

PRA GROUP INC  
Form 10-Q  
August 10, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015.

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-50058

PRA Group, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 75-3078675  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

120 Corporate Boulevard, Norfolk, Virginia 23502  
(Address of principal executive offices) (zip code)  
(888) 772-7326  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Class Outstanding as of August 5, 2015  
Common Stock, \$0.01 par value 48,336,415

PRA GROUP, INC.  
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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PRA GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

June 30, 2015 and December 31, 2014

(unaudited)

(Amounts in thousands, except per share amounts)

	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$56,811	\$39,661
Investments	88,295	89,703
Finance receivables, net	2,012,552	2,001,790
Other receivables, net	18,443	12,959
Income taxes receivable	1,580	—
Net deferred tax asset	125	6,126
Property and equipment, net	46,215	48,258
Goodwill	503,001	527,445
Intangible assets, net	9,450	10,933
Other assets	47,284	41,876
Total assets	\$2,783,756	\$2,778,751
Liabilities and Equity		
Liabilities:		
Accounts payable	\$3,933	\$4,446
Accrued expenses	77,007	89,361
Income taxes payable	9,758	11,020
Other liabilities	5,933	5,962
Net deferred tax liability	252,638	255,587
Interest bearing deposits	33,248	27,704
Borrowings	1,503,363	1,482,456
Total liabilities	1,885,880	1,876,536
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, par value \$0.01, authorized shares, 2,000, issued and outstanding shares - 0	—	—
Common stock, par value \$0.01, 100,000 authorized shares, 48,333 issued and outstanding shares at June 30, 2015, and 49,577 issued and outstanding shares at December 31, 2014	483	496
Additional paid-in capital	35,360	111,659
Retained earnings	1,015,570	906,010
Accumulated other comprehensive (loss)	(153,537	) (115,950
Total stockholders' equity	897,876	902,215
Total liabilities and equity	\$2,783,756	\$2,778,751

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

## PRA GROUP, INC.

## CONSOLIDATED INCOME STATEMENTS

For the three and six months ended June 30, 2015 and 2014

(unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Income recognized on finance receivables, net	\$220,064	\$182,518	\$448,467	\$360,488
Fee income	13,878	14,510	26,931	30,118
Other revenue	3,255	315	7,005	659
Total revenues	237,197	197,343	482,403	391,265
Operating expenses:				
Compensation and employee services	68,320	52,461	133,591	103,846
Legal collection fees	14,114	11,371	27,805	22,204
Legal collection costs	19,556	25,429	40,410	51,962
Agent fees	7,784	1,464	16,045	2,914
Outside fees and services	12,466	12,113	25,263	22,904
Communication	8,073	7,765	18,491	16,728
Rent and occupancy	3,479	2,411	7,039	4,749
Depreciation and amortization	4,916	4,211	9,526	8,158
Other operating expenses	9,610	7,681	19,188	13,781
Total operating expenses	148,318	124,906	297,358	247,246
Income from operations	88,879	72,437	185,045	144,019
Other income and (expense):				
Interest expense	(13,452)	(5,067)	(28,228)	(9,926)
Net foreign currency transaction gain/(loss)	3,584	(6,197)	10,373	(6,189)
Income before income taxes	79,011	61,173	167,190	127,904
Provision for income taxes	27,586	23,666	57,630	49,557
Net income	\$51,425	\$37,507	\$109,560	\$78,347
Net income per common share:				
Basic	\$1.06	\$0.75	\$2.26	\$1.57
Diluted	\$1.06	\$0.74	\$2.25	\$1.55
Weighted average number of shares outstanding:				
Basic	48,325	50,065	48,525	49,997
Diluted	48,529	50,437	48,790	50,400

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

PRA GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2015 and 2014

(unaudited)

(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$51,425	\$37,507	\$109,560	\$78,347
Other comprehensive income/(loss):				
Change in foreign currency translation, net of tax	25,112	1,911	(37,587)	) 2,359
Total other comprehensive income/(loss)	25,112	1,911	(37,587)	) 2,359
Comprehensive income	\$76,537	\$39,418	\$71,973	\$80,706

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

PRA GROUP, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the six months ended June 30, 2015

(unaudited)

(Amounts in thousands)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Stockholders'
			Capital		Comprehensive	Equity
					Loss	
Balance at December 31, 2014	49,577	\$496	\$111,659	\$906,010	\$ (115,950 )	\$902,215
Components of comprehensive income:						
Net income	—	—	—	109,560	—	109,560
Foreign currency translation adjustment	—	—	—	—	(37,587 )	(37,587 )
Vesting of nonvested shares	234	2	(2 )	—	—	—
Repurchase and cancellation of common stock	(1,478 )	(15 )	(77,787 )	—	—	(77,802 )
Amortization of share-based compensation	—	—	7,665	—	—	7,665
Income tax benefit from share-based compensation	—	—	4,140	—	—	4,140
Employee stock relinquished for payment of taxes	—	—	(10,315 )	—	—	(10,315 )
Balance at June 30, 2015	48,333	\$483	\$35,360	\$1,015,570	\$ (153,537 )	\$897,876

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

PRA GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the six months ended June 30, 2015 and 2014  
(unaudited)  
(Amounts in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 109,560	\$ 78,347
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of share-based compensation	7,665	5,437
Depreciation and amortization	9,526	8,158
Amortization of debt discount	2,104	2,005
Deferred tax expense	7,272	15,940
Net foreign currency transaction (gain)/loss	(10,373	) 6,189
Changes in operating assets and liabilities:		
Other assets	(407	) (3,874
Other receivables	(5,484	) (34
Accounts payable	(515	) 4,831
Income taxes receivable/payable, net	(2,842	) 5,665
Accrued expenses	(20,424	) (7,150
Other liabilities	(28	) (6,950
Net cash provided by operating activities	96,054	108,564
Cash flows from investing activities:		
Purchases of property and equipment	(5,523	) (13,224
Acquisition of finance receivables, net of buybacks	(387,858	) (252,168
Collections applied to principal on finance receivables	340,904	272,153
Purchase of investments	(43,007	) —
Proceeds from sales and maturities of investments	43,648	—
Net cash (used in)/ provided by investing activities	(51,836	) 6,761
Cash flows from financing activities:		
Income tax benefit from share-based compensation	4,140	4,152
Proceeds from lines of credit	326,039	—
Principal payments on lines of credit	(234,400	) —
Repurchases of common stock	(77,802	) —
Principal payments on long-term debt	(37,500	) (5,000
Payments of line of credit origination costs and fees	(5,000	) —
Net increase in interest-bearing deposits	7,176	—
Net cash used in financing activities	(17,347	) (848
Effect of exchange rate on cash and cash equivalents	(9,721	) (5,955
Net increase in cash and cash equivalents	17,150	108,522
Cash and cash equivalents, beginning of period	39,661	162,004
Cash and cash equivalents, end of period	\$ 56,811	\$ 270,526
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 22,866	\$ 7,634
Cash paid for income taxes	49,557	25,414
Supplemental disclosure of non-cash information:		
Employee stock relinquished for payment of taxes	\$ (10,315	) \$ (7,515

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





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PRA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 1. Organization and Business:

Throughout this report, the terms "PRA Group," "our," "we," "us," the "Company" or similar terms refer to PRA Group, Inc. and its subsidiaries.

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

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

The following table shows the amount of revenue generated for the three and six months ended June 30, 2015 and 2014 and long-lived assets held at June 30, 2015 and 2014 for the United States, the Company's country of domicile, and outside of the United States (amounts in thousands):

	As Of And For The Three Months Ended June 30, 2015		As Of And For The Three Months Ended June 30, 2014	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	\$184,191	\$35,931	\$193,726	\$36,537
Outside the United States	53,006	10,284	3,617	2,365
Total	\$237,197	\$46,215	\$197,343	\$38,902

  

	As Of And For The Six Months Ended June 30, 2015		As Of And For The Six Months Ended June 30, 2014	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	\$368,862	\$35,931	\$384,914	\$36,537
Outside the United States	113,541	10,284	6,351	2,365
Total	\$482,403	\$46,215	\$391,265	\$38,902

Revenues are attributed to countries based on the location of the related operations. Long-lived assets consist of net property and equipment.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC") and, therefore, do not include all information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all

adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's consolidated balance sheet as of June 30, 2015, its consolidated income statements and statements of comprehensive income for the three and six months ended June 30, 2015 and 2014, its consolidated statement of changes in stockholders' equity for the six months ended June 30, 2015, and its consolidated statements of cash flows for the six months ended June 30, 2015 and 2014. The consolidated income statements of the Company for the three and six months ended June 30, 2015 may not be indicative of future results. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2014 Annual Report on Form 10-K, filed on March 2, 2015.

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PRA GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 2. Finance Receivables, net:

Changes in finance receivables, net for the three and six months ended June 30, 2015 and 2014 were as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	\$1,954,772	\$1,253,961	\$2,001,790	\$1,239,191
Acquisitions of finance receivables <sup>(1)</sup>	204,030	102,081	387,858	252,168
Foreign currency translation adjustment	23,310	309	(36,192)	) 389
Cash collections	(389,624)	) (319,274)	) (789,371)	) (632,641)
Income recognized on finance receivables, net	220,064	182,518	448,467	360,488
Cash collections applied to principal	(169,560)	) (136,756)	) (340,904)	) (272,153)
Balance at end of period	\$2,012,552	\$1,219,595	\$2,012,552	\$1,219,595

(1) Acquisitions of finance receivables are net of buybacks and include certain capitalized acquisition related costs. At the time of acquisition, the life of each pool is generally estimated to be between 80 and 120 months based on projected amounts and timing of future cash collections using the proprietary models of the Company. At June 30, 2015, the weighted average remaining life of the Company's pools is estimated to be approximately 102 months.

Based upon current projections, cash collections applied to principal on finance receivables as of June 30, 2015 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

June 30, 2016	\$547,983
June 30, 2017	453,543
June 30, 2018	361,559
June 30, 2019	287,793
June 30, 2020	172,784
June 30, 2021	116,975
June 30, 2022	66,479
June 30, 2023	4,345
June 30, 2024	1,091
	\$2,012,552

At June 30, 2015, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of \$16.1 million; at December 31, 2014, the amount was \$17.1 million.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows. Changes in accretable yield for the three and six months ended June 30, 2015 and 2014 were as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	\$2,504,156	\$1,451,001	\$2,513,185	\$1,430,067
Income recognized on finance receivables, net	(220,064)	) (182,518)	) (448,467)	) (360,488)
Additions	173,888	98,423	346,270	204,620

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Net reclassifications from nonaccretable difference	49,729	114,721	168,981	206,357
Foreign currency translation adjustment	30,938	199	(41,322	) 1,270
Balance at end of period	\$2,538,647	\$1,481,826	\$2,538,647	\$1,481,826

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PRA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The following is a summary of activity within the Company's valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three and six months ended June 30, 2015 and 2014 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Beginning balance	\$87,796	\$89,148	\$86,166	\$91,101
Allowance charges	4,910	1,386	7,595	2,773
Reversal of previous recorded allowance charges	(25	) (3,685	) (1,080	) (7,025
Net allowance charges/(reversals)	4,885	(2,299	) 6,515	(4,252
Ending balance	\$92,681	\$86,849	\$92,681	\$86,849

## 3. Investments:

Investments consist of the following at June 30, 2015 and December 31, 2014 (amounts in thousands):

	June 30, 2015	December 31, 2014
Trading		
Short-term investments	\$13,381	\$37,405
Available-for-sale		
Securitized assets	6,486	3,721
Held-to-maturity		
Securitized assets	52,238	31,017
Other investments		
Private equity funds	16,190	17,560
	\$88,295	\$89,703

## Trading

Short-term investments: The Company's investments in money market mutual funds are stated at fair value. Fair value is estimated using the net asset value of the investment. Unrealized gains and losses are recorded in earnings.

## Available-for-Sale

Investments in securitized assets: The Company holds a majority interest in a closed-end Polish investment fund. The fund was formed in December 2014 to acquire portfolios of nonperforming consumer loans in Poland. The Company's investment consists of a 100% interest in the Series B certificates and a 20% interest in the Series C certificates. Each certificate comes with one vote and is governed by a co-investment agreement. Series C certificates, which share equally in the residual profit of the fund, are accounted for as debt securities classified as available-for-sale and are stated at fair value. Income is recognized using the effective yield method.

## Held-to-Maturity

Investments in securitized assets: The Company holds a majority interest in a closed-end Polish investment fund. The fund was formed in December 2014 to acquire portfolios of nonperforming consumer loans in Poland. The Company's investment consists of a 100% interest in the Series B certificates and a 20% interest in the Series C certificates. Each certificate comes with one vote and is governed by a co-investment agreement. Series B certificates, which provide a

preferred return based on the expected net income of the portfolios, are accounted for as a beneficial interest in securitized financial assets and stated at amortized cost. The Company has determined it has the ability and intent to hold these certificates until maturity, which require repayment in fixed amounts on specific dates. The preferred return is not a guaranteed return. Income is recognized under ASC Topic 325-40, "Beneficial Interests in Securitized Financial Assets" ("ASC 325-40"). Income is recognized using the effective yield method.

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PRA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The Company adjusts the yield for changes in estimated cash flows prospectively through earnings. If the fair value of the investment falls below its carrying amount and the decline is deemed to be other than temporary, the investment is written down, with a corresponding charge to earnings. The underlying securities have both known principal repayment terms as well as unknown principal repayments due to potential borrower pre-payments. Accordingly, it is difficult to accurately predict the final maturity date of these investments. Revenues recognized on these investments were \$1.9 million and \$3.1 million during the three and six months ended June 30, 2015, and is recorded in the Other Revenue line item in the income statement.

## Other Investments

Investments in private equity funds: Investments in private equity funds represent limited partnerships in which the Company has less than a 3% interest and are carried at cost. Distributions received from the partnerships are included in other revenue. Distributions received in excess of the Company's proportionate share of accumulated earnings are applied as a reduction of the cost of the investment.

The amortized cost and estimated fair value of available-for sale and held-to-maturity investments at June 30, 2015 and December 31, 2014 were as follows (amounts in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
Available-for-sale				
Securitized assets	\$6,112	374	—	\$6,486
Held-to-maturity				
Securitized assets	52,238	7,112	—	59,350
	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
Available-for-sale				
Securitized assets	\$3,721	—	—	\$3,721
Held-to-maturity				
Securitized assets	31,017	—	—	31,017

## 4. Borrowings:

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

	June 30, 2015	December 31, 2014
Domestic revolving credit	\$462,500	\$409,000
Domestic term loan	177,500	185,000
Seller note payable	169,938	169,938
Multicurrency revolving credit	430,483	427,680
Aktiv subordinated loan	—	30,000
Convertible senior notes	287,500	287,500
Less: debt discount	(24,558)	(26,662)
Total	\$1,503,363	\$1,482,456

## Domestic Revolving Credit and Term Loan

The Company has a credit facility with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the "Credit Agreement"). The total credit facility under the Credit Agreement includes an aggregate

principal amount of \$827.5 million (subject to compliance with a borrowing base and applicable debt covenants), which consists of (i) a fully-funded



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PRA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

\$177.5 million term loan, (ii) a \$630 million domestic revolving credit facility, of which \$185.5 million is available to be drawn, and (iii) a \$20 million multi-currency revolving credit facility, of which \$2.0 million is available to be drawn. The facilities all mature on December 19, 2017. The term and revolving loans accrue interest, at the option of the Company, at either the base rate or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.50% per annum in the case of the Eurodollar rate loans and 1.50% in the case of the base rate loans. The base rate is the highest of (a) the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%. The Company's revolving credit facility includes a \$20 million swingline loan sublimit, a \$20 million letter of credit sublimit and a \$20 million alternative currency equivalent sublimit.

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

- borrowings may not exceed 33% of the ERC of all eligible asset pools plus 75% of eligible accounts receivable;
- the consolidated leverage ratio (as defined in the Credit Agreement) cannot exceed 2.0 to 1.0 as of the end of any fiscal quarter;
- consolidated tangible net worth (as defined in the Credit Agreement) must equal or exceed \$455.1 million plus 50% of positive cumulative consolidated net income for each fiscal quarter beginning with the quarter ended December 31, 2012, plus 50% of the cumulative net proceeds of any equity offering;
- capital expenditures during any fiscal year cannot exceed \$40 million;
- cash dividends and distributions during any fiscal year cannot exceed \$20 million;
- stock repurchases during the term of the agreement cannot exceed \$250 million and cannot exceed \$100 million in a single fiscal year;
- investments in loans and/or capital contributions cannot exceed \$950 million to consummate the acquisition of the equity of Aktiv Kapital AS ("Aktiv");
- permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed \$250 million;
- indebtedness in the form of senior, unsecured convertible notes or other unsecured financings cannot exceed \$500 million in the aggregate (without respect to the Company's 3.00% Convertible Senior Notes due 2020);
- the Company must maintain positive consolidated income from operations (as defined in the Credit Agreement) during any fiscal quarter; and
- restrictions on changes in control.

The revolving credit facility also bears an unused line fee of 0.375% per annum, payable quarterly in arrears.

