by gross collection proceeds applied to the princ
cash flows used in investing activities for the nine months ended Septemb
$205.4 million, offset by gross collection proceeds applied to the principa

Capital expenditures for fixed assets, acquired with internal cash flow, we
million for nine months ended September 30, 2009.

Financing Cash Flows

Net cash provided by financing activities was $24.2 million for the nine n
ended September 30, 2009.

The cash provided by financing activities during the nine months ended S
of credit agreement and $50.0 million in proceeds from the issuance of ou
amounts outstanding under our line of credit and $42.9 million in repaym
September 20, 2010. Cash provided by financing activities during the nin
borrowings under our line of credit agreement, offset by $41.5 million in
to repurchase $28.5 million in principal amount of our outstanding Conve

We are in compliance with all covenants under our financing arrangemen
eliminate all future Contingent Interest payments in the second quarter of
in a charge in our statement of operations of $6.9 million after the effect o
principal related to our Convertible Notes, we have achieved 35 consecut
liquidity to fund our operations for at least the next twelve months, given
cash and cash equivalents of $11.5 million as of September 30, 2010, our
Credit Facility, which expires in December 2013.

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Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined by Item 30

Item 3. Quantitative and Qualitative Disclosures about Market R
For quantitative and qualitative disclosures about market risk affecting Er
Market Risk, of our Annual Report on Form 10-K for the fiscal year end
exposure to market risk has not changed materially since December 31, 20

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensu
with the Securities and Exchange Commission (SEC) is recorded, proc
rules and forms of the SEC and that such information is accumulated and
Officer and Chief Financial Officer, as appropriate, to allow timely decisi
disclosure controls and procedures, our management recognizes that any c
provide only reasonable assurance of achieving the desired control object
evaluating the cost-benefit relationship of possible controls and procedure

As of the end of the period covered by this report, we conducted an evalu
Executive Officer and Chief Financial Officer, of the effectiveness of the
to the Exchange Act Rule 13a-15(b). Based upon this evaluation, the Chie
disclosure controls and procedures were effective as of September 30, 20
Officer from this evaluation were communicated to the Audit Committee.
and procedures, including our internal controls and procedures for financi
enhancing their effectiveness and to ensure that our systems evolve with o

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting durin
reasonably likely to materially affect, our internal control over financial re

PART II OTHER

Item 1. Legal Proceedings
We are involved in disputes and legal actions from time to time in the ord
in legal proceedings during the quarter ended September 30, 2010. For a d
Item 3, Legal Proceedings, of our 2009 Form 10-K for the year ended D
ended March 31, 2010 and June 30, 2010.

Item 1A Risk Factors

This section highlights some specific risks affecting our business, operatin
exhaustive and the order in which the risks appear is not intended as an in

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Risk Factors

Recent instability in the financial markets and global economy may affe
success of our collection efforts.

The residential real estate market in the U.S. has experienced a significan
mortgage loan originations and securitizations and precipitating more gen
available liquidity globally. Financial markets in the United States, Europ
things, volatility in security prices, rating downgrades of certain investme
fluctuating oil prices, declining business and consumer confidence and in
consumers are experiencing higher delinquency rates on various consume
developments, as well as further declines in real estate values in the U.S.
our ability to collect on our purchased consumer receivable portfolios fur
further credit market dislocations or sustained market downturns may red
purchase consumer receivable portfolios in the future. Further, increased
regulatory restrictions on our operations and increased litigation filed aga
current disruption in financial markets and adverse economic conditions a
results of operations.

