PORTFOLIO RECOVERY ASSOCIATES INC
Form 10-Q
November 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011.

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

For the transition period from to

Commission File Number: 000-50058

Portfolio Recovery Associates, Inc.

(Exact name of registrant as specified in its charter)

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

(888) 772-7326

(Registrant s telephone number, including area code)

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

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 October 28, 2011**
Common Stock, $0.01 par value	17,118,353

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2011 and December 31, 2010

(unaudited)

(Amounts in thousands, except per share amounts)

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 30,035	$ 41,094
Finance receivables, net	919,478	831,330
Accounts receivable, net	6,462	8,932
Income taxes receivable		2,363
Property and equipment, net	22,975	24,270
Goodwill	61,678	61,678
Intangible assets, net	14,748	18,466
Other assets	8,728	7,775
Total assets	$ 1,064,104	$ 995,908
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable	$ 5,148	$ 3,227
Accrued expenses and other liabilities	5,856	4,904
Income taxes payable	2,651	
Accrued compensation	11,409	15,445
Net deferred tax liability	192,298	164,971
Line of credit	260,000	300,000
Long-term debt	1,553	2,396
Total liabilities	478,915	490,943
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interest	16,884	14,449
Stockholders equity:		
Preferred stock, par value $0.01, authorized shares, 2,000, issued and outstanding shares - 0		
Common stock, par value $0.01, 60,000 authorized shares, 17,118 issued and outstanding shares at September 30, 2011, and 30,000 authorized shares, 17,064 issued and outstanding shares at December 31, 2010	171	171
Additional paid-in capital	167,126	163,538

Retained earnings	401,008	326,807
Total stockholders equity	568,305	490,516
Total liabilities and stockholders equity	$ 1,064,104	$ 995,908

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED INCOME STATEMENTS

For the three and nine months ended September 30, 2011 and 2010

(unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:				
Income recognized on finance receivables, net	$ 102,875	$ 80,026	$ 299,152	$ 224,897
Fee income	11,401	15,518	41,696	47,054
Total revenues	114,276	95,544	340,848	271,951
Operating expenses:				
Compensation and employee services	33,475	31,213	102,443	91,725
Legal collection fees	5,962	4,577	17,681	12,779
Legal collection costs	9,731	9,329	28,949	21,398
Agent fees	1,643	2,842	6,005	9,396
Outside fees and services	6,222	3,470	13,702	9,454
Communication expenses	5,865	4,000	17,884	13,160
Rent and occupancy	1,517	1,362	4,353	3,912
Depreciation and amortization	3,223	3,294	9,755	9,050
Other operating expenses	2,808	2,634	9,161	7,488
Total operating expenses	70,446	62,721	209,933	178,362
Gain on sale of property			1,157	
Income from operations	43,830	32,823	132,072	93,589
Other income and (expense):				
Interest income	7		7	35
Interest expense	(2,555)	(2,178)	(8,057)	(6,535)
Income before income taxes	41,282	30,645	124,022	87,089
Provision for income taxes	16,089	11,888	49,544	33,847
Net income	$ 25,193	$ 18,757	$ 74,478	$ 53,242
Less net (loss)/income attributable to redeemable noncontrolling interest	(313)	276	277	431
Net income attributable to Portfolio Recovery Associates, Inc.	$ 25,506	$ 18,481	$ 74,201	$ 52,811

Net income per common share attributable to Portfolio Recovery Associates, Inc:

Basic	$ 1.49	$ 1.08	$ 4.34	$ 3.15
Diluted	$ 1.48	$ 1.08	$ 4.31	$ 3.15
Weighted average number of shares outstanding:				
Basic	17,117	17,058	17,106	16,740
Diluted	17,228	17,093	17,218	16,792

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

For the nine months ended September 30, 2011

(unaudited)

(Amounts in thousands)

	Common Stock		Additional Paid-in	Retained	Total Stockholders
	Shares	Amount	Capital	Earnings	Equity
Balance at December 31, 2010	17,064	$ 171	$ 163,538	$ 326,807	$ 490,516
Net income attributable to Portfolio Recovery Associates, Inc.				74,201	74,201
Exercise of stock options and vesting of nonvested shares	54		150		150
Amortization of share-based compensation			6,110		6,110
Income tax benefit from share-based compensation			503		503
Adjustment of the noncontrolling interest measurement amount			(3,175)		(3,175)
Balance at September 30, 2011	17,118	$ 171	$ 167,126	$ 401,008	$ 568,305

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2011 and 2010

(unaudited)