The Company's borrowings on this credit facility at June 30, 2015 consisted of \$177.5 million outstanding on the term loan with an annual interest rate as of June 30, 2015 of 2.69% and \$462.5 million outstanding in 30-day Eurodollar rate loans on the revolving facility with a weighted average interest rate of 2.72%. At December 31, 2014, the Company's borrowings on this credit facility consisted of \$185.0 million outstanding on the term loan with an annual interest rate as of December 31, 2014 of 2.67% and \$409.0 million outstanding in 30-day Eurodollar rate loans on the revolving facility with a weighted average interest rate of 2.68%.

**Seller Note Payable**

In conjunction with the closing of the Aktiv business acquisition on July 16, 2014, the Company entered into a \$169.9 million promissory note (the "Seller Note") with an affiliate of the seller. On May 22, 2015, the Company amended the Seller Note to extend the maturity date to January, 19, 2016. The Seller Note bears interest at the three-month London Interbank Offered Rate ("LIBOR") plus 3.75%. The quarterly interest due can be paid or added into the Seller Note balance at the Company's option. During the three and six months ended June 30, 2015, the Company paid the quarterly interest payments totaling \$1.7 million and \$3.4 million, respectively. At June 30, 2015, the balance due on the Seller Note was \$169.9 million with an annual interest rate of 4.03%.

**Multicurrency Revolving Credit Facility**

On October 23, 2014, the Company entered into a credit agreement with DNB Bank ASA for a Multicurrency Revolving Credit Facility (“the Multicurrency Revolving Credit Agreement”). Subsequently, two other lenders joined the credit facility and on June 12, 2015, the Company entered into a first amendment to the Multicurrency Revolving Credit Agreement (“the Amended Multicurrency Revolving Credit Agreement”) which provided, among other things, an increase in the total commitments from

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\$500 million to an aggregate of \$750 million, subject to certain requirements, and an increase in the maximum ERC ratio from 28% to 33%, subject to the payment of additional associated fees.

Under the terms of the Amended Multicurrency Revolving Credit Agreement, the credit facility includes an aggregate amount of \$750 million, of which \$319.5 million is available to be drawn, accrues interest at the Interbank Offered Rate ("IBOR") plus 2.50-3.30% (as determined by the ERC Ratio as defined in the Amended Multicurrency Revolving Credit Agreement), bears an unused line fee of 0.35% per annum, payable monthly in arrears, and matures on October 23, 2019. The Amended Multicurrency Revolving Credit Agreement also includes an Overdraft Facility aggregate amount of \$40 million, of which \$40.0 million is available to be drawn, accrues interest at the IBOR plus 2.50-3.30% (as determined by the ERC Ratio as defined in the Amended Multicurrency Revolving Credit Agreement), bears a facility line fee of 0.50% per annum, payable quarterly in arrears, and also matures October 23, 2019.

The Amended Multicurrency Revolving Credit Agreement is secured by i) the shares of most of the subsidiaries of Aktiv ii) all intercompany loans to Aktiv's subsidiaries. The Amended Multicurrency Revolving Credit Agreement also contains restrictive covenants and events of default including the following:

- the ERC Ratio (as defined in the Amended Multicurrency Revolving Credit Agreement) may not exceed 33%;
- the GIBD Ratio (as defined in the Amended Multicurrency Revolving Credit Agreement) cannot exceed 3.0 to 1.0 as of the end of any fiscal quarter;
- interest bearing deposits in AK Nordic AB cannot exceed SEK 500,000,000;
- cash collections must exceed 95% of Aktiv's ERC for the same set of portfolios, measured monthly on a quarterly basis.

At June 30, 2015, the balance on the Amended Multicurrency Revolving Credit Agreement was \$430.5 million, with an annual interest rate of 3.23%.

**Aktiv Subordinated Loan**

On December 16, 2011, Aktiv entered into a subordinated loan agreement with Metrogas Holding Inc., an affiliate with Geveran Trading Co. Ltd. During the first quarter of 2015, the Company elected to prepay (as allowed for in the agreement) the outstanding balance on the Aktiv subordinated loan of \$30.0 million and terminate the agreement. The Aktiv subordinated loan accrued interest at LIBOR plus 3.75%, originally matured on January 16, 2016.

**Convertible Senior Notes**

On August 13, 2013, the Company completed the private offering of \$287.5 million in aggregate principal amount of the Company's 3.00% Convertible Senior Notes due 2020 (the "Notes"). The Notes were issued pursuant to an Indenture, dated August 13, 2013 (the "Indenture") between the Company and Wells Fargo Bank, National Association, as trustee. The Indenture contains customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately. The Notes are senior unsecured obligations of the Company and mature on August 1, 2020. Interest on the Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year. Prior to February 1, 2020, the Notes will be convertible only upon the occurrence of specified events. On or after February 1, 2020, the Notes will be convertible at any time. Upon conversion, the Notes may be settled, at the Company's option, in cash, shares of the Company's common stock, or any combination thereof. Holders of the Notes have the right to require the Company to repurchase all or some of their Notes at 100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the Indenture). In addition, upon the occurrence of a make-whole fundamental change (as defined in the Indenture), the Company may, under certain circumstances, be required to increase the conversion rate for the Notes converted in connection with such a make-whole fundamental change. The conversion rate for the Notes is initially 15.2172 shares per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$65.72 per share of the Company's common stock, and is subject to adjustment in certain circumstances pursuant to the Indenture. The

Company does not have the right to redeem the Notes prior to maturity. As of June 30, 2015, none of the conditions allowing holders of the Notes to convert their Notes had occurred.

As noted above, upon conversion, holders of the Notes will receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. However, the Company's current intent is to settle conversions through combination settlement (i.e., the Notes would be converted into cash up to the aggregate principal amount, and shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, would be used to settle the remainder). As a result, and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion spread is included in the diluted earnings per share

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calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds \$65.72.

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

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

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

	June 30, 2015	December 31, 2014
Liability component - principal amount	\$287,500	\$287,500
Unamortized debt discount	(24,558	) (26,662
Liability component - net carrying amount	\$262,942	\$260,838
Equity component	\$31,306	\$31,306

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest expense - stated coupon rate	\$2,156	\$2,156	\$4,312	\$4,312
Interest expense - amortization of debt discount	1,056	1,007	2,104	2,005
Total interest expense - convertible notes	\$3,212	\$3,163	\$6,416	\$6,317

The Company believes it is in compliance with all covenants under its financing arrangements as of June 30, 2015 and December 31, 2014.

The following principal payments are due on the Company's borrowings as of June 30, 2015 for the twelve month periods ending (amounts in thousands):

June 30, 2016	\$187,438
June 30, 2017	30,000
June 30, 2018	592,500
June 30, 2019	—
June 30, 2020	430,483
Thereafter	287,500
Total	\$1,527,921

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## 5. Property and Equipment, net:

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

	June 30, 2015	December 31, 2014
Software	\$58,216	\$53,076
Computer equipment	20,805	20,488
Furniture and fixtures	13,193	11,502
Equipment	12,875	12,880
Leasehold improvements	13,042	14,429
Building and improvements	7,141	7,049
Land	1,296	1,269
Accumulated depreciation and amortization	(80,353	) (72,435
Property and equipment, net	\$46,215	\$48,258

Depreciation and amortization expense relating to property and equipment for the three and six months ended June 30, 2015, was \$3.9 million and \$7.7 million, respectively. Depreciation and amortization expense relating to property and equipment for the three and six months ended June 30, 2014, was \$3.1 million and \$5.9 million, respectively.

## 6. Goodwill and Intangible Assets, net:

In connection with the Company's previous business acquisitions, the Company acquired certain tangible and intangible assets. Purchased intangible assets include client and customer relationships, non-compete agreements, trademarks and goodwill. Pursuant to ASC 350, the Company performs an annual review of goodwill on October 1 or more frequently if indicators of impairment exist. The Company performed an annual review of goodwill as of October 1, 2014, and concluded that it was more likely than not that the carrying value of goodwill did not exceed its fair value. The Company believes that nothing has occurred since the review was performed through June 30, 2015 that would indicate a triggering event and thereby necessitate further evaluation of goodwill or other intangible assets. The Company expects to perform its next annual goodwill review during the fourth quarter of 2015.

At June 30, 2015 and 2014, the carrying value of goodwill was \$503.0 million and \$105.1 million, respectively. The following table represents the changes in goodwill for the three and six months ended June 30, 2015 and 2014 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period:				
Goodwill	\$503,050	\$110,483	\$533,842	\$110,240
Accumulated impairment loss	(6,397	) (6,397	) (6,397	) (6,397
	496,653	104,086	527,445	103,843
Changes:				
Foreign currency translation adjustment	6,348	1,036	(24,444	) 1,279
Net change in goodwill	6,348	1,036	(24,444	) 1,279
Balance at end of the period:				
Goodwill	509,398	111,519	509,398	111,519
Accumulated impairment loss	(6,397	) (6,397	) (6,397	) (6,397
Balance at end of period	\$503,001	\$105,122	\$503,001	\$105,122



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## 7. Share-Based Compensation:

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

As of June 30, 2015, total future compensation costs related to nonvested awards of nonvested shares (not including nonvested shares granted under the Long-Term Incentive ("LTI") Program) is estimated to be \$14.1 million with a weighted average remaining life for all nonvested shares of 2.0 years (not including nonvested shares granted under the LTI program).

Total share-based compensation expense was \$3.6 million and \$7.7 million for the three and six months ended June 30, 2015, respectively. Total share-based compensation expense was \$2.6 million and \$5.4 million for the three and six months ended June 30, 2014, respectively. Tax benefits resulting from tax deductions in excess of share-based compensation expense (windfall tax benefits) recognized under the provisions of ASC Topic 718

"Compensation-Stock Compensation" ("ASC 718") are credited to additional paid-in capital in the Company's Consolidated Balance Sheets. Realized tax shortfalls, if any, are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The total tax benefit realized from share-based compensation was approximately \$0.3 million and \$7.8 million for the three and six months ended June 30, 2015, respectively. The total tax benefit realized from share-based compensation was approximately \$0.3 million and \$7.8 million for the three and six months ended June 30, 2014, respectively.

## Nonvested Shares

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

The following summarizes all nonvested share transactions, excluding those related to the LTI program, from December 31, 2013 through June 30, 2015 (share amounts in thousands):

	Nonvested Shares Outstanding	Weighted-Average Price at Grant Date
December 31, 2013	226	\$29.58
Granted	272	56.69
Vested	(155)	) 37.34
Cancelled	(4)	) 50.41
December 31, 2014	339	47.34
Granted	98	53.09
Vested	(101)	) 34.97
Cancelled	(3)	) 47.07
June 30, 2015	333	\$52.79

The total grant date fair value of shares vested during the three and six months ended June 30, 2015, was \$0.7 million and \$3.5 million, respectively. The total grant date fair value of shares vested during the three and six months ended June 30, 2014, was \$0.7 million and \$3.1 million, respectively.

Pursuant to the Plan, the Compensation Committee may grant time-vested and performance based nonvested shares. All shares granted under the LTI program were granted to key employees of the Company. The following summarizes all LTI program share transactions from December 31, 2013 through June 30, 2015 (share amounts in thousands):



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	Nonvested LTI Shares Outstanding	Weighted-Average Price at Grant Date
December 31, 2013	434	\$25.79
Granted at target level	111	49.60
Adjustments for actual performance	222	22.32
Vested	(279	) 24.21
December 31, 2014	488	30.52
Granted at target level	132	52.47
Vested	(252	) 20.21
Cancelled	(7	) 39.59
June 30, 2015	361	\$45.58

The total grant date fair value of shares vested during the three and six months ended June 30, 2015, was \$0.0 million and \$5.1 million, respectively. The total grant date fair value of shares vested during the three and six months ended June 30, 2014, was \$0.0 million and \$5.7 million, respectively.

At June 30, 2015, total future compensation costs, assuming the current estimated performance levels are achieved, related to nonvested share awards granted under the LTI program are estimated to be approximately \$11.6 million.

The Company assumed a 7.5% forfeiture rate for these grants and the remaining shares have a weighted average life of 1.3 years at June 30, 2015.

## 8. Income Taxes:

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

For tax purposes, the Company utilizes the cost recovery method of accounting. Under the cost recovery method, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before taxable income is recognized. The Internal Revenue Service ("IRS") examined the Company's 2005 through 2012 tax returns and has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income. The Company believes it has sufficient support for the technical merits of its position, and believes cost recovery to be an acceptable tax revenue recognition method for companies in the bad debt purchasing industry. The IRS has issued Notices of Deficiency to the Company for tax years ended December 31, 2005 through 2012. The proposed deficiencies relate to the cost recovery method of tax accounting. In response to the notices, the Company filed petitions in the United States Tax Court. On April 30, 2015, the Company and the IRS filed a joint motion to continue the trial date that was previously set for June 22, 2015. The Tax Court granted the Motion on May 4, 2015. On July 10, 2015 and July 21, 2015, the IRS filed Motions for Summary Judgment for tax years 2008 through 2012 and 2005 through 2007 respectively. On August 7, 2015, the Company filed a motion requesting that the Tax Court defer its consideration of the IRS's summary judgment motions until after the parties have completed discovery. If the Motion to Defer is denied, then the Company will have an opportunity to respond to the IRS's summary judgment motions. If the Tax Court judge grants the Motions for Summary Judgment in favor of the IRS, the Company can appeal to the federal Court of Appeals. See Note 10 "Commitments and Contingencies" for more information.

At June 30, 2015, the tax years subject to examination by the major federal, state or international taxing jurisdictions are 2003, 2005 and subsequent years. The 2003 tax year remains open to examination because of a net operating loss that originated in that year but was not fully utilized until the 2005 tax year. The examination periods for the 2005 through 2012 tax years are suspended until a decision of the Tax Court becomes final.

ASC 740 requires the recognition of interest if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. The Company believes it has sufficient support for the technical merits of its position and that it is more likely than not this position will be sustained. Accordingly, the Company has not accrued for interest or penalties on any of its tax positions, including the cost recovery matter.

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## 9. Earnings per Share:

Basic earnings per share (“EPS”) are computed by dividing net income available to common stockholders of PRA Group, Inc. by weighted average common shares outstanding. Diluted EPS are computed using the same components as basic EPS with the denominator adjusted for the dilutive effect of the Notes and nonvested share awards, if dilutive. For the Notes, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company’s common stock during any quarter exceeds \$65.72, which did not occur during the period from which the Notes were issued on August 13, 2013 through June 30, 2015. Share-based awards that are contingent upon the attainment of performance goals are not included in the computation of diluted EPS until the performance goals have been attained. The dilutive effect of nonvested shares is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the vesting of nonvested shares would be used to purchase common shares at the average market price for the period. The assumed proceeds include the windfall tax benefit that would be realized upon assumed exercise.

The following tables reconcile the computation of basic EPS and diluted EPS for the three and six months ended June 30, 2015 and 2014 (amounts in thousands, except per share amounts):

	For the Three Months Ended June 30, 2015			2014		
	Net Income	Weighted Average Common Shares	EPS	Net Income	Weighted Average Common Shares	EPS
Basic EPS	\$51,425	48,325	\$ 1.06	\$37,507	50,065	\$0.75
Dilutive effect of nonvested share awards		204	—		372	(0.01 )
Diluted EPS	\$51,425	48,529	\$ 1.06	\$37,507	50,437	\$0.74
	For the Six Months Ended June 30, 2015			2014		
	Net Income	Weighted Average Common Shares	EPS	Net Income	Weighted Average Common Shares	EPS
Basic EPS	\$ 109,560	48,525	\$ 2.26	\$78,347	49,997	\$ 1.57
Dilutive effect of nonvested share awards		265	(0.01 )		403	(0.02 )
Diluted EPS	\$ 109,560	48,790	\$ 2.25	\$78,347	50,400	\$ 1.55

There were no antidilutive options outstanding for the six months ended June 30, 2015 and 2014.

## 10. Commitments and Contingencies:

## Employment Agreements:

The Company has employment agreements, most of which expire on December 31, 2017, with all of its U.S. executive officers and with several members of its U.S. senior management group. Such agreements provide for base salary payments as well as bonuses that are based on the attainment of specific management goals. At June 30, 2015, the estimated future compensation under these agreements is approximately \$22.4 million. The agreements also contain confidentiality and non-compete provisions. Outside the U.S., employment agreements are in place with

employees pursuant to local country regulations. Generally, these agreements do not have expiration dates and therefore it is impractical to estimate the amount of future compensation under these agreements. Accordingly, the future compensation under these agreements is not included in the \$22.4 million total above.

Leases:

The Company is party to various operating leases with respect to its facilities and equipment. The future minimum lease payments at June 30, 2015 total approximately \$39.7 million.

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**Forward Flow Agreements and Other Finance Receivables Purchasing Obligations:**

The Company is party to several forward flow agreements that allow for the purchase of defaulted consumer receivables at pre-established prices. The maximum remaining amount to be purchased under forward flow agreements at June 30, 2015 is approximately \$418.8 million.

In June 2015, the Company entered into an agreement for the purchase of certain defaulted consumer receivables for approximately \$200.0 million in August 2015. The price is subject to adjustments for certain account exclusions and cash collections after the June 15, 2015 determination date.