Our quarterly operating results may fluctuate due to a variety of factors

Our quarterly operating results will likely vary in the future due to a varie
any particular quarter. We expect that our operating expenses as a percent
markets, increase our new business development efforts, hire additional p
In addition, our operating results have fluctuated and may continue to fluc
Quarterly Report on Form 10-Q:

- the timing and amount of collections on our receivable portfol
- any charge to earnings resulting from an allowance against the
- increases in operating expenses associated with the growth or
- the cost of credit to finance our purchases of receivable portfo
- the timing and terms of our purchases of receivable portfolios

Due to fluctuating prices for consumer receivable portfolios, there has bee
quarter and we expect that to continue. The volume of our portfolio purch
when portfolio pricing is more favorable to us. We believe our ability to c
because of current economic conditions, and this may require us to increa
pay for individual portfolios. An increase in portfolio return hurdles may
Because we recognize revenue on the basis of projected collections on pu
and earnings due to the timing of portfolio purchases.

Accordingly, results for any one quarter are not necessarily indicative of r
and earnings for any particular future period may decrease.

Fluctuations in our operating results may lead to decreases in the tradi

In the future, if operating results fall below the expectations of securities
notes likely would decrease. In addition, uncertainty about current global
volatility of our stock price.

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We may not be able to purchase receivables at sufficiently favorable pri

Our ability to continue to operate profitably depends upon the continued a
and are cost-effective based upon projected collections exceeding our cos
meeting or exceeding our projected collections. The market for acquiring
attracted a large amount of investment capital. With this inflow of capital
we believed may generate reduced returns on investment. While more rec
have somewhat lessened competition for these receivable portfolios and r
economic conditions and competitive climate will continue or that portfol
will collect a sufficient amount to make the portfolio collections cost-effe

In addition to the competitive factors discussed above, the availability of
terms depends on a number of factors, within and outside of our control, i

- the continuation of the current growth and charge-off trends in
- the continued sale of receivable portfolios by originating insti
- our ability to develop and maintain long-term relationships wi
- our ability to obtain adequate data from credit originators or p
estimate the value of, portfolios;
- changes in laws and regulations governing consumer lending,
- the potential availability of government funding to competing
programs intended to serve as an economic stimulus.

In addition, because of the length of time involved in collecting charged-o
timing of our collections, we may not be able to identify trends and make
we are unable to continually purchase and collect on a sufficient volume o
business will be materially and adversely affected.

We may not be successful in acquiring and collecting on portfolios cons

We may pursue the acquisition of portfolios consisting of assets with whi
completing any of these acquisitions. If we do purchase such assets, our la
much for these receivable portfolios, which may substantially hinder our a
acquire such new types of receivables, our existing methods of collections
may have a material and adverse affect on our results of operations.

***We may purchase receivable portfolios that contain unprofitable accou
costs and to fund our operations.***

We acquire and service receivables that the obligors have failed to pay an
institutions generally make numerous attempts to recover on their nonper

collection and legal departments as well as third-party collection agencies
purchase and collect on a sufficient volume of receivables to generate rev
and we may not be successful in collecting amounts sufficient to cover th
operations. If we are not able to collect on these receivables or collect suf
affect our results of operations.

We may purchase portfolios that contain accounts which do not meet ou

In the normal course of our portfolio acquisitions, some receivables may b
purchase agreements and we may seek to return these receivables to the se
such sellers will be able to meet their obligations to us. Accounts that we
portfolios containing too many accounts that do not conform to the terms
uncollectible, we may be unable to collect a sufficient amount and the por
effect on our cash flows. If cash flows from operations are less than antici
portfolios and our future growth and profitability may be materially and a

4

We may not be able to use our sales channel to sell unprofitable accoun

Due to current economic conditions, portfolio pricing in the resale market
periodically sold certain accounts in a portfolio when we believed the cur
estimated remaining collections or determined that additional recovery ef
unfavorable or if the number of resale transactions is limited. The inabilit

The statistical models we use to project remaining cash flows from our r
reduced revenues or the recording of an allowance charge if we do not a

We use our internally developed Unified Collection Score, or UCS model
remaining cash flows from our receivable portfolios. Our UCS and BLS m
among other things, our collection experience and changes in external con
accounts. There can be no assurance, however, that we will be able to ach
not able to achieve these levels of forecasted collection, our revenues will
which may materially and adversely impact our results of operations.