(Amounts in thousands)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net income	$ 74,478	$ 53,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of share-based compensation	6,110	3,114
Depreciation and amortization	9,755	9,050
Deferred tax expense	27,327	34,368
Gain on sale of property	(1,157)	
Changes in operating assets and liabilities:		
Other assets	(953)	(244)
Accounts receivable	2,470	1,380
Accounts payable	1,921	1,631
Income taxes	5,014	1,857
Accrued expenses	2,242	194
Accrued payroll and bonuses	(4,036)	(1,186)
Net cash provided by operating activities	123,171	103,406
Cash flows from investing activities:		
Purchases of property and equipment	(4,851)	(6,162)
Proceeds from sale of property	1,267	
Acquisition of finance receivables, net of buybacks	(314,162)	(273,858)
Collections applied to principal on finance receivables	226,014	160,081
Business acquisitions, net of cash acquired		(23,000)
Contingent payment made for business acquisition		(104)
Net cash used in investing activities	(91,732)	(143,043)
Cash flows from financing activities:		
Proceeds from exercise of options	150	57
Income tax benefit from share-based compensation	503	225
Payments of liability-classified contingent consideration		(1,000)
Proceeds from line of credit	27,000	131,000
Principal payments on line of credit	(67,000)	(161,800)
Proceeds from stock offering, net of offering costs		71,688
Distributions paid to noncontrolling interest	(2,308)	
Principal payments on long-term debt	(843)	(501)
Net cash (used in)/provided by financing activities	(42,498)	39,669

Net (decrease)/increase in cash and cash equivalents		(11,059)		32
Cash and cash equivalents, beginning of period		41,094		20,265
Cash and cash equivalents, end of period	$	30,035	$	20,297
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	7,771	$	6,508
Cash paid for income taxes		19,058		89
Noncash investing and financing activities:				
Adjustment of the noncontrolling interest measurement amount	$	3,175	$	
Common stock issued for acquisition				4,950
Net unrealized change in fair value of derivative instrument				164

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

PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization and Business:

Portfolio Recovery Associates, LLC (PRA) was formed on March 20, 1996. Portfolio Recovery Associates, Inc. (PRA Inc) was formed in August 2002. On November 8, 2002, PRA Inc completed its initial public offering (IPO) of common stock. In connection with the IPO, all of the membership units and warrants of PRA were exchanged on a one to one basis for shares of a single class of common stock of PRA Inc and warrants to purchase shares of PRA Inc common stock, respectively. PRA Inc owns all outstanding membership units of PRA, PRA Holding I, LLC (PRA Holding I), PRA Holding II, LLC (PRA Holding II), PRA Holding III, LLC (PRA Holding III), PRA Receivables Management, LLC (PRA Receivables Management), PRA Location Services, LLC (PLS) (formerly referred to as IGS), PRA Government Services, LLC (d/b/a RDS) (RDS) and MuniServices, LLC (d/b/a PRA Government Services) (MuniServices). On March 15, 2010, PRA Inc acquired 62% of the membership units of Claims Compensation Bureau, LLC (CCB). The business of PRA Inc, a Delaware corporation, and its subsidiaries (collectively, the Company) revolves around the detection, collection, and processing of both unpaid and normal-course receivables originally owed to credit grantors, governments, retailers and others. The Company s primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. These accounts are purchased from sellers of finance receivables. Accounts not in a bankruptcy status upon purchase (referred to as Core accounts) are collected by a highly skilled staff whose purpose is to locate and contact customers and arrange payment or resolution of their debts. Purchased bankruptcy accounts are managed through the bankruptcy courts and trustees, which are overseen by the US Trustee Program, a component of the Department of Justice. Trustees collect payments directly from individual debtors per the bankruptcy plan and forward them to the Company. The Company, through its Litigation Department, collects accounts judicially, either by using its own attorneys or by contracting with independent attorneys throughout the country through whom the Company takes legal action to satisfy consumer debts. The Company also services receivables on behalf of clients on either a commission or transaction-fee basis. Clients include entities in the financial services, auto, retail, utility, health care and government sectors. Services provided to these clients include obtaining location information for clients in support of their collection activities (known as skip tracing), and the management of both delinquent and non-delinquent receivables for government entities. In addition, through its CCB subsidiary, the Company provides class action claims settlement recovery services and related payment processing to its corporate clients.

The consolidated financial statements of the Company include the accounts of PRA Inc, PRA, PRA Holding I, PRA Holding II, PRA Holding III, PRA Receivables Management, PLS, RDS, MuniServices and CCB. 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 receivables management, based on similarities among the operating units, including homogeneity of services, service delivery methods and use of technology.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and, therefore, do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company s consolidated balance sheet as of September 30, 2011, its consolidated income statements for the three and nine months ended September 30, 2011 and 2010, its consolidated statement of changes in stockholders equity for the nine months ended September 30, 2011, and its consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010. The consolidated income statements of the Company for the three and nine months ended September 30, 2011 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 Annual Report on Form 10-K, as filed for the year ended December 31, 2010.

PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. Finance Receivables, net:

The Company s principal business consists of the acquisition and collection of pools of accounts that have experienced deterioration of credit quality between origination and the Company s acquisition of the accounts. The amount paid for any pool reflects the Company s determination that it is probable the Company will be unable to collect all amounts due according to an account s contractual terms. At acquisition, the Company reviews the portfolio both by account and aggregate pool to determine whether there is evidence of deterioration of credit quality since origination and accordingly estimates the portion of the collectible balance that the Company expects to collect over the portfolio s projected economic life. The Company then determines whether each such portfolio is to be accounted for individually or whether such portfolios will be assembled into pools based on common risk characteristics. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio and subsequently aggregates pools of accounts. The Company determines the excess of the pool s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference) based on the Company s proprietary acquisition models. The remaining amount, representing the excess of the pool s cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables over the estimated remaining life of the pool (accretable yield).

The Company accounts for its investment in finance receivables under the guidance of FASB ASC Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). Under ASC 310-30, static pools of accounts may be established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost, which includes certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, payments applied to principal and loss provision. Once a static pool is established for a calendar quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30 requires that the excess of the contractual cash flows over expected cash flows, based on the Company s estimates derived from its proprietary collection models, not be recognized as an adjustment of revenue or expense or on the balance sheet. ASC 310-30, utilizing the interest method, initially freezes the yield estimated when the accounts are purchased as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the yield over a portfolio s remaining life. Any increase to the yield then becomes the new benchmark for impairment testing. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current yield and shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheet. Income on finance receivables is accrued quarterly based on each static pool s effective yield. Quarterly cash flows greater than the interest accrual will reduce the carrying value of the static pool. This reduction in carrying value is defined as payments applied to principal (also referred to as finance receivable amortization). Likewise, cash flows that are less than the interest accrual will increase, or accrete, the carrying balance. The Company generally does not record accretion in the first six to twelve months of the estimated life of the pool; accordingly, the Company utilizes either the cost recovery method or cash method when necessary to prevent accretion as permitted by ASC 310-30. The yield is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using the Company s proprietary collection models. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. Additionally, the Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. These cost recovery pools are not aggregated with other portfolios. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the portfolio, or until such time that the Company considers the collections to be probable and estimable and begins to recognize income based on the interest method as described above. At September 30, 2011 and 2010, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of $12.8 million and $1.8 million, respectively.

PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The Company establishes valuation allowances, if necessary, for acquired accounts subject to ASC 310-30 to reflect only those losses incurred after acquisition (that is, the present value of cash flows initially expected at acquisition that are no longer expected to be collected). Valuation allowances are established only subsequent to acquisition of the accounts. At September 30, 2011 and 2010, the Company had a valuation allowance against its finance receivables of $83.5 million and $71.0, respectively. At December 31, 2010, the valuation allowance was $76.4 million.

The Company implements the accounting for income recognized on finance receivables under ASC 310-30 as follows. The Company creates each accounting pool using its projections of estimated cash flows and expected economic life. The Company then computes the effective yield that fully amortizes the pool to the end of its expected economic life based on the current projections of estimated cash flows using the interest method. As actual cash flow results are recorded, the Company balances those results to the data contained in its proprietary models to ensure accuracy, then reviews each accounting pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), sometimes re-forecasting future cash flows utilizing the Company s statistical models. The review process is primarily performed by the Company s finance staff; additionally, the Company s operational and statistical staffs may also be involved. To the extent there is overperformance, the Company will either increase the yield or release the allowance and consider increasing future cash projections, if persuasive evidence indicates that the overperformance is considered to be a significant betterment. If the overperformance is considered more of an acceleration of cash flows (a timing difference), the Company will adjust estimated future cash flows downward, which effectively extends the amortization period, or take no action at all if the amortization period is reasonable and falls within the pool s expected economic life. In either case, the yield may or may not be increased due to the time value of money (accelerated cash collections). To the extent there is underperformance, the Company 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.