**Contingent Purchase Price:**

The asset purchase agreement entered into in connection with the acquisition of certain finance receivables and certain operating assets of National Capital Management, LLC ("NCM") in 2012, includes an earn-out provision whereby the sellers are able to earn additional cash consideration for achieving certain cash collection thresholds over a five year period. The maximum amount of earn-out during the period is \$15.0 million. During 2014 and 2013, the Company paid the first two earn-out payments in the amount of \$2.8 million and \$6.2 million, respectively. As of June 30, 2015, the Company has recorded a present value amount for the expected remaining liability of \$3.0 million.

**Finance Receivables:**

Certain agreements for the purchase of finance receivables portfolios contain provisions that may, in limited circumstances, require the Company to refund a portion or all of the collections subsequently received by the Company on particular accounts. The potential refunds as of the balance sheet date are not considered to be significant.

**Litigation and Regulatory Matters:**

The Company is from time to time subject to routine legal claims and proceedings, most of which are incidental to the ordinary course of its business. The Company initiates lawsuits against customers and is occasionally countersued by them in such actions. Also, customers, either individually, as members of a class action, or through a governmental entity on behalf of customers, may initiate litigation against the Company in which they allege that the Company has violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against the Company. Additionally, the Company receives subpoenas and other requests or demands for information from regulators or governmental authorities who are investigating the Company's debt collection activities. The Company evaluates and responds appropriately to such requests.

The Company accrues for potential liability arising from legal proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. This determination is based upon currently available information for those proceedings in which the Company is involved, taking into account the Company's best estimate of such losses for those cases for which such estimates can be made. The Company's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the number of unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the related uncertainty of the potential outcomes of these proceedings. In making determinations of the likely outcome of pending litigation, the Company considers many factors, including, but not limited to, the nature of the claims, the Company's experience with similar types of claims, the jurisdiction in which the matter is filed, input from outside legal counsel, the likelihood of resolving the matter through alternative mechanisms, the matter's current status and the damages sought or demands made. Accordingly, the Company's estimate will change from time to time, and actual losses could be more than the current estimate.

Subject to the inherent uncertainties involved in such proceedings, the Company believes, based upon its current knowledge and after consultation with counsel, that the legal proceedings currently pending against it, including those

that fall outside of the Company's routine legal proceedings, should not, either individually or in the aggregate, have a material adverse impact on the Company's financial condition. However, it is possible, in light of the uncertainties involved in such proceedings or due to unexpected future developments, that an unfavorable resolution of a legal or regulatory proceeding or claim could occur which may be material to the Company's financial condition, results of operations, or cash flows for a particular period.

In certain legal proceedings, the Company may have recourse to insurance or third party contractual indemnities to cover all or portions of its litigation expenses, judgments, or settlements. Loss estimates and accruals for potential liability related to

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legal proceedings are exclusive of potential recoveries, if any, under the Company's insurance policies or third party indemnities. The Company has not recorded any potential recoveries under the Company's insurance policies or third party indemnities.

The matters described below fall outside of the normal parameters of the Company's routine legal proceedings.

Telephone Consumer Protection Act Litigation

The Company has been named as defendant in a number of putative class action cases, each alleging that the Company violated the Telephone Consumer Protection Act ("TCPA") by calling consumers' cellular telephones without their prior express consent. On December 21, 2011, the United States Judicial Panel on Multi-District Litigation entered an order transferring these matters into one consolidated proceeding in the United States District Court for the Southern District of California (the "Court"). On November 14, 2012, the putative class plaintiffs filed their amended consolidated complaint in the matter, now styled as In re Portfolio Recovery Associates, LLC Telephone Consumer Protection Act Litigation, case No. 11-md-02295 (the "MDL action"). Following the ruling of the United States Federal Communications Commission on June 10, 2015 on various petitions concerning the TCPA, the Court lifted the stay of these matters that had been in place since May 20, 2014.

Internal Revenue Service Audit

The Internal Revenue Service ("IRS") examined the Company's 2005 through 2012 tax returns and has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income. The Company believes it has sufficient support for the technical merits of its position, and believes cost recovery to be an acceptable tax revenue recognition method for companies in the bad debt purchasing industry. The Company has received Notices of Deficiency for tax years ended December 31, 2005 through 2012. The proposed deficiencies relate to the cost recovery method of tax accounting. In response to the notices, the Company filed petitions in the United States Tax Court challenging the deficiency. On April 30, 2015, the Company and the IRS filed a joint motion to continue the trial date that was previously set for June 22, 2015. The Tax Court granted the Motion on May 4, 2015. On July 10, 2015 and July 21, 2015, the IRS filed Motions for Summary Judgment for tax years 2008 through 2012 and 2005 through 2007 respectively. On August 7, 2015, the Company filed a motion requesting that the Tax Court defer its consideration of the IRS's summary judgment motions until after the parties have completed discovery. If the Motion to Defer is denied, then the Company will have an opportunity to respond to the IRS's summary judgment motions. If the Tax Court judge grants the Motions for Summary Judgment in favor of the IRS, the Company can appeal to the federal Court of Appeals. If the Company is unsuccessful in Tax Court and any potential appeals to the federal Circuit Court of Appeals, it may ultimately be required to pay the related deferred taxes, and possibly interest and penalties. Deferred tax liabilities related to this item were \$246.2 million at June 30, 2015. Any adverse determination on this matter could result in the Company amending state tax returns for prior years, increasing its taxable income in those states. The Company files tax returns in multiple state jurisdictions; therefore, any underpayment of state tax will accrue interest in accordance with the respective state statute. The Company's estimate of the potential federal and state interest is \$86.8 million as of June 30, 2015.

Consumer Financial Protection Bureau ("CFPB") Investigation

In response to an investigative demand from the CFPB, the Company has provided certain documents and data regarding its debt collection practices. Subsequently, the Company has provided comments and engaged in

discussions, which have included a number of face-to-face meetings between the Company and the CFPB staff. The Company has also discussed a proposed resolution of matters related to the CFPB's investigation, involving possible penalties, restitution and the adoption of new practices and controls in the conduct of our business. The Company is not able to estimate the amount of such penalties or restitution at this time. In these discussions, the CFPB staff has taken certain positions with respect to legal requirements applicable to our debt collection practices with which the Company disagrees. If the Company is unable to resolve its differences with the CFPB through its ongoing discussions, it could become involved in litigation.

**Portfolio Recovery Associates, LLC v. Guadalupe Mejia**

On May 11, 2015, an unfavorable jury verdict was delivered against the Company in a matter pending in Jackson County, Missouri. The jury awarded Guadalupe Mejia \$251,000 in compensatory damages and \$82,009,549 in punitive damages (altogether, the "Award") for her counter-claim against the Company, alleging malicious prosecution and impermissible collection practices. The Company believes the verdict and magnitude of the Award to be erroneous and has filed a motion to set aside the Award. Unless reduced or overturned, the Award will likely have a material adverse effect on the Company's financial condition and/or operations.



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## 11. Fair Value Measurements and Disclosures:

As defined by FASB ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC 820”), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also requires the consideration of differing levels of inputs in the determination of fair values. Those levels of input are summarized as follows:

•Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than Level 1 quoted prices, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Unobservable inputs that are supported by little or no market activity. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

## Financial Instruments Not Required To Be Carried at Fair Value

In accordance with the disclosure requirements of FASB ASC Topic 825, “Financial Instruments” (“ASC 825”), the table below summarizes fair value estimates for the Company’s financial instruments not required to be carried at fair value. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company. The carrying amounts of the financial instruments in the following table are recorded in the consolidated balance sheets at June 30, 2015 and December 31, 2014 (amounts in thousands):

	June 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$56,811	\$56,811	\$39,661	\$39,661
Held-to-maturity investments	52,238	59,350	31,017	31,017
Other investments	16,190	17,898	17,560	19,776
Finance receivables, net	2,012,552	2,550,891	2,001,790	2,460,787
Financial liabilities:				
Interest-bearing deposits	33,248	33,248	27,704	27,704
Revolving lines of credit	892,983	892,983	836,680	836,680
Term loans	177,500	177,500	185,000	185,000
Notes and loans payable	169,938	169,938	199,938	199,938
Convertible notes	262,942	328,854	260,838	324,757

Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The Company uses the following methods and assumptions to estimate the fair value of the financial instruments in the above table:

Cash and cash equivalents: The carrying amount approximates fair value and quoted prices for identical assets can be found in active markets. Accordingly, the Company estimates the fair value of cash and cash equivalents using Level 1 inputs.

Held-to-maturity investments: Fair value of the Company’s investment in Series B certificates of a closed-end Polish investment fund is estimated using proprietary pricing models that the Company utilizes to make portfolio purchase

decisions. Accordingly, the Company estimates the fair value of its held-to-maturity investments using Level 3 inputs as there is little observable market data available and management is required to use significant judgment in its estimates.

Other investments: This class of investments consists of private equity funds that invest primarily in loans and securities including single-family residential debt; corporate debt products; and financially-oriented, real-estate-rich and other operating companies in the Americas, Western Europe, and Japan. These investments are subject to certain restrictions regarding transfers

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and withdrawals. The investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. The fair value of the Company's interest is valued by the fund managers; accordingly, the Company estimates the fair value of these investments using Level 3 inputs. The investments are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over 1 to 4 years.

Finance receivables, net: The Company records purchased receivables at cost, which represents a significant discount from the contractual receivable balances due. The Company computed the estimated fair value of these receivables using proprietary pricing models that the Company utilizes to make portfolio purchase decisions. Accordingly, the Company's fair value estimates use Level 3 inputs as there is little observable market data available and management is required to use significant judgment in its estimates.

Interest-bearing deposits: The carrying amount approximates fair value due to the short-term nature of the deposits and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Revolving lines of credit: The carrying amount approximates fair value due to the short-term nature of the interest rate periods and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Term loans: The carrying amount approximates fair value due to the short-term nature of the interest rate periods and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Notes and loans payable: The carrying amount approximates fair value due to the short-term nature of the loan terms and the observable quoted prices for similar instruments in active markets. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

Convertible notes: The Notes are carried at historical cost, adjusted for the debt discount. The fair value estimates for these Notes incorporates quoted market prices which were obtained from secondary market broker quotes which were derived from a variety of inputs including client orders, information from their pricing vendors, modeling software, and actual trading prices when they occur. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

**Financial Instruments Required To Be Carried At Fair Value**

The carrying amounts in the following table are measured at fair value on a recurring basis in the accompanying consolidated balance sheets at June 30, 2015 and December 31, 2014 (amounts in thousands):

	Fair Value Measurements as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Trading investments	\$13,381	\$—	\$—	\$13,381
Available-for-sale investments	—	—	6,486	6,486
<b>Liabilities:</b>				
Interest rate swap contracts (recorded in accrued expenses)	—	904	—	904
	Fair Value Measurements as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Trading investments	\$37,405	\$—	\$—	\$37,405
Available-for-sale investments	—	—	3,721	3,721
<b>Liabilities:</b>				
Interest rate swap contracts (recorded in accrued expenses)	—	3,387	—	3,387



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Trading investments: Fair value of the Company's investments in money market mutual funds is reported using the closing price of the fund's net asset value in an active market. Accordingly, the Company uses Level 1 inputs.

Available-for-sale investments: Fair value of the Company's investment in Series C certificates of a closed-end Polish investment fund is estimated using proprietary pricing models that the Company utilizes to make portfolio purchase decisions. Accordingly, the Company estimates the fair value of its available-for-sale investments using Level 3 inputs as there is little observable market data available and management is required to use significant judgment in its estimates.

Interest rate swap contracts: The interest rate swap contracts are carried at fair value which is determined by using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves and other factors. Accordingly, the Company uses Level 2 inputs for its fair value estimates.

12. Recent Accounting Pronouncements:

In April 2014, FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08") that amends the requirements for reporting discontinued operations. ASU 2014-08 requires the disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that will have a major effect on the entity's operations and financial results. ASU 2014-08 also requires additional disclosures about discontinued operations and disclosures about the disposal of a significant component of an entity that does not qualify as a discontinued operation. ASU 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014, with early adoption permitted. The Company adopted ASU 2014-08 in the first quarter of 2015 which had no material impact on the Company's Consolidated Financial Statements.

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09") that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is evaluating its implementation approach and the potential impacts of the new standard on its existing revenue recognition policies and procedures.

In June 2014, FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company is evaluating the potential impacts of the new standard on its existing stock-based compensation awards.

In February 2015, FASB issued ASU 2015-02, "Consolidation (Topic 810), Amendments to the Consolidation Analysis" ("ASU 2015-02"). The amendments under the new guidance modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities and eliminate the

presumption that a general partner should consolidate a limited partnership. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. A reporting entity also may apply the amendments retrospectively. The Company is currently evaluating the impact of adopting this guidance on its financial position and results of operations.

In April 2015, FASB issued ASU 2015-03, "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity should apply the new guidance on a retrospective basis. The Company is currently evaluating the impact of adopting this guidance on its financial position and results of operations.

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In April 2015, FASB issued ASU 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement” (“ASU 2015-05”). ASU 2015-05 provides explicit guidance to help companies evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity can elect to adopt the new guidance either prospectively for all arrangements entered into or materially modified after the effective date, or on a retrospective basis. The Company is currently evaluating the impact of adopting this guidance on its financial position and results of operations.

13. Subsequent Event:

On August 4, 2015, the Company entered into a Fifth Amendment (the “Fifth Amendment”) to the Credit Agreement dated as of December 19, 2012. Among other things, the Fifth Amendment (a) adds Bank of America, N.A., acting through its Canada branch, as Canadian Administrative Agent under the Credit Agreement, (b) adds the Company’s wholly-owned subsidiary, PRA Group Canada Inc., as a Borrower under the Credit Agreement, (c) removes the Financial Covenant with respect to Consolidated Tangible Net Worth, (d) terminates the Multi Currency Revolving B Commitments, (e) adds \$50.0 million of Canadian Revolving Commitments, (f) modifies the definition of Permitted Acquisitions to increase the baskets included therein, (g) permits Company subsidiaries organized under the laws of Brazil to borrow up to \$150.0 million and to grant liens with respect to such borrowings, and (h) acknowledges the change of the Company’s legal name in October 2014 to PRA Group, Inc. The aggregate commitments under the Credit Agreement have not changed.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements:

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

- a prolonged economic recovery or a deterioration in the economic or inflationary environment in North America or Europe, including the interest rate environment;
- changes in the credit or capital markets, which affect our ability to borrow money or raise capital;
- our ability to purchase defaulted consumer receivables at appropriate prices;
- our ability to replace our defaulted consumer receivables with additional receivables portfolios;
- our ability to obtain accurate and authentic account documents relating to accounts that we acquire and the possibility that documents that we provide could contain errors;
- our ability to collect sufficient amounts on our defaulted consumer receivables;
- our ability to successfully acquire receivables of new asset types;
- changes in, or interpretations of, bankruptcy or collection laws that could negatively affect our business, including by causing an increase in certain types of bankruptcy filings involving liquidations, which may cause our collections to decrease;
- changes in, or interpretations of, state or federal laws or the administrative practices of various bankruptcy courts, which may impact our ability to collect on our defaulted receivables;
- our ability to collect and enforce our finance receivables may be limited under federal and state laws;
- our ability to employ and retain qualified employees, especially collection personnel, and our senior management team;
- our ability to comply with existing and new regulations of the collection industry, the failure of which could result in penalties, fines, litigation, damage to our reputation, or the suspension or termination of or required modification to our ability to conduct our business;
- our ability to adjust to debt collection and debt-buying regulations that may be promulgated by the Consumer Financial Protection Bureau ("CFPB") and the regulatory and enforcement activities of the CFPB, including an ongoing CFPB inquiry;
- our ability to satisfy the restrictive covenants in our debt agreements;
- changes in governmental laws and regulations or the manner in which they are interpreted or applied which could increase our costs and liabilities or impact our operations;
- adverse outcomes in pending litigations;
- investigations or enforcement actions by governmental authorities, which could result in changes to our business practices; negatively impact our portfolio purchasing volume; make collection of account balances more difficult or expose us to the risk of fines, penalties, restitution payments, and litigation;
- changes in interest or exchange rates, which could reduce our net income, and the possibility that future hedging strategies may not be successful, which could adversely affect our results of operations and financial condition, as could our failure to comply with hedge accounting principles and interpretations;
- our ability to obtain adequate insurance coverage at reasonable prices;
- our ability to manage growth successfully or to integrate our growth strategy;
- the possibility that we could incur business to technology disruptions or cyber incidents or not adapt to technological advances;
- our ability to manage risks associated with our international operations, which risks have increased as a result of the Aktiv Kapital AS ("Aktiv") acquisition;



- our ability to integrate the Aktiv business;
- our ability to recognize the anticipated synergies and benefits of the Aktiv acquisition;
- changes in tax laws regarding earnings of our subsidiaries located outside of the United States;
- the possibility that compliance with foreign and U.S. laws and regulations that apply to our international operations could increase our cost of doing business in international jurisdictions;
- net capital requirements pursuant to the European Union Capital Requirements Directive, which could impede the business operations of our subsidiaries;
- the incurrence of significant transaction, integration, and restructuring costs in connection with the Aktiv acquisition;
- our exposure to additional tax liabilities as a result of the Aktiv acquisition;
- the possibility that we could incur goodwill or other intangible asset impairment charges;

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- our ability to retain existing clients and obtain new clients for our fee-for-service businesses;
- our work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs;
- our ability to maintain, renegotiate or replace our credit facility;
- the possibility that the accounting for convertible debt securities could have an adverse effect on our financial results;
- the possibility that conversion of the convertible senior notes could affect the price of our common stock;
- our ability to raise the funds necessary to repurchase the convertible senior notes or to settle conversions in cash;
- the imposition of additional taxes on us;
- the possibility that we could incur significant allowance charges on our finance receivables;
- our loss contingency accruals may not be adequate to cover actual losses;
- class action suits and other litigation could divert our management's attention and increase our expenses;
- the degree, nature, and resources of our competition;
- the possibility that new business acquisitions prove unsuccessful or strain or divert our resources;
- the possibility that we or our industry could experience negative publicity or reputational attacks;
- the possibility that a sudden collapse of one of the financial institutions in which we are depositors could negatively affect our financial results;

- efforts to establish and maintain effective internal controls, procedures, and disclosure controls related to Aktiv, which could require significant resources and divert management attention; and
- the risk factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC").