We may not be successful in recovering the level of court costs we antic

We contract with a nationwide network of attorneys that specialize in coll
contracted attorneys when we believe the related debtor has sufficient ass
connection with our agreements with our contracted attorneys, we advanc
Court Costs represent amounts we believe we will recover from our consu
consumers accounts that we expect to collect. These court costs may be
collecting amounts sufficient to cover the amounts deferred in our financi
portion, of the amounts we advanced for the payment of court costs in the
these court costs, this may materially and adversely affect our results of o

Our industry is highly competitive, and we may be unable to continue to
than we have.

We face competition from a wide range of collection and financial service
and other resources, greater adaptability to changing market needs and mo
also compete with traditional contingency collection agencies and in-hous
availability and pricing of charged-off receivable portfolios, as well as the
few significant barriers to entry for new purchasers of charged-off receiva
resources than ours, including competitors that have historically focused o
are unable to develop and expand our business or adapt to changing mark
reduced access to charged-off receivable portfolios at acceptable prices, w

Moreover, we may not be able to offer competitive bids for charged-off re
charged-off receivable portfolios. In our industry, successful bids generall
the debt sellers. Some of our current and future competitors may have mo
changing market needs and more established relationships in our industry
reasonable. We may not be able to offer competitive bids for charged-off
consolidation of issuers of credit cards, which have been a principal sourc
sellers in the market and has correspondingly given the remaining sellers
card accounts.

In addition, we believe that issuers of credit cards are increasingly using o
delinquent accounts in an effort to reduce costs. If these off-shore efforts
offer for sale and increase the purchase price for portfolios they offer for s

Our failure to purchase sufficient quantities of receivable portfolios ma

Because fixed costs, such as certain personnel costs and lease or other fac
required to reduce the number of employees in our collection operations i
with additional receivable portfolios or collect sufficient amounts on rece
business adversely and lead to:

lower employee morale, higher employee attrition rates, fewe

disruptions in our operations and loss of efficiency in collecti

excess costs associated with unused space in collection faciliti

A significant portion of our portfolio purchases during any period may

We expect that a significant percentage of our portfolio purchases for any
which also may involve forward flow arrangements. We cannot be certai
receivables to us on terms or in quantities acceptable to us, or that we wo

A significant decrease in the volume of purchases from any of our princip
receivables. We may be unable to find alternative sources from which to
replace such purchases, the search could take time, the receivables could
adversely affect our financial performance.

We may be unable to meet our future short- or long-term liquidity requi

We depend on both internal and external sources of financing to fund our
additional financing and capital resources increases dramatically as our b
on terms acceptable to us would limit our ability to acquire additional rec

Volatility in U.S. credit markets could affect our ability to refinance and
investments, or other significant operating or capital expenditures.

At the end of September 30, 2010, we had approximately $50.0 million p
September 17, 2017, and a balance on our revolving credit facility of $27
commitments from lenders increasing our revolving credit facility to app
restrict our ability to refinance the principal amount of the Senior Notes o
restrict our ability to further exercise the remaining accordion feature of c

We may not be able to continue to satisfy the restrictive covenants in ou

All of our receivable portfolios are pledged to secure amounts owed to ou
on how we operate our business. Failure to satisfy any one of these coven
which could have a materially adverse effect on our ability to conduct bu

acceleration of outstanding indebtedness;

- our inability to continue to purchase receivables needed to op

- our inability to secure alternative financing on favorable term

We use estimates in our revenue recognition and our earnings will be r

We utilize the interest method to determine revenue recognized on substa
receivables is modeled based upon its projected cash flows. A yield is the
of receivables, results in the recognition of revenue at a constant yield rel
by us may substantially differ from our projections and may be lower tha
to take an allowance charge on a portion of our investment, which would

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We may incur allowance charges based on the provisions of Financial A
Subtopic 310-30.

