



ANNUAL REPORT

2007



Helping business...process.

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As used in this Annual Report, unless the context otherwise requires, “we,” “us,” “our,” “Company” or “NCO” refers to NCO Group, Inc., and its subsidiaries.

Forward-Looking Statements

Certain statements included in this Annual Report, other than historical facts, are forward-looking statements (as such term is defined in the Securities Exchange Act of 1934, as amended, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. Forward-looking statements include, without limitation, statements as to:

- the Company’s expected future results of operations;
- the Company’s growth strategy;
- fluctuations in quarterly operating results;
- the integration of acquisitions;
- the final outcome of the Company’s litigation with its former landlord;
- the effects of terrorist attacks, war and the economy on the Company’s business;
- expected increases in operating efficiencies;
- anticipated trends in the business process outsourcing industry, referred to as BPO;
- estimates of future cash flows and allowances for impairments of purchased accounts receivable;
- estimates of intangible asset impairments and amortization expense of customer relationships and other intangible assets;
- the effects of legal proceedings, regulatory investigations and tax examinations;
- the effects of changes in accounting pronouncements; and
- statements as to trends or the Company’s or management’s beliefs, expectations and opinions.

The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “will,” “would,” “should,” “guidance,” “potential,” “continue,” “project,” “forecast,” “confident,” and similar expressions are typically used to identify forward-looking statements. These statements are based on assumptions and assessments made by the Company’s management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees of the Company’s future performance and are subject to risks and uncertainties and may be affected by various factors that may cause actual results, developments and business decisions to differ materially from those in the forward-looking statements. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include:

- risks related to the Company’s substantial indebtedness incurred in connection with the Transaction with Collect Holdings, Inc. in November 2006;
- the risk that the Company will not be able to implement its growth strategy as and when planned;
- risks associated with growth and acquisitions;
- the risk that the Company will not be able to realize operating efficiencies in the integration of its acquisitions;
- fluctuations in quarterly operating results;
- risks related to the timing of contracts;
- risks related to purchased accounts receivable;
- risks related to possible impairment of goodwill and other intangible assets;
- risks related to union organizing efforts at the Company’s facilities;

- risks associated with technology;
- risks related to the final outcome of the Company's litigation with its former landlord;
- risks related to litigation, regulatory investigations and tax examinations;
- risks related to past or possible future terrorist attacks;
- risks related to natural disasters or the threat or outbreak of war or hostilities;
- risks related to the domestic and international economies;
- the risk that the Company will not be able to improve margins;
- risks related to the Company's international operations;
- risks related to the availability of qualified employees, particularly in new or more cost-effective locations;
- risks related to currency fluctuations;
- risks related to reliance on independent telecommunications service providers;
- risks related to concentration of the Company's clients in the financial services, telecommunications and healthcare sectors;
- risks related to potential consumer resistance to outbound services;
- risks related to the possible loss of key clients;
- risks related to changes in government regulations affecting the teleservices and telecommunications industries;
- risks related to competition from other outside providers of BPO services and the in-house operations of existing and potential clients; and
- risks related to competition with other purchasers of accounts receivable.

The Company can give no assurance that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. The Company disclaims any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise. For additional information concerning the risks that affect us, see "Risk Factors" in this Annual Report.

Business

General

On November 15, 2006, NCO Group, Inc. was acquired by and became a wholly owned subsidiary of Collect Holdings, Inc., a Delaware corporation founded in 2006 and controlled by One Equity Partners and its affiliates, with participation by Michael J. Barrist, Chairman, President and Chief Executive Officer of NCO Group, Inc., certain other members of executive management and other co-investors, referred to as the Transaction. Subsequent to the date of the Transaction, NCO Group, Inc. was merged with and into Collect Holdings, Inc., and Collect Holdings, Inc. was renamed NCO Group, Inc.