You should assume that the information appearing in this quarterly report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date. For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the following "Management's Discussion and Analysis of Financial Condition and Results of Operations," the "Risk Factors" contained in Part II, Item 1A of this Form 10-Q, as well as the discussion of "Business" and "Risk Factors" described in Part I, Item I and Item 1A of our 2014 Annual Report on Form 10-K, filed on March 2, 2015.

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

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

### Frequently Used Terms

We use the following terminology throughout this document:

- "Allowance charges" refers to a reduction in income recognized on finance receivables on pools of finance receivables whose cash collection estimates were below expectations or are projected to be below expectations.
- "Amortization rate" refers to cash collections applied to principal on finance receivables as a percentage of total cash collections.
- "Buybacks" refers to purchase price refunded by the seller due to the return of ineligible accounts.
- "Cash collections" refers to collections on our owned finance receivables portfolios.
- "Cash receipts" refers to collections on our owned finance receivables portfolios plus fee income.
- "Core" accounts or portfolios refer to accounts or portfolios that are defaulted receivables and are not in an insolvent status upon purchase. These accounts are aggregated separately from insolvency accounts.
- "Estimated remaining collections" or "ERC" refers to the sum of all future projected cash collections on our owned finance receivables portfolios.

“Fee income” refers to revenues generated from our fee-for-service businesses.

“Income recognized on finance receivables” refers to income derived from our owned finance receivables portfolios.

“Income recognized on finance receivables, net” refers to income derived from our owned finance receivables portfolios and is shown net of allowance charges/reversals.

“Insolvency” accounts or portfolios refer to accounts or portfolios of receivables that are in an insolvent status when we purchase them and as such are purchased as a pool of insolvent accounts. These include Individual Voluntary Arrangements ("IVA's"), Trust Deeds in the U.K., Consumer Proposals in Canada and bankruptcy accounts in the U.S., Canada and the U.K.

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• “Net finance receivable balance” is recorded on our balance sheet and refers to the purchase price less principal amortization and net allowance charges/reversals.

• “Principal amortization” refers to cash collections applied to principal on finance receivables.

• “Purchase price” refers to the cash paid to a seller to acquire defaulted finance receivables, plus certain capitalized costs, less buybacks.

• “Purchase price multiple” refers to the total estimated collections on owned finance receivables portfolios divided by purchase price.

• “Total estimated collections” refers to actual cash collections, including cash sales, plus estimated remaining collections on our finance receivables portfolios.

All references in this report on Form 10-Q to the "PRA Group," "our," "we," "us," the "Company" or similar terms are to PRA Group, Inc. and its subsidiaries.

### Overview

We are a global financial and business services company with operations in the Americas and Europe. Our primary business is the purchase, collection and management of portfolios of defaulted receivables. We also service receivables on behalf of clients on either a commission or transaction-fee basis, provide class action claims settlement recovery services and related payment processing to corporate clients, and provide vehicle location, skip tracing and collateral recovery services for auto lenders, governments and law enforcement.

We are headquartered in Norfolk, Virginia, and employ approximately 3,820 full time equivalents. Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol “PRAA.” Effective October 23, 2014, we changed our name from Portfolio Recovery Associates, Inc. to PRA Group, Inc.

On July 16, 2014, we completed the purchase of the outstanding equity of Aktiv, a Norway-based company specializing in the acquisition and servicing of non-performing consumer loans throughout Europe and in Canada, for a purchase price of approximately \$861.3 million, and assumed approximately \$433.7 million of Aktiv’s corporate debt, resulting in an acquisition of estimated total enterprise value of \$1.3 billion.

The Aktiv acquisition provided us entry into several new markets, resulting in additional geographic diversity in portfolio purchasing and collection. Aktiv's Chief Executive Officer, his executive team and the more than 400 Aktiv employees joined our workforce upon the closing of the transaction.

During the three months ended June 30, 2015, we incurred approximately \$0.5 million of integration and other costs related to the Aktiv acquisition. We estimate that we will incur approximately \$2-3 million of additional non-recurring integration costs over the next few quarters. Additionally, as a result of expanding our international footprint into many countries with various currencies throughout Europe, we are subject to foreign currency fluctuations between and among the U.S. dollar and each of the other currencies in which we now operate. As a result, for the three months ended June 30, 2015, we recorded net foreign currency transaction gains of \$3.6 million in our income statement.

Our industry is highly regulated under various laws. In the United States, they include the FDCPA, FCRA, Dodd-Frank Act, Telephone Consumer Protection Act and its prohibition against unfair, deceptive and abusive acts and practices (“UDAAP”) and other federal and state laws. Likewise, our business is regulated by various laws in the European countries and Canadian territories in which we operate. We are subject to inspections, examinations, supervision and investigation by regulators in the United Kingdom, in each U.S. state in which we are licensed, and also by the CFPB. If any such inspections or investigations result in findings or there is an adjudication that we have failed to comply with applicable laws and regulations, we could be subject to penalties, litigation losses and expenses, damage to our reputation, or the suspension or termination of or required modification to our ability to conduct collections, which would adversely affect our financial results and condition. The CFPB is currently looking into practices regarding the collection of consumer debt in our industry. In response to an investigative demand from the CFPB, we have provided certain documents and data regarding our debt collection practices. We have provided comments and engaged in discussions, which have included a number of face-to-face meetings with the CFPB staff. Subsequently, we have discussed a proposed resolution involving possible penalties, restitution and the adoption of

new practices and controls in the conduct of our business. In these discussions, the staff has taken certain positions with respect to legal requirements applicable to our debt collection practices with which we disagree. While we are actively seeking a consensual resolution to this matter, if we are unable to resolve our differences through these ongoing discussions, we could become involved in litigation. The CFPB is also expected to adopt additional rules that will affect our industry, and has sought feedback on a wide range of debt collection issues. There can be no assurance that the outcome of these discussions, possible litigation or new industry regulations would not have an adverse effect on our business' financial condition or operating results.

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On August 4, 2014, the Office of the Comptroller of the Currency (“OCC”) issued risk guidance detailing the principles they expect financial institutions to follow in connection with the sale of consumer debt. We are currently in the process of evaluating the impact that this guidance may have on our business, if any.

Earnings Summary

During the three months ended June 30, 2015, net income was \$51.4 million, or \$1.06 per diluted share, compared with \$37.5 million, or \$0.74 per diluted share, in the three months ended June 30, 2014. Total revenue was \$237.2 million in the three months ended June 30, 2015, up 20.2% from the three months ended June 30, 2014. Revenues in the three months ended June 30, 2015 consisted of \$220.1 million in income recognized on finance receivables, net, \$13.9 million in fee income and \$3.3 million in other revenue. Income recognized on finance receivables, net, in the three months ended June 30, 2015 increased \$37.5 million, or 20.6%, over the three months ended June 30, 2014, primarily as a result of an increase in cash collections mainly due to the Aktiv acquisition. Cash collections, which drive our finance receivable income, were \$389.6 million in the three months ended June 30, 2015, up 22.0%, or \$70.3 million, as compared to the three months ended June 30, 2014. During the three months ended June 30, 2015, we incurred \$4.9 million in net allowance charges, compared with \$2.3 million of net allowance reversals in the three months ended June 30, 2014.

Fee income decreased to \$13.9 million in the three months ended June 30, 2015 from \$14.5 million in the three months ended June 30, 2014, primarily due to lower fee income generated by our government services subsidiaries. This was partially offset by an increase in fee income generated in the three months ended June 30, 2015 by PRA Location Services, LLC (“PLS”).

A summary of the sources of our revenue during the three months ended June 30, 2015 and 2014 is presented below:

(amounts in thousands)	For the Three Months Ended June 30,	
	2015	2014
Cash collections	\$389,624	\$319,274
Amortization of finance receivables	(164,675	) (139,055
Net allowance (charges)/reversals	(4,885	) 2,299
Income recognized on financial receivables, net	220,064	182,518
Fee income	13,878	14,510
Other revenue	3,255	315
Total revenues	\$237,197	\$197,343

Operating expenses were \$148.3 million in the three months ended June 30, 2015, up 18.7% over the three months ended June 30, 2014, due primarily to the inclusion of Aktiv's expenses in the three months ended June 30, 2015. During the three months ended June 30, 2015 and 2014, we acquired defaulted consumer receivables portfolios at a cost of \$208.4 million and \$109.2 million, respectively. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectability. We may pay significantly different purchase rates for purchased receivables within any period as a result of this relative quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other relative quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time frames, we intend to target a similar internal rate of return, after direct expenses, in pricing our portfolio acquisitions during any quarter; therefore, the absolute rate paid is not necessarily relevant to the estimated profitability of a period's buying.

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## Results of Operations

The results of operations include the financial results of the Company and all of our subsidiaries. The following table sets forth certain operating data as a percentage of total revenues for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		
	2015	2014	2015	2014	
Revenues:					
Income recognized on finance receivables, net	92.8	% 92.5	% 92.9	% 92.1	%
Fee income	5.8	% 7.4	% 5.6	% 7.7	%
Other revenue	1.4	% 0.1	% 1.5	% 0.2	%
Total revenues	100.0	% 100.0	% 100.0	% 100.0	%
Operating expenses:					
Compensation and employee services	28.8	% 26.6	% 27.7	% 26.5	%
Legal collection fees	6.0	% 5.8	% 5.8	% 5.7	%
Legal collection costs	8.2	% 12.9	% 8.4	% 13.3	%
Agent fees	3.3	% 0.7	% 3.3	% 0.7	%
Outside fees and services	5.3	% 6.1	% 5.2	% 5.9	%
Communication	3.4	% 3.9	% 3.8	% 4.3	%
Rent and occupancy	1.5	% 1.2	% 1.5	% 1.2	%
Depreciation and amortization	2.1	% 2.1	% 2.0	% 2.1	%
Other operating expenses	4.1	% 3.9	% 4.0	% 3.5	%
Total operating expenses	62.5	% 63.2	% 61.6	% 63.2	%
Income from operations	37.5	% 36.8	% 38.4	% 36.8	%
Other income and expense:					
Interest expense	5.7	% 2.6	% 5.9	% 2.5	%
Net foreign currency transaction gain/(loss)	1.5	% (3.1)	)% 2.2	% (1.6)	)%
Income before income taxes	33.3	% 31.1	% 34.7	% 32.7	%
Provision for income taxes	11.6	% 12.0	% 11.9	% 12.7	%
Net income	21.7	% 19.1	% 22.7	% 20.0	%

## Three Months Ended June 30, 2015 Compared To Three Months Ended June 30, 2014

## Revenues

Total revenues were \$237.2 million for the three months ended June 30, 2015, an increase of \$39.9 million, or 20.2%, compared to total revenues of \$197.3 million for the three months ended June 30, 2014.

## Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was \$220.1 million for the three months ended June 30, 2015, an increase of \$37.6 million, or 20.6%, compared to income recognized on finance receivables, net, of \$182.5 million for the three months ended June 30, 2014. The increase was primarily due to an increase in cash collections on our finance receivables to \$389.6 million for the three months ended June 30, 2015, from \$319.3 million for the three months ended June 30, 2014, an increase of \$70.3 million, or 22.0%. This increase was largely due to the inclusion of Aktiv's cash collections in the three months ended June 30, 2015. Our finance receivables amortization rate, including net allowance charges, was 43.5% for the three months ended June 30, 2015 compared to 42.8% for the three months ended June 30, 2014.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccretable difference to accretable yield primarily result from the Company's increase in its estimate of future cash flows. Increases in future cash flows may occur as portfolios age and actual cash collections exceed those originally expected. If those cash flows are determined to be incremental to the portfolio's original forecast, future projections of cash flows are

generally increased resulting in higher expected revenue and hence increases in

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accretable yield. During the three months ended June 30, 2015 and 2014, the Company reclassified amounts from nonaccretable difference to accretable yield due primarily to increased cash collection forecasts relating to pools acquired from 2007-2014. When applicable, net reclassifications to nonaccretable difference from accretable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows.

Income recognized on finance receivables, net, is shown net of changes in valuation allowances which are recorded for significant decreases in expected cash flows or a change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the three months ended June 30, 2015, we recorded net allowance charges of \$4.9 million. On our domestic Core portfolios, we recorded net allowance charges of \$4.1 million on portfolios purchased mainly in 2012. On our Insolvency portfolios, we recorded allowance charges of \$0.1 million on our domestic portfolios. We also recorded an allowance charge of \$0.7 million on our legacy UK portfolios purchased in 2013 (UK portfolios acquired prior to the Aktiv acquisition). No allowance charges or reversals were recorded during the period on the portfolios acquired from Aktiv or purchased by PRA Europe. For the three months ended June 30, 2014, we recorded net allowance charge reversals of \$2.3 million. On our domestic Core portfolios, we recorded net allowance reversals of \$3.3 million on portfolios purchased between 2005 and 2008, offset by net allowance charges of \$0.9 million on portfolios purchased in 2010 and 2011. On our Insolvency portfolios, we recorded net allowance charge reversals of \$0.4 million on portfolios primarily purchased in 2007 and 2008 offset by a net allowance charge of \$0.5 million on Canadian portfolios purchased in 2014.

In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our previous expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and changes in productivity related to turnover and retention of our collection staff.

**Fee Income**

Fee income decreased to \$13.9 million in the three months ended June 30, 2015 from \$14.5 million in the three months ended June 30, 2014, primarily due to lower fee income generated by our government services subsidiaries. This was partially offset by the an increase in fee income generated by PLS.

**Income from Operations**

Income from operations was \$88.9 million for the three months ended June 30, 2015, an increase of \$16.5 million or 22.8% compared to income from operations of \$72.4 million for the three months ended June 30, 2014. Income from operations was 37.5% of total revenue for the three months ended June 30, 2015 compared to 36.7% for the three months ended June 30, 2014.

**Operating Expenses**

Operating expenses were \$148.3 million for the three months ended June 30, 2015, an increase of \$23.4 million or 18.7% compared to operating expenses of \$124.9 million for the three months ended June 30, 2014. This increase was due primarily to the inclusion of Aktiv's expenses in the three months ended June 30, 2015. Operating expenses were 36.9% of cash receipts for the three months ended June 30, 2015 compared to 37.4% for the three months ended June 30, 2014.

**Compensation and Employee Services**

Compensation and employee services expenses were \$68.3 million for the three months ended June 30, 2015, an increase of \$15.8 million, or 30.1%, compared to compensation and employee services expenses of \$52.5 million for the three months ended June 30, 2014. Compensation expense increased primarily as a result of larger staff sizes, mainly attributable to the acquisition of Aktiv, in addition to increases in incentive compensation and normal pay increases. Total full-time equivalents increased 7.1% to 3,820 as of June 30, 2015, from 3,567 as of June 30, 2014.

Compensation and employee services expenses as a percentage of cash receipts increased to 17.0% for the three months ended June 30, 2015, from 15.7% of cash receipts for the three months ended June 30, 2014.

Legal Collection Fees

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party collection attorneys. Legal collection fees were \$14.1 million for the three months ended June 30, 2015, an increase of \$2.7

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million, or 23.7%, compared to legal collection fees of \$11.4 million for the three months ended June 30, 2014. This increase was mainly attributable to legal collection fees incurred by our new European operations. Legal collection fees were 3.5% of cash receipts for the three months ended June 30, 2015 compared to 3.4% of cash receipts for the three months ended June 30, 2014.

**Legal Collection Costs**

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents received from sellers of defaulted consumer receivables. Legal collection costs were \$19.6 million for the three months ended June 30, 2015, a decrease of \$5.8 million, or 22.8%, compared to legal collection costs of \$25.4 million for the three months ended June 30, 2014. Prior to 2015, we were expanding the number of accounts brought into the legal collection process resulting in increasing legal collections costs. This expansion has subsided over the last several quarters which led to the decrease. Legal collection costs for the three months ended June 30, 2015 were 4.9% of cash receipts, compared to 7.6% for the three months ended June 30, 2014.

**Agent Fees**

Agent fees primarily represent third party collection fees and costs paid to repossession agents to repossess vehicles. Agent fees were \$7.8 million for the three months ended June 30, 2015, compared to \$1.5 million for the three months ended June 30, 2014. This increase was mainly attributable to the third party collection fees incurred by our new European operations.

**Outside Fees and Services**

Outside fees and services expenses were \$12.5 million for the three months ended June 30, 2015, an increase of \$0.4 million, or 3.3%, compared to outside fees and services expenses of \$12.1 million for the three months ended June 30, 2014. The increase was mainly attributable to the outside fees and services expenses incurred by our new European operations partially offset by an incremental decrease of \$3.6 million of transaction and integration costs incurred in the three months ended June 30, 2015 related to the Aktiv acquisition as compared to the three months ended June 30, 2014.