We account for our portfolio revenue in accordance with the Financial Ac
310-30 *Loans and Debt Securities Acquired with Deteriorated Credit Q*
accrued to the excess of the estimate of expected future cash flows over a
excess of the contractual cash flows over expected cash flows not be reco
and freezes the internal rate of return, or IRR originally estimated when th
Rather than lower the estimated IRR if the expected future cash flow estin
would be written down to maintain the then-current IRR. Increases in exp
upward adjustment of the IRR over a portfolio s remaining life. Any incr
ASC 310-30 does not permit yields to be lowered, there is an increased pr
would negatively impact our profitability.

If our goodwill or amortizable intangible assets become impaired we ma

We carry approximately $16.0 million in goodwill and approximately $1.
generally accepted accounting principles, we review our goodwill for pote
intangible assets for impairment whenever events or changes in circumsta
may indicate that the carrying value of our goodwill or amortizable intang
future cash flows, growth rates and discount rates. We may be required to
in which any impairment of our goodwill or amortizable intangible assets

Negative news regarding the debt collection industry and individual deb
pay the debt we acquire.

Consumers are exposed to information from a number of sources that may
actions against us. Print and other media publish stories about the debt co
practices. These stories are also published on websites, which can lead to
negative publicity about our industry. Various internet sites are maintaine
collectors and seek guidance from other website posters on how to handle
counseling centers are becoming more common, adding to the negative at
debtors may be more reluctant to pay their debts or could pursue legal act
actions could impact our ability to collect on the receivables we acquire a

Our business of enforcing the collection of purchased receivables is sub

Some laws and regulations applicable to credit card issuers or other debt o
where the card issuer or originator failed to comply with applicable federa
acquired. Because our receivables generally are originated and serviced n
complied with applicable laws and regulations. While our receivable acqu
owing to the originating institution s failure to comply with applicable la
from originating institutions will be adequate to protect us from losses on

We sometimes purchase accounts in asset classes that are subject to indus
use on those accounts. Our inability to collect sufficient amounts from the
adversely affect our results of operations.

Present and future government regulation, legislation or enforcement a
receivables.

Federal and state laws and regulations may limit our ability to recover and
on our part. Laws relating to debt collections also directly apply to our bu
the originators of our receivables to comply with existing or new laws, ru

cause us to pay damages to the original debtors, which could reduce our r

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Additional consumer protection or privacy laws and regulations may be e
receivables. Such new laws may materially adversely affect our ability to
our earnings.

Failure to comply with government regulation could result in the suspe
the payment of significant fines and penalties, or require other significa

The collections industry is regulated under various federal and state laws
licensed as a debt collection company. The Federal Trade Commission, st
investigate consumer complaints against debt collection companies and to
our third party collection agencies or law firms fail to comply with applic
termination of our ability to conduct collection operations, which would r
laws or regulations, or changes in the ways these rules or laws are interpr
increase the cost of regulatory compliance.

We are dependent upon third parties to service a substantial portion of

Although we utilize our in-house collection staff to collect a substantial p
Further, we are increasing our collection activity through the legal channe
collect accounts. As a result, we are dependent upon the efforts of those t
consumer receivables. Any failure by our third-party collection agencies a
such collections to us could materially reduce our revenue and our profita
or attorneys were to cease operations abruptly, or to become insolvent, su
profitability. Our revenue and profitability could also be materially adver
collection agencies or attorneys and transfer account information to our n
agreements with our third-party collection agencies and attorneys are term
their obligations adequately, or if our relationships with such third-party c

A significant portion of our collections relies upon our success in indivi
judgments in our favor.