The Company capitalizes certain fees paid to third parties related to the direct acquisition of a portfolio of accounts. These fees are added to the acquisition cost of the portfolio and accordingly are amortized over the life of the portfolio using the interest method. The balance of the unamortized capitalized fees at September 30, 2011 and 2010 was $3,150,076 and $3,105,239, respectively. The balance of the unamortized capitalized fees at December 31, 2010 was $3,295,515. During the three and nine months ended September 30, 2011, the Company capitalized $452,320 and $838,498, respectively, of these direct acquisition fees. During the three and nine months ended September 30, 2010, the Company capitalized $177,337 and $624,168, respectively, of these direct acquisition fees. During the three and nine months ended September 30, 2011, the Company amortized $324,944 and $983,937, respectively, of these direct acquisition fees. During the three and nine months ended September 30, 2010 the Company amortized $233,603 and $750,855, respectively, of these direct acquisition fees.

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Changes in finance receivables, net for the three and nine months ended September 30, 2011 and 2010 were as follows (amounts in thousands):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Balance at beginning of period	$ 879,515	$ 775,606	$ 831,330	$ 693,462
Acquisitions of finance receivables, net of buybacks	119,256	88,984	314,162	273,858
Cash collections	(182,168)	(137,377)	(525,166)	(384,978)
Income recognized on finance receivables, net	102,875	80,026	299,152	224,897
Cash collections applied to principal	(79,293)	(57,351)	(226,014)	(160,081)
Balance at end of period	919,478	807,239	919,478	807,239

At the time of acquisition, the life of each pool is generally estimated to be between 72 to 96 months based on projected amounts and timing of future cash collections using the proprietary models of the Company. Based upon current projections, cash collections applied to principal on finance receivables as of September 30, 2011 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

September 30, 2012	$ 280,067
September 30, 2013	246,256
September 30, 2014	212,329
September 30, 2015	129,291
September 30, 2016	49,102
September 30, 2017	2,433
	$ 919,478

During the three and nine months ended September 30, 2011, the Company purchased approximately $5.68 billion and $8.59 billion, respectively, in face value of charged-off consumer receivables. During the three and nine months ended September 30, 2010, the Company purchased approximately $1.38 billion and $4.94 billion, respectively, in face value of charged-off consumer receivables. At September 30, 2011, the estimated remaining collections (ERC) on the receivables purchased in the three and nine months ended September 30, 2011 were $265.2 million and $613.0 million, respectively. At September 30, 2011, ERC on the receivables purchased in the three and nine months ended September 30, 2010 were $128.8 million and $399.4 million, respectively.

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 to be earned by the Company based on its proprietary buying models. Reclassifications from nonaccretable difference to accretable yield primarily result from the Company s increase in its estimate of future cash flows. Reclassifications to nonaccretable difference from accretable yield result from the Company s decrease in its estimates of future cash flows and allowance charges that exceed the Company s increase in its estimate of future cash flows. Changes in accretable yield for the three and nine months ended September 30, 2011 and 2010 were as follows (amounts in thousands):

	Three Months Ended September 30, 2011	**Three Months Ended September 30, 2010**	**Nine Months Ended September 30, 2011**	**Nine Months Ended September 30, 2010**
Balance at beginning of period	$ 936,490	$ 835,903	$ 892,188	$ 721,984
Income recognized on finance receivables, net	(102,875)	(80,026)	(299,152)	(224,897)
Additions	155,680	84,860	356,848	312,735
Reclassifications from nonaccretable difference	16,519	21,598	55,930	52,513
Balance at end of period	$ 1,005,814	$ 862,335	$ 1,005,814	$ 862,335

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PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

ASC 310-30 requires that a valuation allowance be recorded for significant decreases in expected cash flows or change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. In any given period, the Company may be required to record valuation allowances due to pools of receivables underperforming 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 would include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors 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 (which relates to the collection and movement of accounts on both the collection floor of the Company and external channels), as well as decreases in productivity related to turnover and tenure of the Company s collection staff. The following is a summary of activity within the Company s valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three and nine months ended September 30, 2011 and 2010 (amounts in thousands):

	Three Months Ended September 30,					
	2011			2010		
	Core Portfolio (1)	Purchased Bankruptcy Portfolio (2)	Total	Core Portfolio (1)	Purchased Bankruptcy Portfolio (2)	Total
Valuation allowance - finance receivables:						
Beginning balance	$ 73,630	$ 9,100	$ 82,730	$ 59,430	$ 5,015	$ 64,445
Allowance charges	1,400	1	1,401	6,750	625	7,375
Reversal of previous recorded allowance charges	(500)	(160)	(660)	(700)	(155)	(855)
Net allowance charge	900	(159)	741	6,050	470	6,520
Ending balance	$ 74,530	$ 8,941	$ 83,471	$ 65,480	$ 5,485	$ 70,965
Finance receivables, net:	$ 453,168	$ 466,310	$ 919,478			