**Communication**

Communication expenses were \$8.1 million for the three months ended June 30, 2015, an increase of \$0.3 million, or 3.8%, compared to communication expenses of \$7.8 million for the three months ended June 30, 2014. The increase was largely due to expenses incurred by our new European operations.

**Rent and Occupancy**

Rent and occupancy expenses were \$3.5 million for the three months ended June 30, 2015, an increase of \$1.1 million, or 45.8%, compared to rent and occupancy expenses of \$2.4 million for the three months ended June 30, 2014. The increase was primarily due to the rent and occupancy expense incurred by our new European operations.

**Depreciation and Amortization**

Depreciation and amortization expenses were \$4.9 million for the three months ended June 30, 2015, an increase of \$0.7 million, or 16.7%, compared to depreciation and amortization expenses of \$4.2 million for the three months ended June 30, 2014. The increase was primarily due to the depreciation and amortization expense incurred by our new European operations.

**Other Operating Expenses**

Other operating expenses were \$9.6 million for the three months ended June 30, 2015, an increase of \$1.9 million, or 24.7%, compared to other operating expenses of \$7.7 million for the three months ended June 30, 2014. The increase was primarily due to other operating expenses incurred by our new European operations.

**Interest Expense**

Interest expense was \$13.5 million and \$5.1 million for the three months ended June 30, 2015 and 2014, respectively. The increase was primarily due to the additional financing needed to facilitate the closing of the Aktiv acquisition and the additional interest incurred on the Aktiv assumed debt and interest rate swap contracts.

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## Net Foreign Currency Transaction Gain/(Loss)

We recorded a net foreign currency transaction gain of \$3.6 million for the three months ended June 30, 2015 compared to a net foreign currency transaction loss of \$6.2 million for the three months ended June 30, 2014. The increase was due to our foreign operations as certain of our foreign entities conduct operations in currencies different from their functional currency which generate foreign currency transaction gains and losses. In addition, during the three months ended June 30, 2014, we recorded a \$6.2 million foreign currency transaction loss incurred as a result of us entering into foreign currency exchange rate forward contracts to acquire 518 million Euros in anticipation of closing the acquisition of Aktiv. As a result of the strengthening U.S. dollar relative to the Euro, an unrealized loss on the forward contracts was recognized in the three months ended June 30, 2014.

## Provision for Income Taxes

Provision for income taxes was \$27.6 million for the three months ended June 30, 2015, an increase of \$3.9 million, or 16.5%, compared to provision for income taxes of \$23.7 million for the three months ended June 30, 2014. The increase is primarily due to an increase of 29.2% in income before taxes for the three months ended June 30, 2015, compared to the three months ended June 30, 2014. During the three months ended June 30, 2015, our effective tax rate was 34.9%, compared to 38.7% for the three months ended June 30, 2014. The decrease was due primarily to having proportionately more income in the recent quarterly period in foreign jurisdictions with lower tax rates than the U.S.

We intend for predominantly all foreign earnings to be permanently reinvested in our foreign operations. If foreign earnings were repatriated, we would need to accrue and pay taxes; however, foreign tax credits would be available to partially reduce U.S. income taxes. The amount of cash on hand related to foreign operations with permanently reinvested earnings was \$29.5 million and \$8.8 million as of June 30, 2015 and 2014, respectively.

## Six Months Ended June 30, 2015 Compared To Six Months Ended June 30, 2014

## Revenues

Total revenues were \$482.4 million for the six months ended June 30, 2015, an increase of \$91.1 million, or 23.3%, compared to total revenues of \$391.3 million for the six months ended June 30, 2014.

## Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was \$448.5 million for the six months ended June 30, 2015, an increase of \$88.0 million, or 24.4%, compared to income recognized on finance receivables, net, of \$360.5 million for the six months ended June 30, 2014. The increase was primarily due to an increase in cash collections on our finance receivables to \$789.4 million for the six months ended June 30, 2015, from \$632.6 million for the six months ended June 30, 2014, an increase of \$156.8 million, or 24.8%. This increase was largely due to the inclusion of Aktiv's cash collections in the six months ended June 30, 2015. Our finance receivables amortization rate, including net allowance charges, was 43.2% for the six months ended June 30, 2015 compared to 43.0% for the six months ended June 30, 2014.

Accrutable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accrutable yield, on portfolios purchased during the period, to be earned by the Company based on its proprietary buying models. Net reclassifications from nonaccrutable difference to accrutable yield primarily result from the Company's increase in its estimate of future cash flows. Increases in future cash flows may occur as portfolios age and actual cash collections exceed those originally expected. If those cash flows are determined to be incremental to the portfolio's original forecast, future projections of cash flows are generally increased resulting in higher expected revenue and hence increases in accrutable yield. During the six months ended June 30, 2015 and 2014, the Company reclassified amounts from nonaccrutable difference to accrutable yield due primarily to increased cash collection forecasts relating to pools acquired from 2007-2014. When applicable, net reclassifications to nonaccrutable difference from accrutable yield result from the Company's decrease in its estimates of future cash flows and allowance charges that exceed the Company's increase in its estimate of future cash flows.

Income recognized on finance receivables, net, is shown net of changes in valuation allowances which are recorded for significant decreases in expected cash flows or a change in timing of cash flows which would otherwise require a

reduction in the stated yield on a pool of accounts. For the six months ended June 30, 2015, we recorded net allowance charges of \$6.5 million. On our domestic Core portfolios, we recorded allowance reversals of \$0.8 million on portfolios purchased between 2006 and 2008, offset by allowance charges of \$6.8 million on portfolios purchased between 2010 and 2012. On our Insolvency portfolios, we recorded net allowance reversals of \$0.2 million on our domestic portfolios. We also recorded an allowance charge of \$0.7 million on our legacy UK portfolios purchased in 2013 (UK portfolios acquired prior to the Aktiv acquisition). No allowance charges or

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reversals were recorded during the period on the portfolios acquired from Aktiv or purchased by PRA Europe. For the six months ended June 30, 2014, we recorded net allowance reversals of \$4.3 million. On our domestic Core portfolios, we recorded net allowance reversals of \$6.4 million on portfolios purchased between 2005 and 2008, offset by net allowance charges of \$1.8 million on portfolios purchased in 2010 and 2011. On our Insolvency portfolios, we recorded net allowance reversals of \$0.6 million on portfolios primarily purchased in 2007 and 2008, offset by net allowance charges of \$0.5 million on Canadian portfolios purchased in 2014. We also recorded a net allowance charge of \$0.5 million on our legacy UK portfolios purchased in 2012 (UK portfolios acquired prior to the Aktiv acquisition). No allowance charges or reversals were recorded during the period on the portfolios acquired from Aktiv or purchased by PRA Europe.

In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our previous expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (relating to the collection and movement of accounts on both our collection floor and external channels), and decreases in productivity related to turnover of our collection staff.

**Fee Income**

Fee income decreased to \$26.9 million in the six months ended June 30, 2015 from \$30.1 million in the six months ended June 30, 2014, primarily due to lower fee income generated by our government services subsidiaries as well as a decrease in fee income generated by CCB, whose revenues vary depending on the timing and outcome of individual class action settlements. This was partially offset by an increase in fee income generated by PLS.

**Income from Operations**

Income from operations was \$185.0 million for the six months ended June 30, 2015, an increase of \$41.0 million or 28.5% compared to income from operations of \$144.0 million for the six months ended June 30, 2014. Income from operations was 38.4% of total revenue for the six months ended June 30, 2015 compared to 36.8% for the six months ended June 30, 2014.

**Operating Expenses**

Operating expenses were \$297.4 million for the six months ended June 30, 2015, an increase of \$50.2 million or 20.3% compared to operating expenses of \$247.2 million for the six months ended June 30, 2014. This increase was due primarily to the inclusion of Aktiv's expenses during the six months ended June 30, 2015. Operating expenses were 36.5% of cash receipts for the six months ended June 30, 2015 compared to 37.3% for the six months ended June 30, 2014.

**Compensation and Employee Services**

Compensation and employee services expenses were \$133.6 million for the six months ended June 30, 2015, an increase of \$29.8 million, or 28.7%, compared to compensation and employee services expenses of \$103.8 million for the six months ended June 30, 2014. Compensation expense increased primarily as a result of larger staff sizes, mainly attributable to the acquisition of Aktiv, in addition to increases in incentive compensation and normal pay increases. Total full-time equivalents increased 7.1% to 3,820 as of June 30, 2015, from 3,567 as of June 30, 2014.

Compensation and employee services expenses as a percentage of cash receipts increased to 16.4% for the six months ended June 30, 2015, from 15.7% of cash receipts for the six months ended June 30, 2014.

**Legal Collection Fees**

Legal collection fees represent contingent fees incurred for the cash collections generated by our independent third party collection attorneys. Legal collection fees were \$27.8 million for the six months ended June 30, 2015, an increase of \$5.6 million, or 25.2%, compared to legal collection fees of \$22.2 million for the six months ended June 30, 2014. This increase was mainly attributable to legal collection fees incurred by our new European operations. Legal collection fees for both the six months ended June 30, 2015 and 2014, were 3.4% of cash receipts.



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## Legal Collection Costs

Legal collection costs consist of costs paid to courts where a lawsuit is filed and the cost of documents received from sellers of defaulted consumer receivables. Legal collection costs were \$40.4 million for the six months ended June 30, 2015, a decrease of \$11.6 million, or 22.3%, compared to legal collection costs of \$52.0 million for the six months ended June 30, 2014. Prior to 2015, we were expanding the number of accounts brought into the legal collection process resulting in increasing legal collections costs. This expansion has subsided over the last several quarters which led to the decrease. Legal collection costs for the six months ended June 30, 2015 were 5.0% of cash receipts, compared to 7.8% for the six months ended June 30, 2014.

## Agent Fees

Agent fees primarily represent third party collection fees and costs paid to repossession agents to repossess vehicles. Agent fees were \$16.0 million for the six months ended June 30, 2015, compared to \$2.9 million for the six months ended June 30, 2014. This increase was mainly attributable to the third party collection fees incurred by our new European operations.

## Outside Fees and Services

Outside fees and services expenses were \$25.3 million for the six months ended June 30, 2015, an increase of \$2.4 million, or 10.5%, compared to outside fees and services expenses of \$22.9 million for the six months ended June 30, 2014. The increase was mainly attributable to the outside fees and services expenses incurred by our new European operations partially offset by an incremental decrease of \$6.3 million of transaction and integration costs incurred in the six months ended June 30, 2015 related to the Aktiv acquisition as compared to the six months ended June 30, 2014.

## Communication

Communication expenses were \$18.5 million for the six months ended June 30, 2015, an increase of \$1.8 million, or 10.8%, compared to communication expenses of \$16.7 million for the six months ended June 30, 2014. The increase was largely due to expenses incurred by our new European operations.

## Rent and Occupancy

Rent and occupancy expenses were \$7.0 million for the six months ended June 30, 2015, an increase of \$2.3 million, or 48.9%, compared to rent and occupancy expenses of \$4.7 million for the six months ended June 30, 2014. The increase was primarily due to the rent and occupancy expense incurred by our new European operations.

## Depreciation and Amortization

Depreciation and amortization expenses were \$9.5 million for the six months ended June 30, 2015, an increase of \$1.3 million, or 15.9%, compared to depreciation and amortization expenses of \$8.2 million for the six months ended June 30, 2014. The increase was primarily due to the depreciation and amortization expense incurred by our new European operations.

## Other Operating Expenses

Other operating expenses were \$19.2 million for the six months ended June 30, 2015, an increase of \$5.4 million, or 39.1%, compared to other operating expenses of \$13.8 million for the six months ended June 30, 2014. The increase was primarily due to other operating expenses incurred by our new European operations.

## Interest Expense

Interest expense was \$28.2 million and \$9.9 million for the six months ended June 30, 2015 and 2014, respectively. The increase was primarily due to the additional financing needed to facilitate the closing of the Aktiv acquisition and the additional interest incurred on the Aktiv assumed debt and interest rate swap contracts.

## Net Foreign Currency Transaction Gain/(Loss)

We recorded a net foreign currency transaction gain of \$10.4 million for the six months ended June 30, 2015 compared to a net foreign currency transaction loss of \$6.2 million for the six months ended June 30, 2014. The increase was due to our foreign operations as certain of our foreign entities conduct operations in currencies different from their functional currency which generate foreign currency transaction gains and losses. In addition, during the six months ended June 30, 2014, we recorded a \$6.2 million foreign currency transaction loss incurred as a result of us entering into foreign currency exchange rate forward contracts to acquire





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518 million Euros in anticipation of closing the acquisition of Aktiv. As a result of the strengthening U.S. dollar relative to the Euro, an unrealized loss on the forward contracts was recognized during the six months ended June 30, 2014.

Provision for Income Taxes

Provision for income taxes was \$57.6 million for the six months ended June 30, 2015, an increase of \$8.0 million, or 16.1%, compared to provision for income taxes of \$49.6 million for the six months ended June 30, 2014. The increase is due partly to an increase of 30.7% in income before taxes for the six months ended June 30, 2015, compared to the six months ended June 30, 2014. During the six months ended June 30, 2015, our effective tax rate was 34.5%, compared to 38.7% for the six months ended June 30, 2014. The decrease was due primarily to having proportionately more income in the year-to-date 2015 period in foreign jurisdictions with lower tax rates than the U.S.

We intend for predominantly all foreign earnings to be permanently reinvested in our foreign operations. If foreign earnings were repatriated, we would need to accrue and pay taxes; however, foreign tax credits would be available to partially reduce U.S. income taxes. The amount of cash on hand related to foreign operations with permanently reinvested earnings was \$29.5 million and \$8.8 million as of June 30, 2015 and 2014, respectively.

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## Supplemental Performance Data

## Finance Receivables Portfolio Performance:

The following tables show certain data related to our finance receivables portfolio. These tables describe the purchase price, actual cash collections and future estimates of cash collections, income recognized on finance receivables (gross and net of allowance charges/(reversals)), principal amortization, allowance charges/(reversals), net finance receivable balances, and the ratio of total estimated collections to purchase price (which we refer to as purchase price multiple) as well as the original purchase price multiple. Certain adjustments, as noted in the footnotes to these tables, have been made to reduce the impact of foreign currency fluctuations on purchase price multiples.

Further, these tables disclose our Americas and European Core portfolios and our Americas and European Insolvency portfolios. The accounts represented in the Insolvency tables are those portfolios of accounts that were in an insolvency status at the time of purchase. This contrasts with accounts in our Core portfolios that file for bankruptcy/insolvency protection after we purchase them, which continue to be tracked in their corresponding Core portfolio. Core customers sometimes file for bankruptcy/insolvency protection subsequent to our purchase of the related Core portfolio. When this occurs, we adjust our collection practices accordingly to comply with bankruptcy/insolvency rules and procedures; however, for accounting purposes, these accounts remain in the related Core portfolio. Conversely, Insolvency accounts may be dismissed voluntarily or involuntarily subsequent to our purchase of the related Insolvency portfolio. Dismissal occurs when the terms of the bankruptcy are not met by the petitioner. When this occurs, we are typically free to pursue collection outside of bankruptcy procedures; however, for accounting purposes, these accounts remain in the related Insolvency pool.

Purchase price multiples can vary over time due to a variety of factors including pricing competition, supply levels, age of the receivables purchased, and changes in our operational efficiency. For example, increased pricing competition during the 2005 to 2008 period negatively impacted purchase price multiples of our Core portfolio compared to prior years. Conversely, during the 2009 to 2011 period, pricing disruptions occurred as a result of the economic downturn. This created unique and advantageous purchasing opportunities, particularly within the Insolvency market, relative to the prior four years.

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

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

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

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

Revenue recognition under FASB ASC Topic 310-30 “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”) is driven by estimates of total collections as well as the timing of those collections. We record new portfolio purchases based on our best estimate of the cash flows expected at acquisition, which reflects the uncertainties inherent in the purchase of past due loans and the results of our underwriting process. Subsequent to the initial booking, as we gain collection experience and confidence with a pool of accounts, we continuously update ERC. These processes, along with the aforementioned operational enhancements, have tended to cause the ratio of ERC to purchase price for any given year of buying to gradually increase over time. As a result, our estimate of total

collections has often increased as pools have aged. Thus, all factors being equal in terms of pricing, one would typically tend to see a higher collection to purchase price ratio from a pool of accounts that was six years from purchase than say a pool that was just two years from purchase.