We generate a significant portion of our revenue by collecting on judgme
decrease in the willingness of courts to grant such judgments, a change in
decrease in our ability to collect on such judgments could have a material
of the legal channel for collections, our short-term margins may decrease
counter claims. We may not be able to collect on certain aged accounts be
to adverse effects of regulatory changes that we cannot predict. Further, c
statements or applications be attached to the pleadings in order to obtain a
account documents, these courts will deny our claims. Additionally, our a
require that certain types of account documentation be in our possession p

Increases in costs associated with our collections through a network of
strategies and the individual lawsuits brought against consumers to coll

We generally outsource those accounts where it appears the consumer is a
collection matters, paying them a contingency fee on amounts collected. I
advance certain out-of-pocket court costs and capitalize those costs in our
collection activity through the legal channel, and as a consequence, due to
collections, and an increase in costs related to counterclaims, our costs in
and adverse affect on our results of operations. We also rely on our netwo
federal law, to appropriately handle funds advanced by us in connection w
funds remitted by consumers. In the event that one or more of our attorne
otherwise fails in their duties, this may also materially and adversely affe

We are subject to ongoing risks of litigation, including individual and c
and other laws, and may be subject to awards of substantial damages.

We operate in an extremely litigious climate and currently are, and may i
and class actions under consumer credit, collections, employment, securit

In the past, securities class-action litigation has often been filed against a
industry experiences a high volume of litigation, and legal precedents hav
Additionally, employment-related litigation is increasing throughout the c
divert management s attention from the operation of our business. Dama
collection strategies could be restricted if class-action plaintiffs were to p
on our business and financial condition.

We may make acquisitions that prove unsuccessful or strain or divert o

From time to time, we consider acquisitions of other companies that coul
diverse geographic regions and entities offering greater access to busines
we acquired Ascension Capital Group and certain assets of Jefferson Cap
we do, the acquisition may be unprofitable. In addition, we may not succe
integrate such businesses with our own, which may result in our inability
In addition, through acquisitions, we may enter markets in which we have
events may place additional constraints on our resources such as divertin
can materially adversely affect our operations and financial condition. M
equity securities, incurrence of additional debt and amortization of identi

We are dependent on our management team for the adoption and imple
material adverse effect on our business.

Our management team has considerable experience in finance, banking, c
of our executives obtained by managing businesses across numerous othe
management team has created a culture of new ideas and progressive thin
The loss of the services of one or more of our key executive officers coul
acquire or collect on portfolios of charged-off consumer receivables and t
continued service and performance of our management team, and we can

We may not be able to hire and retain enough sufficiently trained empl
of personnel turnover.

Our industry is very labor-intensive, and companies in our industry typic
for qualified collections personnel with companies in our business and in
compete for qualified non-collections personnel with companies in many
continue our growth or operate profitably if we cannot hire and retain qua
employees increases our recruiting and training costs and may limit the n
receivables. Our newer employees tend to be less productive and generall
among our employees increases, we will have fewer experienced employ
and therefore materially and adversely impact our results of operations.

Exposure to regulatory, political and economic conditions in India expo

A significant element of our business strategy is to continue to develop ar
significantly lower than in the U.S. and other industrialized countries for
than in the U.S., and we experience higher employee turnover in our India
trends could result in the loss of the cost savings we sought to achieve by
has experienced significant inflation and shortages of readily available for
be adversely affected by changes in inflation, exchange rate fluctuations,
or diplomatic developments in or affecting India in the future. In addition
Indian government is significantly involved in and exerts considerable inf
bureaucracy. In the recent past, the Indian government has provided signi
to encourage foreign investment in certain sectors of the economy, includ
climate of India could have a material and adverse effect on our business,

India has also experienced persistent though declining mass poverty, civil
neighboring countries. In recent years, there have been military confronta
Kashmir and along the Indian-Pakistan border. The potential for hostilitie
recent terrorist incidents in India and the unsettled nature of the regional
and Iraq. Additionally, India s recent nuclear activity could expose it to i
political stability of India could have a material adverse effect on our busi