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

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Purchase period	Purchase Price (3)	Net Finance Receivables (4)	Estimated Remaining Collections (5)	Total Estimated Collections (6)	Current Purchase Price Multiple	Original Purchase Price Multiple (2)	
<b>Americas-Core</b>							
1996-2004	\$254,735	\$—	\$10,938	\$1,111,638	436	% 300	%
2005	113,865	4,872	14,456	291,156	256	% 221	%
2006	90,039	5,303	12,447	197,230	219	% 225	%
2007	179,837	14,129	42,923	445,114	248	% 227	%
2008	166,522	15,158	36,528	374,697	225	% 220	%
2009	125,271	8,512	61,249	452,025	361	% 252	%
2010	148,378	17,224	95,933	525,678	354	% 247	%
2011	210,199	39,350	175,826	714,807	340	% 245	%
2012	254,939	93,485	278,636	711,042	279	% 226	%
2013	392,034	202,477	541,226	1,001,280	255	% 211	%
2014	406,170	294,767	656,130	885,884	218	% 204	%
YTD 2015	237,801	223,966	458,406	491,610	207	% 207	%
Subtotal	2,579,790	919,243	2,384,698	7,202,161			
<b>Americas-Insolvency</b>							
1996-2004	7,468	—	23	14,600	196	% 174	%
2005	29,301	29	128	43,915	150	% 142	%
2006	17,627	65	254	32,181	183	% 139	%
2007	78,525	285	998	106,117	135	% 150	%
2008	108,582	1,410	2,401	169,094	156	% 163	%
2009	156,017	—	14,785	477,291	306	% 214	%
2010	209,117	1,953	32,985	557,044	266	% 184	%
2011	181,697	26,772	60,892	351,817	194	% 155	%
2012	252,132	71,494	99,807	357,648	142	% 136	%
2013	228,252	105,549	144,672	322,418	141	% 133	%
2014	149,820	101,071	128,036	190,990	127	% 124	%
YTD 2015	35,523	35,616	44,911	45,149	127	% 127	%
Subtotal	1,454,061	344,244	529,892	2,668,264			
Total Americas	4,033,851	1,263,487	2,914,590	9,870,425			
<b>Europe-Core</b>							
2012	20,448	318	1,902	29,936	146	% 187	%
2013	20,377	3,983	6,104	25,672	126	% 119	%
2014 (1)	776,189	615,001	1,506,916	1,807,899	233	% 208	%
YTD 2015	110,824	109,253	170,772	176,655	159	% 159	%
Subtotal	927,838	728,555	1,685,694	2,040,162			
<b>Europe-Insolvency</b>							
2014	11,629	9,498	13,648	15,315	132	% 129	%
YTD 2015	11,347	11,012	13,159	13,674	121	% 121	%
Subtotal	22,976	20,510	26,807	28,989			
Total Europe (3)	950,814	749,065	1,712,501	2,069,151			
Total PRA Group	\$4,984,665	\$2,012,552	\$4,627,091	\$11,939,576			

(1) The amount reflected in the purchase price column includes the acquisition date finance receivable portfolio that was acquired in connection with the Aktiv acquisition.

- (2) The original purchase price multiple represents the initial full year purchase price multiple in the year of acquisition. For 2015, it represents the year-to-date purchase price multiple for 2015.
- (3) For our international amounts, purchase price adjustments that occur in 2015 are presented at the period end exchange rate for the respective year of purchase.
- (4) For our international amounts, net finance receivables are presented at the June 30, 2015 exchange rate.
- (5) For our international amounts, ERC is presented at the period end exchange rate for the respective year of purchase.
- (6) For our international amounts, total estimated collections is computed as ERC plus life-to-date cash collections translated using average exchange rates in the period of collection.

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Below includes data for the first half of 2015 on our portfolios including cash collections, revenue, amortization, allowance charges/(reversals), net finance receivable revenue and net finance receivable balances on our consolidated balance sheet:

Purchase period	Purchase Price <sup>(2)</sup>	Cash Collections <sup>(3)</sup>	Gross Revenue <sup>(3)</sup>	Amortization <sup>(3)</sup>	Allowance <sup>(3)</sup>	Net Revenue <sup>(3)</sup>	Net Finance Receivables <sup>(4)</sup>
<b>Americas-Core</b>							
1996-2004	\$254,735	\$5,180	\$5,180	\$—	\$—	\$5,180	\$—
2005	113,865	2,535	1,754	781	(25	)1,779	4,872
2006	90,039	2,175	1,332	843	(150	)1,482	5,303
2007	179,837	7,750	5,282	2,468	(200	)5,482	14,129
2008	166,522	7,634	4,458	3,176	(450	)4,908	15,158
2009	125,271	14,046	11,029	3,017	—	11,029	8,512
2010	148,378	21,283	17,035	4,248	770	16,265	17,224
2011	210,199	41,128	33,828	7,300	2,025	31,803	39,350
2012	254,939	55,719	40,702	15,017	4,050	36,652	93,485
2013	392,034	110,591	72,213	38,378	—	72,213	202,477
2014	406,170	136,964	64,921	72,043	—	64,921	294,767
YTD 2015	237,801	33,204	19,321	13,883	—	19,321	223,966
Subtotal	2,579,790	438,209	277,055	161,154	6,020	271,035	919,243
<b>Americas-Insolvency</b>							
1996-2004	7,468	12	12	—	—	12	—
2005	29,301	44	22	22	(15	)37	29
2006	17,627	101	68	33	(40	)108	65
2007	78,525	274	126	148	(50	)176	285
2008	108,582	621	211	410	(100	)311	1,410
2009	156,017	3,753	3,760	(7	)—	3,760	—
2010	209,117	31,465	21,694	9,771	—	21,694	1,953
2011	181,697	40,761	23,116	17,645	—	23,116	26,772
2012	252,132	42,701	10,087	32,614	—	10,087	71,494
2013	228,252	42,622	13,404	29,218	—	13,404	105,549
2014	149,820	25,913	6,830	19,083	—	6,830	101,071
YTD 2015	35,523	240	333	(93	)—	333	35,616
Subtotal	1,454,061	188,507	79,663	108,844	(205	)79,868	344,244
Total Americas	4,033,851	626,716	356,718	269,998	5,815	350,903	1,263,487
<b>Europe-Core</b>							
2012	20,448	1,793	1,460	333	—	1,460	318
2013	20,377	3,961	3,281	680	700	2,581	3,983
2014 <sup>(1)</sup>	776,189	148,842	92,139	56,703	—	92,139	615,001
YTD 2015	110,824	5,882	865	5,017	—	865	109,253
Subtotal	927,838	160,478	97,745	62,733	700	97,045	728,555
<b>Europe-Insolvency</b>							
2014	11,629	1,662	327	1,335	—	327	9,498
YTD 2015	11,347	515	192	323	—	192	11,012
Subtotal	22,976	2,177	519	1,658	—	519	20,510
Total Europe	950,814	162,655	98,264	64,391	700	97,564	749,065

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Total PRA Group    \$4,984,665    \$789,371    \$454,982    \$334,389    \$6,515    \$448,467    \$2,012,552

(1) The amount reflected in the purchase price column includes the acquisition date finance receivable portfolio that was acquired in connection with the Aktiv acquisition.

(2) For our international amounts, purchase price adjustments that occurred in 2015 are presented at the period end exchange rate for the respective year of purchase.

(3) For our international amounts, amounts are presented using the average exchange rates during the current reporting period.

(4) For our international amounts, net finance receivables are presented at the June 30, 2015 exchange rate.



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The following graph shows the purchase price of our portfolios by year for the last ten years.

(1) Excludes the \$27.9 million and \$34.7 million investment in a securitized fund in Poland during the six months ended June 30, 2015 and December 31, 2014, respectively.

(2) 2014 figures include the acquisition date finance receivable portfolio that was acquired in connection with the Aktiv acquisition.

We did not have any Europe-Insolvency purchases prior to 2014.

As shown in the above chart, the composition of our purchased portfolios shifted in favor of Insolvency accounts in 2009 and 2010, before returning to equilibrium with Core in 2011 and 2012. Between 2013 and the first six months of 2015, Core purchases exceeded those of Insolvency accounts. We began buying Insolvency accounts during 2004 and slowly increased the volume of accounts we acquired through 2006 as we tested our models, refined our processes and validated our operating assumptions. After observing a high level of modeling confidence in our early purchases, we began increasing our level of purchases more dramatically commencing in 2007.

Our ability to profitably purchase and liquidate pools of Insolvency accounts provides diversity to our distressed asset acquisition business. Although we generally buy Insolvency portfolios from many of the same consumer lenders from whom we acquire Core customer portfolios, the volumes and pricing characteristics as well as the competitors are different. Based upon market dynamics, the profitability of portfolios purchased in the Insolvency and Core markets may differ over time. We have found periods when Insolvency accounts were more profitable and other times when Core accounts were more profitable. A primary driver of portfolio profitability is determined by the amount of purchase price relative to the expected returns of the acquired portfolios. When pricing becomes more competitive due to reduced portfolios available for purchase or increased demand from competitors entering or increasing their presence in the market, prices tend to go up, driving down the purchase price multiple and lowering the overall expected returns. When pricing relaxes due to market dynamics, purchase price multiples tend to increase, thereby increasing the overall expected returns.

In order to collect our Core portfolios, we generally need to employ relatively higher amounts of labor and incur additional collection costs to generate each dollar of cash collections as compared with Insolvency portfolios. In order to achieve acceptable levels of net return on investment (after direct expenses), we are generally targeting a total cash collections to purchase price multiple in the 2.0-3.0x range. On the other hand, Insolvency accounts generate the majority of their cash collections through the efforts of bankruptcy courts and trustees. In this process, cash is remitted to our Company with no corresponding cost other than the cost of filing claims at the time of purchase, court fees associated with the filing of ownership claim transfers and general administrative costs for monitoring the progress of each account through the bankruptcy process. As a result, overall collection costs are much lower for us when liquidating a pool of Insolvency accounts as compared to a pool of Core accounts, but conversely the price we pay for Insolvency accounts is generally higher than Core accounts. We generally target similar net returns on investment (measured after direct expenses) for Insolvency and Core portfolios at any given point in the market cycles. However, because of the lower related collection costs, we can pay more for Insolvency portfolios, which causes the estimated total cash collections to purchase price multiples of Insolvency pools generally to be in the 1.2-2.0x range. In summary, compared to a similar investment in a pool of Core accounts, to the extent both pools had identical targeted net returns on investment (measured after direct expenses), the Insolvency pool would be expected to generate less revenue, less direct expenses, similar operating income, and a higher operating margin.

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As a result of these purchase price and collection cost dynamics, the mix of our portfolios dictates the relative profitability we realize in a given year. We minimize the impact of higher pricing, to the degree possible, with increased analytics used to score accounts and determine on which accounts to focus our collection efforts. We utilize a long-term approach to collecting our owned portfolios of receivables. This approach has historically caused us to realize significant cash collections and revenues from purchased portfolios of finance receivables years after they are originally acquired. As a result, we have in the past been able to temporarily reduce our level of current period acquisitions without a material negative current period impact on cash collections and revenue.

The following tables illustrate historical cash collections, by year, on our portfolios.

(\$ in thousands)			Cash Collection Period										
Purchase Period	Purchase Price <sup>(2)</sup>	1996 -2004	2005	2006	2007	2008	2009	2010	2011	2012 <sup>(3)</sup>	2013 <sup>(3)</sup>	2014 <sup>(3)</sup>	YTD 2015 <sup>(3)</sup>
<b>Americas-Core</b>													
1996-2004	\$254,735	\$466,629	\$167,854	\$134,321	\$94,072	\$58,820	\$44,275	\$35,586	\$31,123	\$24,873	\$17,648	\$13,061	\$5,180
2005	113,865	—	15,191	59,645	57,928	42,731	30,048	22,351	16,768	13,052	9,747	6,703	2,535
2006	90,039	—	—	17,363	43,737	34,038	25,351	19,522	16,664	11,895	8,316	5,724	2,175
2007	179,837	—	—	—	39,413	87,039	69,175	60,230	50,995	39,585	28,244	19,759	7,750
2008	166,522	—	—	—	—	47,253	72,080	62,363	53,654	42,850	31,307	21,027	7,634
2009	125,271	—	—	—	—	—	40,703	95,627	84,339	69,385	51,121	35,555	14,046
2010	148,378	—	—	—	—	—	—	47,076	113,554	109,873	82,014	55,946	21,283
2011	210,199	—	—	—	—	—	—	—	61,972	174,461	152,908	108,513	41,128
2012	254,939	—	—	—	—	—	—	—	—	56,901	173,589	146,198	55,719
2013	392,034	—	—	—	—	—	—	—	—	—	101,614	247,849	110,591
2014	406,170	—	—	—	—	—	—	—	—	—	—	92,660	136,964
YTD 2015	237,801	—	—	—	—	—	—	—	—	—	—	—	33,204
Subtotal	2,579,790	466,629	183,045	211,329	235,150	269,881	281,632	342,755	429,069	542,875	656,508	752,995	438,209
<b>Americas-Insolvency</b>													
2004	7,468	743	4,554	3,956	2,777	1,455	496	164	149	108	90	74	12
2005	29,301	—	3,777	15,500	11,934	6,845	3,318	1,382	466	250	169	102	44
2006	17,627	—	—	5,608	9,455	6,522	4,398	2,972	1,526	665	419	261	101
2007	78,525	—	—	—	2,850	27,972	25,630	22,829	16,093	7,551	1,206	714	274
2008	108,582	—	—	—	—	14,024	35,894	37,974	35,690	28,956	11,650	1,884	621
2009	156,017	—	—	—	—	—	16,635	81,780	102,780	107,888	95,725	53,945	3,753
2010	209,117	—	—	—	—	—	—	39,486	104,499	125,020	121,717	101,873	31,465
2011	181,697	—	—	—	—	—	—	—	15,218	66,379	82,752	85,816	40,761
2012	252,132	—	—	—	—	—	—	—	—	17,388	103,610	94,141	42,701
2013	228,252	—	—	—	—	—	—	—	—	—	52,528	82,596	42,622
2014	149,820	—	—	—	—	—	—	—	—	—	—	37,045	25,913
YTD 2015	35,523	—	—	—	—	—	—	—	—	—	—	—	240
Subtotal	1,454,061	743	8,331	25,064	27,016	56,818	86,371	186,587	276,421	354,205	469,866	458,451	188,507
<b>Europe-Core</b>													
2012	20,448	—	—	—	—	—	—	—	—	11,604	8,995	5,641	1,793
2013	20,377	—	—	—	—	—	—	—	—	—	7,068	8,540	3,961
2014 <sup>(1)</sup>	776,189	—	—	—	—	—	—	—	—	—	—	153,180	148,842
YTD 2015	110,824	—	—	—	—	—	—	—	—	—	—	—	5,882
Subtotal	927,838	—	—	—	—	—	—	—	—	11,604	16,063	167,361	160,478
<b>Europe-Insolvency</b>													
2014	11,629	—	—	—	—	—	—	—	—	—	—	5	1,662
YTD 2015	11,347	—	—	—	—	—	—	—	—	—	—	—	515
Subtotal	22,976	—	—	—	—	—	—	—	—	—	—	5	2,177

Total 4,984,665,467,372 191,376 236,393 262,166 326,699 368,003 529,342 705,490 908,684 1,142,437,378,812,89,372

(1) The amount reflected in the purchase price column includes the acquisition date finance receivable portfolio that was acquired in connection with the Aktiv acquisition.

(2) For our international amounts, purchase price adjustments that occurred in 2015 are presented at the period end exchange rate for the respective year of purchase.

(3) For our international amounts, cash collections are presented using the average exchange rates during the cash collection period.

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## Collections Productivity (Domestic Portfolio)

The following tables display various collections productivity measures that we track.

## Cash Collections per Collector Hour Paid (Domestic Portfolio)

	Core cash collections <sup>(1)</sup>				
	2015	2014	2013	2012	2011
Q1	\$247	\$223	\$193	\$166	\$162
Q2	245	220	190	169	154
Q3	—	217	191	171	152
Q4	—	203	190	150	137
	Total cash collections <sup>(2)</sup>				
	2015	2014	2013	2012	2011
Q1	\$350	\$337	\$304	\$258	\$241
Q2	344	354	315	275	243
Q3	—	338	310	279	249
Q4	—	310	308	245	228
	Non-legal cash collections <sup>(3)</sup>				
	2015	2014	2013	2012	2011
Q1	\$294	\$282	\$251	\$216	\$204
Q2	288	293	261	225	205
Q3	—	280	259	230	212
Q4	—	259	256	200	194
	Non-legal/non-insolvency cash collections <sup>(4)</sup>				
	2015	2014	2013	2012	2011
Q1	\$191	\$167	\$140	\$125	\$125
Q2	188	158	137	120	116
Q3	—	159	140	122	115
Q4	—	151	138	105	103

Represents total cash collections less Insolvency cash collections from trustee-administered accounts. This metric includes cash collections from Insolvency accounts administered by the Core call center as well as cash collections generated by our internal staff of legal collectors. This calculation does not include hours paid to our internal staff of legal collectors or to employees processing the required notifications to trustees on Insolvency accounts.

(2) Represents total cash collections (assigned and unassigned) divided by total hours paid (including holiday, vacation and sick time) to collectors (including those in training).

(3) Represents total cash collections less external legal cash collections. This metric includes internal legal collections and all insolvency collections and excludes any hours associated with either of those functions.

(4) Represents total cash collections less external legal cash collections and less Insolvency cash collections from trustee-administered accounts. This metric does not include any labor hours associated with the Insolvency or legal (internal or external) functions but does include internally-driven cash collections from the internal legal channel.

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The following chart illustrates the excess of our cash collections on our owned portfolios over income recognized on finance receivables on a quarterly basis. The difference between cash collections and income recognized on finance receivables is referred to as payments applied to principal. It is also referred to as amortization of purchase price. This amortization is the portion of cash collections that is used to recover the cost of the portfolio investment represented on the balance sheet.

(1) Includes cash collections on finance receivables only and excludes cash proceeds from sales of defaulted consumer receivables.

## Seasonality

Cash collections tend to be higher in the first and second quarters of the year and lower in the third and fourth quarters of the year. This is due to customer payment patterns in connection with seasonal employment trends, income tax refunds and holiday spending habits. Historically, our growth has partially offset the impact of this seasonality.

The following table displays our quarterly cash collections by source, for the periods indicated.

## Cash Collections by

Geography and Type (amounts in thousands)	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Americas-Core	\$218,838	\$219,371	\$185,921	\$189,027	\$190,229	\$187,818	\$158,828	\$166,805
Americas-Insolvency	92,974	95,533	103,104	110,544	124,101	120,702	114,384	120,576
Europe-Core	76,602	83,876	84,398	73,172	4,944	4,847	5,714	4,270
Europe-Insolvency	1,210	967	5	—	—	—	—	—
Total Cash Collections	\$389,624	\$399,747	\$373,428	\$372,743	\$319,274	\$313,367	\$278,926	\$291,651

The following table provides additional details on the composition of our Core cash collections in the United States for the periods indicated.

## Core Cash Collections by Source - Domestic Portfolio Only

Cash Collection Source (amounts in thousands)	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Call Center and Other Collections	\$121,148	\$122,316	\$95,784	\$92,814	\$90,128	\$92,889	\$78,661	\$85,243
External Legal Collections	49,995	49,578	46,761	49,930	55,011	50,990	46,066	48,274
Internal Legal Collections	42,482	42,464	38,157	41,400	45,090	43,939	34,101	33,288
Total Core Cash Collections - Domestic Only	\$213,625	\$214,358	\$180,702	\$184,144	\$190,229	\$187,818	\$158,828	\$166,805

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## Portfolios by Type and Geography (Domestic Portfolio)

The following table categorizes our life to date domestic portfolio purchases as of June 30, 2015, into the major asset types represented (amounts in thousands):

Account Type	No. of Accounts	%	Face Value <sup>(1)</sup>	%	Original Purchase Price <sup>(2)</sup>	%
Major Credit Cards	21,340	54	\$56,977,514	67	\$2,511,552	61
Consumer Finance	6,714	17	8,720,192	10	156,371	4
Private Label Credit Cards	10,697	27	14,354,682	17	1,262,830	31
Auto Deficiency	678	2	4,837,651	6	156,883	4
Total	39,429	100	\$84,890,039	100	\$4,087,636	100

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

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

The following table summarizes our life to date domestic portfolio purchases as of June 30, 2015, into the delinquency categories represented (amounts in thousands).

Account Type	No. of Accounts	%	Face Value <sup>(1)</sup>	%	Original Purchase Price <sup>(2)</sup>	%
Fresh	4,202	11	\$9,375,823	11	\$1,105,824	27
Primary	5,035	13	9,669,495	11	575,146	14
Secondary	8,656	22	11,648,546	14	575,139	14
Tertiary	4,852	12	6,774,111	8	134,490	3
Insolvency	5,852	15	23,809,269	28	1,518,853	37
Other	10,832	27	23,612,795	28	178,184	5
Total	39,429	100	\$84,890,039	100	\$4,087,636	100

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

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

We review the geographic distribution of accounts within a portfolio because we have found that state specific laws and rules can have an effect on the collectability of accounts located there. In addition, economic factors and insolvency trends vary regionally and are factored into our maximum purchase price equation.

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The following table summarizes our life to date domestic portfolio purchases as of June 30, 2015, by geographic location (amounts in thousands):

Geographic Distribution	No. of Accounts	%	Face Value <sup>(1)</sup>	%	Original Purchase Price <sup>(2)</sup>	%
California	4,280	11	% \$11,175,531	13	% \$ 510,102	12
Texas	5,304	13	9,090,127	11	358,653	9
Florida	3,162	8	7,935,579	9	360,289	9
New York	2,275	6	4,968,725	6	215,500	5
Ohio	1,798	5	3,189,828	4	167,155	4
Pennsylvania	1,443	4	3,109,262	4	149,707	4
Illinois	1,491	4	3,053,984	4	160,771	4
North Carolina	1,434	4	3,013,143	4	144,428	4
Georgia	1,310	3	2,822,681	3	160,275	4
Other <sup>(3)</sup>	16,932	42	36,531,179	42	1,860,756	45
Total	39,429	100	% \$84,890,039	100	% \$ 4,087,636	100

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

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

(3) Each state included in "Other" represents less than 3% of the face value of total defaulted consumer receivables.

#### Portfolio Purchasing

The following table displays our quarterly portfolio purchases for the periods indicated.

Portfolio Purchase Source (amounts in thousands)	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Americas-Core	\$98,317	\$138,498	\$119,714	\$118,018	\$91,904	\$79,085	\$65,759	\$89,044
Americas-Insolvency	19,111	16,437	24,949	38,535	16,187	72,003	31,987	41,794
Europe-Core <sup>(1) (2)</sup>	88,499	21,579	123,194	734,803	1,121	1,626	1,763	11,037
Europe-Insolvency	2,450	8,510	11,625	—	—	—	—	—
Total Portfolio Purchasing	\$208,377	\$185,024	\$279,482	\$891,356	\$109,212	\$152,714	\$99,509	\$141,875

(1) Excludes the \$27.9 million and \$34.7 million investments in a securitized fund in Poland during the three months ended March 31, 2015 and December 31, 2014, respectively.

(2) The amount reflected in the Q3-2014 column includes the acquisition date finance receivable portfolio that was acquired in connection with the Aktiv acquisition.

#### Investments in Securitized Assets

We hold a majority interest in a closed-end Polish investment fund. The fund was formed in December 2014 to acquire portfolios of nonperforming consumer loans in Poland. Our investment consists of a 100% interest in the Series B certificates and a 20% interest in the Series C certificates. Each certificate comes with one vote and is governed by a co-investment agreement. Series C certificates, which share equally in the residual profit of the fund, are accounted for as debt securities classified as available-for-sale and are stated at fair value. Income is recognized using the effective yield method.

The total initial investment by the Polish investment fund in finance receivables is \$62.6 million. The gross estimated remaining collections and gross total estimated collections, related to our proportional ownership of the fund, are \$120.5 million and \$128.5 million, respectively, at June 30, 2015. Our investment revenue is generated from the net collections of the fund (cash collections less direct expenses) which is estimated to be \$95.4 million at June 30, 2015.





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Estimated Remaining Collections

The following chart shows our ERC by geographical region at June 30, 2015 (amounts in millions).

Liquidity and Capital Resources

Historically, our primary sources of cash have been cash flows from operations, bank borrowings, and convertible debt and equity offerings. Cash has been used for acquisitions of finance receivables portfolios, corporate acquisitions, repurchase of our common stock, repayments of bank borrowings, operating expenses, purchases of property and equipment, and working capital to support our growth.

As of June 30, 2015, cash and cash equivalents totaled \$56.8 million, compared to \$39.7 million at December 31, 2014. We had \$1.50 billion in borrowings outstanding as of June 30, 2015, with \$547.0 million of availability under all of our credit facilities (subject to the borrowing base and applicable debt covenants). See the "Borrowings" section below for more information.

We have in place forward flow and other commitments for the purchase of defaulted consumer receivables in which the maximum amount that could be purchased is approximately \$618.8 million as of June 30, 2015. Additionally we may enter into new or renewed flow commitments and close on spot transactions in addition to the aforementioned flow agreements. We believe that funds generated from operations and from cash collections on finance receivables, together with existing cash and available borrowings under our credit facility will be sufficient to finance our operations, planned capital expenditures, the aforementioned forward flow commitments, and additional, normal-course portfolio purchasing during the next twelve months. Business acquisitions, adverse outcomes in pending litigation or higher than normal levels of portfolio purchasing could require additional financing from other sources.

For domestic income tax purposes, we recognize revenue using the cost recovery method with respect to our receivable purchasing business. The IRS has audited and issued a Notice of Deficiency for the tax years ended December 31, 2005 through 2012. It has asserted that tax revenue recognition using the cost recovery method does not clearly reflect taxable income. We have filed a petition in the United States Tax Court challenging the deficiency and believe we have sufficient support for the technical merits of our positions. On April 30, 2015, the IRS and us filed a joint motion to continue the trial date that was previously set for June 22, 2015. The Tax Court granted the Motion on May 4, 2015. On July 10, 2015 and July 21, 2015, the IRS filed Motions for Summary Judgment for tax years 2008 through 2012 and 2005 through 2007 respectively. On August 7, 2015, we filed a motion requesting that the Tax Court defer its consideration of the IRS's summary judgment motions until after the parties have completed discovery. If the Motion to Defer is denied, then we will have an opportunity to respond to the IRS's summary judgment motions. If the Tax Court judge grants the Motions for Summary Judgment in favor of the IRS, the Company can appeal to the federal Court of Appeals. If we are unsuccessful in Tax Court and any potential appeals to the federal Circuit Court of Appeals, we may ultimately be required to pay the related deferred taxes, and possibly interest and penalties, which may require additional financing from other sources. Deferred tax liabilities related to this item were \$246.2 million at June 30, 2015. Our estimate of the potential federal and state interest is \$86.8 million as of June 30, 2015.

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Cash generated from operations is dependent upon our ability to collect on our finance receivables. Many factors, including the economy and our ability to hire and retain qualified collectors and managers, are essential to our ability to generate cash flows. Fluctuations in these factors that cause a negative impact on our business could have a material impact on our future cash flows.

On December 10, 2014, the Company's board of directors authorized a new share repurchase program to purchase up to \$100 million of the Company's outstanding shares of common stock on the open market. Repurchases depend on prevailing market conditions and other factors. The repurchase program may be suspended or discontinued at any time. During the first quarter of 2015, we purchased 1,477,600 shares of our common stock under the new share repurchase program at an average price of \$52.65 per share. There were no share repurchases during the three months ended June 30, 2015. At June 30, 2015, the maximum remaining purchase price for share repurchases under the new program is approximately \$7.8 million.

Our operating activities provided cash of \$96.1 million and \$108.6 million for the six months ended June 30, 2015 and 2014, respectively. In these periods, cash from operations was generated primarily from net income earned through cash collections and fee income received for the period.

Our investing activities used cash of \$51.8 million and provided cash of \$6.8 million during the six months ended June 30, 2015 and 2014, respectively. Cash used in investing activities is primarily driven by acquisitions of defaulted consumer receivables and purchases of property and equipment. Cash provided by investing activities is primarily driven by cash collections applied to principal on finance receivables. The majority of the change in cash used in investing activities was due to an increase in acquisitions of finance receivables, to \$387.9 million for the six months ended June 30, 2015, from \$252.2 million for the six months ended June 30, 2014, offset by an increase in collections applied to principal on finance receivables to \$340.9 million for the six months ended June 30, 2015, from \$272.2 million for the six months ended June 30, 2014.

Our financing activities used cash of \$17.3 million and \$0.8 million during the six months ended June 30, 2015 and 2014, respectively. Cash for financing activities is normally provided by draws on our line of credit. Cash used in financing activities is primarily driven by principal payments on our lines of credit, principal payments on long-term debt and repurchases of our common stock. The increase in cash used by financing activities was primarily due to repurchases of our common stock and principal payments on long-term debt partially offset by the net borrowings on our credit facility. During the six months ended June 30, 2015, we repurchased \$77.8 million of our common stock compared to \$0 for the six months ended June 30, 2014. During the six months ended June 30, 2015, we had payments on long-term debt of \$37.5 million compared to \$5.0 million for the six months ended June 30, 2014. This was partially offset by net borrowings on our lines of credit of \$91.6 million for the six months ended June 30, 2015, compared to \$0 during the six months ended June 30, 2014.

Cash paid for interest was \$22.9 million and \$7.6 million for the six months ended June 30, 2015 and 2014, respectively. Interest was paid on our revolving credit facilities, long-term debt, convertible debt and our interest rate swap agreements. The increase during the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, was due mainly to the interest paid on the debt assumed and additional funding required for the Aktiv acquisition. Cash paid for income taxes was \$49.6 million and \$25.4 million for the six months ended June 30, 2015 and 2014, respectively.

**Borrowings****Domestic Revolving Credit and Term Loan**

We have a credit facility with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the "Credit Agreement"). The total credit facility under the Credit Agreement includes an aggregate principal amount of \$827.5 million (subject to compliance with a borrowing base and applicable debt covenants), which consists of (i) a fully funded \$177.5 million term loan, (ii) a \$630 million domestic revolving credit facility, of which \$185.5 million is available to be drawn, and (iii) a \$20 million multi-currency revolving credit facility, of which \$2.0 million is available to be drawn. The facilities all mature on December 19, 2017. Our revolving credit facility includes a \$20.0 million swingline loan sublimit and a \$20.0 million letter of credit sublimit. The Credit Agreement is secured by a first priority lien on substantially all of our assets.

Borrowings outstanding on this credit facility at June 30, 2015 consisted of \$177.5 million outstanding on the term loan with an annual interest rate as of June 30, 2015 of 2.69% and \$462.5 million outstanding in 30-day Eurodollar rate loans on the revolving facility with a weighted average interest rate of 2.72%. At December 31, 2014, the Company's borrowings on this credit facility consisted of \$185.0 million outstanding on the term loan with an annual interest rate as of December 31, 2014 of 2.67% and \$409.0 million outstanding in 30-day Eurodollar rate loans on the revolving facility with a weighted average interest rate of 2.68%.

**Seller Note Payable**

In conjunction with the closing of the Aktiv business acquisition on July 16, 2014, we entered into the \$169.9 million Seller Note. On May 22, 2015, the Company amended the Seller Note to extend the maturity date to January 19, 2016. The Seller Note

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bears interest at the three-month LIBOR plus 3.75%. The quarterly interest due can be paid or added into the Seller Note balance at our option. During the three months ended June 30, 2015, we paid the quarterly interest payment of \$1.7 million. At June 30, 2015, the balance due on the Seller Note was \$169.9 million with an annual interest rate of 4.03%.

### Multicurrency Revolving Credit Facility

On October 23, 2014, we entered into a credit agreement with DNB Bank ASA for a Multicurrency Revolving Credit Facility ("the Multicurrency Revolving Credit Agreement"). Subsequently, two other lenders joined the credit facility, and on June 12, 2015, we entered into a first amendment to the Multicurrency Revolving Credit Agreement ("the Amended Multicurrency Revolving Credit Agreement") which provided, among other things, an increase in the total commitments from \$500 million to an aggregate of \$750 million, subject to certain requirements, and an increase in the maximum ERC ratio from 28% to 33%, subject to the payment of additional associated fees.

Under the terms of the Amended Multicurrency Revolving Credit Agreement, the credit facility includes an aggregate amount of \$750.0 million, of which \$319.5 million is available to be drawn, accrues interest at the IBOR plus 2.50-3.30% (as determined by the ERC Ratio as defined in the Amended Multicurrency Revolving Credit Agreement), bears an unused line fee of 0.35% per annum, payable monthly in arrears, and matures on October 23, 2019. The Amended Multicurrency Revolving Credit Agreement also includes an Overdraft Facility aggregate amount of \$40.0 million, of which \$40.0 million is available to be drawn, accrues interest at the IBOR plus 2.50-3.30% (as determined by the ERC Ratio as defined in the Amended Multicurrency Revolving Credit Agreement), bears a facility line fee of 0.50% per annum, payable quarterly in arrears, and also matures October 23, 2019.

The Amended Multicurrency Revolving Credit Agreement is secured by i) the shares of most of the subsidiaries of Aktiv ii) all intercompany loans to Aktiv's subsidiaries.

At June 30, 2015, the balance on the Amended Multicurrency Revolving Credit Agreement was \$430.5 million, with an annual interest rate of 3.23%.

### Convertible Senior Notes

On August 13, 2013, we completed the private offering of \$287.5 million in aggregate principal amount of the Notes. The Notes were issued pursuant to an Indenture, dated August 13, 2013 (the "Indenture") between us and Wells Fargo Bank, National Association, as trustee. The Indenture contains customary terms and covenants, including certain events of default after which the Notes may be due and payable immediately. The Notes are senior unsecured obligations of the Company and mature on August 1, 2020. Interest on the Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year, beginning as of February 1, 2014.

We believe we were in compliance with all covenants under our financing arrangements as of June 30, 2015 and December 31, 2014.

### Undistributed Earnings of Foreign Subsidiaries

We intend to use remaining accumulated and future undistributed earnings of foreign subsidiaries to expand operations outside the United States; therefore, such undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States. Accordingly, no provision for federal and state income tax has been provided thereon. If management's intentions change and eligible undistributed earnings of foreign subsidiaries are repatriated, we would be subject to additional U.S. income taxes, net of an adjustment for foreign tax credits, and withholding taxes payable to various foreign jurisdictions, where applicable. This could result in a higher effective tax rate in the period in which such a decision is made to repatriate accumulated or future undistributed foreign earnings. Refer to the Notes of the Consolidated Financial Statements for further information related to our income taxes and undistributed foreign earnings.

### Stockholders' Equity

Stockholders' equity was \$897.9 million at June 30, 2015 and \$902.2 million at December 31, 2014. The decrease was primarily attributable to \$77.8 million in share repurchases and a \$37.6 million increase in accumulated net foreign currency translation losses. This was partially offset by \$109.6 million in net income during the six months ended

June 30, 2015.