We may not be able to manage our growth effectively, including the exp

We have expanded significantly in recent years. However, future growth
that we will be able to manage our growth effectively. Continued growth
resources. We cannot be certain that our infrastructure, facilities and pers
adapt to future growth. We also cannot be certain that the additional inve
support our growth and improve our operations will be successful or that
growth effectively, our results of operations may be materially and advers

The failure of our technology and telecommunications systems could ha

Our success depends in large part on sophisticated computer and telecom
and telecommunications equipment and software systems, through casual
could disrupt our operations. In the normal course of our business, we mu
to properly bid on prospective acquisitions of receivable portfolios and to
activities. Any simultaneous failure of our information systems and their

Our business depends heavily on services provided by various local and l
service costs or any significant interruption in telephone services could ne

We may not be able successfully to anticipate, invest in or adopt technol

Our business relies on computer and telecommunications technologies, ar
to our competitive position and our success. We may not be successful in
basis. Computer and telecommunications technologies are evolving rapid

We are making significant modifications to our information systems to en
continued expansion, and our future growth may require additional inves
or time estimates for completion or may be unsuccessful. If we cannot up
be materially and adversely affected.

We depend on having the capital resources necessary to invest in new tec
adequate capital resources will be available to us.

We may not be able adequately to protect the intellectual property rights

We rely on proprietary software programs and valuation and collection pr
a competitive advantage. We consider our proprietary software, processes
or registered copyright. We may not be able to protect our technology and
competitive advantage.

Our results of operations may be materially adversely affected if bankru
change.

Our business model may be uniquely vulnerable to an economic recession
consumer receivables, thereby contributing to an increase in the amount o
debtor s assets are sold to repay credit originators, with priority given to
typically purchase are generally unsecured, we often would not be able to
that are seriously delinquent, this is often an indication that many of the c
debts going forward and are more likely to file for bankruptcy in an econo
would not decline with an increase in bankruptcy filings. If our actual col
portfolio is significantly lower than we projected when we purchased the
affected.

In 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act,
the treatment of consumer filers for bankruptcy protection. Since the Prot
and the volume of business at Ascension has decreased as a result. We ca
bankruptcy filings, on a prospective basis, and its impact on the collectab

Current federal legislative and executive branch proposals made in respon
creditors in a consumer bankruptcy. We cannot predict whether these or o
business.

We are subject to examinations and challenges by tax authorities.

We are subject to periodic examination from federal, state and internation
operations, we undertake a diligent review of key data, and make decision
areas where the appropriate application of tax laws is subject to competin
the probable outcome, document the reasoning behind those determinatio
take with respect to the application of tax laws, may, from time to time, b
resolved in our favor, they could have an adverse effect on our financial c

Item 2. Unregistered Sales Of Equity Securities And Use Of Pro

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

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Item 6. Exhibits

4.1*	Senior Secured Note Purchase Agreement, dated September 2 Company of America, Pruco Life Insurance Company, Pruder Annuities Life Assurance Corporation (incorporated by refere on October 25, 2010).
4.2*	Form of Note (incorporated by reference to Exhibit 4.2 to the October 25, 2010).
10.1	Amendment No. 1 to the Credit Agreement, dated September on the signatures pages thereto and JPMorgan Chase Bank N. reference to Exhibit 10.1 to the Company s Current Report or
10.2	Amendment No. 2 to the Credit Agreement, dated September on the signatures pages thereto and JPMorgan Chase Bank N. reference to Exhibit 10.2 to the Company s Current Report or
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31.2	Certification of the Principal Financial Officer pursuant to rul
32.1	Certification of Chief Executive Officer and Chief Financial C Section 906 of the Sarbanes-Oxley act of 2002 (filed herewith

* The asterisk denotes that confidential portions of this exhibit have b 1934. The confidential portions have been submitted separately to t

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ENCORE CAPIT

SIGNA

Pursuant to the requirements of the Securities Exchange Act of 1934, the
undersigned thereunto duly authorized.

Date: October 26, 2010

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