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## Contractual Obligations

Our contractual obligations as of June 30, 2015 were as follows (amounts in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Operating leases	\$39,716	\$11,629	\$18,487	\$7,433	\$2,167
Lines of credit <sup>(1)</sup>	1,022,379	28,198	511,128	483,053	—
Long-term debt <sup>(2)</sup>	685,803	199,490	177,250	17,250	291,813
Purchase commitments <sup>(3)</sup>	622,482	552,550	43,093	26,839	—
Employment agreements	22,399	8,167	14,232	—	—
Total	\$2,392,779	\$800,034	\$764,190	\$534,575	\$293,980

This amount includes estimated interest and unused line fees due on our domestic and multicurrency lines of credit (1) and assumes that the balances on the lines of credit remain constant from the June 30, 2015 balances of \$462.5 million and \$430.5 million, respectively.

(2) This amount includes scheduled interest and principal payments on our term loans and our convertible debt.

(3) This amount includes the maximum remaining amount to be purchased under forward flow and other contracts for the purchase of defaulted finance receivables in the amount of approximately \$618.8 million.

## Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

## Recent Accounting Pronouncements

In April 2014, FASB issued ASU 2014-08, that amends the requirements for reporting discontinued operations. ASU 2014-08 requires the disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that will have a major effect on the entity's operations and financial results. ASU 2014-08 also requires additional disclosures about discontinued operations and disclosures about the disposal of a significant component of an entity that does not qualify as a discontinued operation. ASU 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014, with early adoption permitted. We adopted ASU 2014-08 in the first quarter of 2015 which had no material impact on our consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. We are evaluating our implementation approach and the potential impacts of the new standard on our existing revenue recognition policies and procedures.

In June 2014, FASB issued ASU 2014-12, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. We are evaluating the potential impacts of the new standard on our existing stock-based compensation awards.

In February 2015, FASB issued ASU 2015-02, "Consolidation (Topic 810), Amendments to the Consolidation Analysis" ("ASU 2015-02"). The amendments under the new guidance modify the evaluation of whether limited

partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities and eliminate the presumption that a general partner should consolidate a limited partnership. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. A reporting entity also may apply the amendments retrospectively. We are currently evaluating the impact of adopting this guidance on our financial position and results of operations.

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In April 2015, FASB issued ASU 2015-03, "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity should apply the new guidance on a retrospective basis. We are currently evaluating the impact of adopting this guidance on our financial position and results of operations.

In April 2015, FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"). ASU 2015-05 provides explicit guidance to help companies evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, this update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity can elect to adopt the new guidance either prospectively for all arrangements entered into or materially modified after the effective date, or on a retrospective basis. We are currently evaluating the impact of adopting this guidance on our financial position and results of operations.

### Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Our significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements of our 2014 Annual Report on Form 10-K filed on March 2, 2015. Our significant accounting policies are fundamental to understanding our results of operations and financial condition because they require that we use estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets, and liabilities.

Three of these policies are considered to be critical because they are important to the portrayal of our financial condition and results, and because they require management to make judgments and estimates that are difficult, subjective, and complex regarding matters that are inherently uncertain.

We base our estimates on historical experience, current trends and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ significantly from actual results, the impact on our consolidated financial statements may be material.

Management has reviewed these critical accounting policies with the Company's Audit Committee.

### Revenue Recognition - Finance Receivables

We account for our investment in finance receivables under the guidance of ASC 310-30. Revenue recognition for finance receivables accounted for under ASC 310-30 involves the use of estimates and the exercise of judgment on the part of management. These estimates include projections of the quantity and timing of future cash flows and economic lives of our pools of finance receivables. Significant changes in such estimates could result in increased or decreased revenue or the incurrence of allowance charges.

We implement the accounting for income recognized on finance receivables under ASC 310-30 as follows:



We create each accounting pool using our projections of estimated cash flows and expected economic life. We then compute the effective yield that fully amortizes the pool over a reasonable expectation of its economic life based on the current projections of estimated cash flows. As actual cash flow results are recorded, we balance those results to the data contained in our proprietary models to ensure accuracy, then review each pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), regularly re-forecasting future cash flows utilizing our statistical models. The review process is primarily performed by our finance staff; however, our operational and statistical staff are also involved, providing updated statistical input and cash projections to the finance staff. Significant judgment is used in evaluating whether overperformance is due to an increase in projected cash flows or an acceleration of cash flows (a timing difference). If determined to be a significant increase in expected cash flows, we will recognize the effect of the increase prospectively first through an

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adjustment to any previously recognized valuation allowance for that pool and then through an increase in yield. If the overperformance is determined to be due to a timing difference, we will: a) adjust estimated future cash flows downward which effectively extends the amortization period to fall within a reasonable expectation of the pool's economic life, b) adjust future cash flow projections as noted previously coupled with an increase in yield in order for the amortization period to fall within a reasonable expectation of the pool's economic life, or c) take no action at all if the amortization period falls within a reasonable expectation of the pool's expected economic life. To the extent there is underperformance, we will record an allowance if the underperformance is significant and will also consider revising estimated future cash flows based on current period information, or take no action if the pool's amortization period is reasonable and falls within the currently projected economic life.

### Valuation of Acquired Intangibles and Goodwill

In accordance with FASB ASC Topic 350, "Intangibles-Goodwill and Other" ("ASC 350"), we amortize intangible assets over their estimated useful lives. Goodwill, pursuant to ASC 350, is not amortized but rather is evaluated for impairment annually and more frequently if indicators of potential impairment exist.

Goodwill is reviewed for potential impairment at the reporting unit level. A reporting unit is an operating segment or one level below. As reporting units are determined after an acquisition or evolve with changes in business strategy, goodwill is assigned to reporting units and it no longer retains its association with a particular acquisition. All of the revenue streams and related activities of a reporting unit, whether acquired or organic, are available to support the value of the goodwill.

We estimate the fair value of our reporting units using the income approach, the market approach and the transaction approach. Depending on the availability of public data and suitable comparables, we may or may not use the market approach and the transaction approach or we may emphasize the results from the approaches differently. Under the income approach, we estimate the fair value of a reporting unit based on the present value of estimated future cash flows and a residual terminal value. Cash flow projections are based on management's estimates of revenue growth rates, operating margins, necessary working capital, and capital expenditure requirements, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit's ability to execute on the projected cash flows. Under the market approach, we estimate fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with operating and investment characteristics similar to the reporting unit. Under the transaction approach, we estimate fair value based on market multiples from comparable transactions where the acquisition target has similar operating and investment characteristics to the reporting unit. The transaction approach is less likely to be used given the lack of publicly available detailed data on transactions for comparable companies.

The Company performs its annual goodwill assessment as of October 1. The option of whether to perform a qualitative assessment or to proceed directly to a two-step quantitative test is made from year-to-year and can vary by reporting unit. At October 1, 2014, we performed a qualitative assessment of our reporting units. Factors we considered in the qualitative assessment include general macroeconomic conditions, industry and market conditions, cost factors, overall financial performance of our reporting units, events or changes affecting the composition or carrying value of the net assets of our reporting units, changes in our share price, and other relevant Company specific events. We also considered the impact of changes in the estimates and assumptions used in our fair value estimates. Based on our evaluation, we determined that our reporting units were not at risk of failing a Step 1 impairment test under ASC 350. We believe that nothing has occurred since the review was performed through June 30, 2015 that would indicate a triggering event and thereby necessitate further evaluation of goodwill or other intangible assets. We expect to perform our next annual goodwill review during the fourth quarter of 2015.

Our goodwill impairment testing involves the use of estimates and the exercise of judgment on the part of management. Our assessment of the qualitative factors discussed above involves significant judgments about expected future business performance and general market conditions. Significant changes in our assessment of such qualitative factors could affect our assessment of the fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period.

The allocation of the purchase price to the tangible assets and liabilities and identifiable intangible assets acquired requires significant estimates in determining the fair values of assets acquired and liabilities assumed which result in goodwill.

#### Income Taxes

We are subject to the income tax laws of the various jurisdictions in which we operate, including U.S. federal, state, and local and international jurisdictions. These tax laws are complex and are subject to different interpretations by the taxpayer and the relevant government taxing authorities. When determining our domestic and foreign income tax expense, we must make judgments about application of these inherently complex laws.

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We follow the guidance of FASB ASC Topic 740 “Income Taxes” (“ASC 740”) as it relates to the provision for income taxes and uncertainty in income taxes. Accordingly, we record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC 740, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The evaluation of a tax position in accordance with the guidance is a two-step process. The first step is recognition: the enterprise determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We record interest and penalties related to unrecognized tax benefits as a component of income tax expense.

In the event that all or part of the deferred tax assets are determined not to be realizable in the future, a valuation allowance would be established and charged to earnings in the period such determination is made. If we subsequently realize deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in a positive adjustment to earnings or a decrease in goodwill in the period such determination is made. The establishment or release of a valuation allowance does not have an impact on cash, nor does such an allowance preclude the use of loss carry-forwards or other deferred tax assets in future periods. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial position.

For domestic income tax purposes, we recognize revenue using the cost recovery method with respect to our debt purchasing business. We believe cost recovery to be an acceptable method for companies in the bad debt purchasing industry. Under the cost recovery method, collections on finance receivables are applied first to principal to reduce the finance receivables to zero before any income is recognized.

Our acquisition of Aktiv requires the use of material estimates and increases the complexity of our accounting for income taxes. In addition, we are restructuring Aktiv's corporate organization, which requires valuation estimates and interpretations of complex tax laws in multiple jurisdictions.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

#### Interest Rate Risk

We are subject to interest rate risk from outstanding borrowings on our variable rate credit facilities. As such, our consolidated financial results are subject to fluctuations due to changes in the market rate of interest. We assess this interest rate risk by estimating the increase or decrease in interest expense that would occur due to a change in short-term interest rates. The borrowings on our variable rate credit facilities were \$1.2 billion as of June 30, 2015. Assuming a 25 basis point decrease in interest rates, for example, interest expense over the following twelve months would decrease by an estimated \$2.7 million. Assuming a 50 basis point increase in interest rates, interest expense over the following twelve months would increase by an estimated \$5.4 million.

To reduce the exposure to changes in the market rate of interest, we have entered into interest rate swap agreements for a portion of our floating rate financing arrangements. Terms of the interest rate swap agreements require us to receive a variable interest rate and pay a fixed interest rate. For the majority of our floating rate financing arrangements, we have no interest rate swap agreements in place. At June 30, 2015, approximately 30% of the net borrowings at PRA Europe were hedged, reducing the related currency exchange risk.

The fair value of our interest rate swap agreements was a net liability of \$0.9 million at June 30, 2015. A hypothetical 25 basis point decrease in interest rates would cause a decrease in the estimated fair value of our interest rate swap agreements and the resulting estimated fair value would be a liability of \$2.2 million at June 30, 2015. Conversely, a hypothetical 50 basis point

increase in interest rates would cause an increase in the estimated fair value of our interest rate swap agreements and the resulting estimated fair value would be an asset of \$1.7 million at June 30, 2015.

#### Currency Exchange Risk

We operate internationally and enter into transactions denominated in foreign currencies, including the euro, the Great British pound, the Canadian dollar, Norwegian kroner, Swiss franc, Danish kroner, Swedish kroner and Polish zloty. In the three months ended June 30, 2015, we generated \$54.1 million of revenues from operations outside the United States and used six functional currencies. Weakness in one particular currency might be offset by strength in other currencies over time.

As a result of our international operations, fluctuations in the exchange rates between different currencies could cause us to incur foreign currency transaction and translation gains and losses, and could adversely affect our net income, comprehensive income, and stockholders' equity. Additionally, our reported financial results could change from period to period due solely to fluctuations between currencies.

Foreign currency transaction gains and losses are the result of the re-measurement of account balances in certain currencies into an entity's functional currency. Foreign currency transaction gains and losses are included as a component of other income and (expense) in our consolidated income statements.

When an entity's functional currency is different than the reporting currency of its parent, foreign currency translation adjustments may occur. Foreign currency translation adjustments are included as a component of other comprehensive income/(loss) in our consolidated statements of comprehensive income/(loss) and as a component of stockholders' equity in our consolidated balance sheets.

We are taking measures to mitigate the impact of foreign currency fluctuations. We have restructured our European operations so that portfolio ownership and collections will generally occur within the same entity. Our European credit facility is a multi-currency facility, allowing us to borrow in the same currency as our entity's functional currency. We strive to maintain the distribution of our European borrowings within defined thresholds based on the currency composition of our finance receivables portfolios. When those thresholds are exceeded, we engage in foreign exchange spot transactions to mitigate our risk.

#### Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial and Administrative Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, controls may become inadequate because of changes in conditions and the degree of compliance with the policies or procedures may deteriorate. We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial and Administrative Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial and Administrative Officer have concluded that, as of June 30, 2015, our disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting.** There was no change in our internal control over financial reporting during the fiscal quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, because we completed the Aktiv acquisition during the third quarter of 2014, we are still in the process of assessing Aktiv's controls for design and operating

effectiveness. We intend to complete that assessment in time to include the results in our 2015 annual evaluation of internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

#### Portfolio Recovery Associates, LLC v. Guadalupe Mejia

On May 11, 2015, an unfavorable jury verdict was delivered against the Company in a matter pending in Jackson County, Missouri. The jury awarded Guadalupe Mejia \$251,000 in compensatory damages and \$82,009,549 in punitive damages (altogether, the “Award”) for her counter-claim against the Company, alleging malicious prosecution and impermissible collection practices. The Company believes the verdict and magnitude of the Award to be erroneous and has filed a motion to set aside the Award. Unless reduced or overturned, the Award could have a material adverse effect on the Company's financial condition and/or operations. Refer to Note 10 “Commitments and Contingencies” of our Consolidated Financial Statements for information regarding additional legal and regulatory proceedings in which we are involved.

In addition to the foregoing, we and our subsidiaries are from time to time subject to a variety of routine legal and regulatory claims, inquiries and proceedings, most of which are incidental to the ordinary course of our business. We initiate lawsuits against customers and are occasionally countersued by them in such actions. Also, customers, either individually, as members of a class action, or through a governmental entity on behalf of customers, may initiate litigation against us in which they allege that we have violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against us. While the outcome of any of these routine claims, inquiries or proceedings cannot be predicted with certainty, we do not believe that any of our other pending legal proceedings could reasonably be expected to have a material adverse effect on our financial condition, results of operations and cash flows.

### Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the specific risk factors listed under Part I, Item 1A of our 2014 Annual Report on Form 10-K filed on March 2, 2015, together with the additional risk factors discussed below and all other information included herein or incorporated by reference in our reports filed with the SEC. Any such risks may materialize, and additional risks not known to us, or that we now deem immaterial, may arise. In such event, our business, financial condition, results of operations or prospects could be materially adversely affected. If that occurs, the market price of our common stock could fall, and investors could lose all or part of their investment.

Adverse litigation outcomes could have an adverse effect on our results of operations, cash flows and financial position.

It is likely that legal actions, proceedings and other claims arising out of the collection of defaulted consumer receivables will continue to be filed against us, such as the recent Award, and our debt collection affiliates for the foreseeable future. Victories by plaintiffs in highly publicized cases against us or other debt collection companies may stimulate further claims. A material increase in the number of pending claims could significantly increase our defense costs. In addition, adverse outcomes in pending cases could have adverse effects on our operations and financial condition, and our ability to prevail in other related litigation.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.



Item 5. Other Information  
None.

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Item 6. Exhibits

- 3.1 Amended and Restated By-Laws of PRA Group, Inc. (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on May 22, 2015).
- 10.1 Fourth Amendment, entered into as of June 2, 2015, to the Credit Agreement dated as of December 19, 2012 by and among PRA Group, Inc., its domestic wholly-owned subsidiaries as guarantors, certain lenders, Bank of America, N.A. as administrative agent, swing line lender, and L/C issuer, and certain other agents and arrangers named therein. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on June 3, 2015).
- 10.2 First Amendment, entered into as of June 12, 2015, to the Credit Facility dated as of October 23, 2014 by and among SHCO 54 S.à r.l., a Luxembourg subsidiary of PRA Group, Inc. and its Swiss Branch, SHCO 54 S.à r.l Luxembourg, Zug Branch, along with certain of their affiliates as Guarantors, DNB Bank ASA as the mandated lead arranger, facility agent, bookrunner and security agent, and certain lenders, other agents and arrangers named therein. (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on June 16, 2015).
- 31.1 Section 302 Certifications of Chief Executive Officer.
- 31.2 Section 302 Certifications of Chief Financial and Administrative Officer.
- 32.1 Section 906 Certifications of Chief Executive Officer and Chief Financial and Administrative Officer.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkable Document
- 101.LAB XBRL Taxonomy Extension Label Linkable Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkable Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRA GROUP, INC.  
(Registrant)

Date: August 10, 2015

By: /s/ Steven D. Fredrickson  
Steven D. Fredrickson  
Chief Executive Officer, President and  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: August 10, 2015

By: /s/ Kevin P. Stevenson  
Kevin P. Stevenson  
Chief Financial and Administrative  
Officer, Executive Vice President,  
Treasurer and Assistant Secretary  
(Principal Financial and Accounting  
Officer)