We are a holding company and conduct substantially all of our business operations through our subsidiaries. NCO is a leading provider of business process outsourcing services, referred to as BPO, primarily focused on accounts receivable management, referred to as ARM, and customer relationship management, referred to as CRM. Our outsourcing solutions include ARM, contact center support and back office support services for a diversified customer base. We provide a wide range of ARM services to our clients by utilizing an extensive technological infrastructure. Although traditional ARM services have focused on the recovery of delinquent accounts, we also engage in the recovery of current accounts receivable and early stage delinquencies (generally, accounts that are 180 days or less past due). Our CRM services allow our clients to strengthen their customer relationships by providing a high level of support to their customers and generate

incremental sales by acquiring new customers. We support essential business functions across key portions of the customer life cycle including acquisition, growth, care, resolution and retention. The primary market sectors we support in our BPO business are financial services, telecommunications, healthcare, retail and commercial, utilities, education, technology, transportation/logistics and government. We also purchase and manage past due consumer accounts receivable from consumer creditors such as banks, finance companies, retail merchants, utilities, healthcare companies, and other consumer-oriented companies. We operate our business in three segments: ARM, CRM and Portfolio Management.

In January 2008, we acquired Systems & Services Technologies, Inc., referred to as SST, a leading third-party consumer receivable servicer. Additionally, in February 2008, we acquired Outsourcing Solutions Inc., referred to as OSI, a leading provider of business process outsourcing services, specializing primarily in accounts receivable management services.

Our extensive industry knowledge, technological expertise, management depth, international scale, broad service offerings and long-standing client relationships enable us to deliver customized solutions that help our clients reduce their operating costs, increase cash flow, and improve their customers' experience. We provide our services through our customer-driven model that provides optimal performance, leading-edge technology, proven efficiency and quality, to a wide range of clients in North America and abroad. We currently have approximately 29,000 full and part-time employees (including approximately 1,500 non-employee personnel utilized through subcontractors) who provide our services through our network of over 140 offices in 10 countries.

Our website is www.ncogroup.com. We make available on our website, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

In addition, we will provide to our investors, at no cost, paper or electronic copies of our reports and other filings (excluding exhibits) made with the SEC. Requests should be directed to:

NCO Group, Inc.
507 Prudential Road
Horsham, PA 19044
Attention: Investor Relations

The information on the website listed above, is not and should not be considered part of this Annual Report and is not incorporated by reference in this document. This website is, and is only intended to be, an inactive textual reference.

Industry Background

Companies are outsourcing many essential, non-core business functions in order to focus on revenue-generating activities and core competencies, reduce costs and improve productivity and service levels. In particular, many large corporations are recognizing the advantages of outsourcing accounts receivable management and customer service and support. This trend is being driven by a number of industry-specific factors, including:

- an increase in the complexity of collection and other customer service processes, which requires sophisticated call management and database systems for efficient operations;

- the lack of expertise, resources and infrastructure necessary to provide optimal customer support due to the growing scope and complexity of such activities;
- significant economies of scale achievable by third parties with focused capabilities; and
- a trend in certain industries to outsource essential, non-core functions due to competitive pressures, regulatory considerations and/or required capital expenditures.

Gartner, Inc., a leading research and advisory company, estimates that the global market for BPO services experienced strong growth in 2007, with a year over year growth rate of 11.6 percent, according to research published in November 2007. Additionally, Gartner expects the worldwide BPO market to grow from approximately \$160.7 billion in 2007 to approximately \$235.2 billion by 2011 in terms of revenue, and projects a 10.3 percent compounded annual growth rate from 2006 through 2011. We currently focus on the ARM and CRM segments of the BPO market. Both of these industry segments have experienced growth in recent years, driven by the increasing penetration of outsourcing services, the continuing growth in consumer and commercial debt, an increased focus on building long-term customer relationships and a shift away from large scale in-house implementations to BPO.

The BPO industry is highly fragmented in the U.S. The leading providers of BPO services are large multinational companies. We believe that many smaller competitors have insufficient capital to expand and invest in technology and are unable to meet the geographic coverage, and regulatory requirements and quality standards demanded by businesses seeking to outsource their essential, non-core business functions.

Business Strategy

Our primary business strategy is to strengthen our position in the ARM and CRM markets, and to opportunistically expand our service offerings to other complementary BPO services.

Expand our relationships with clients – An integral component of our growth strategy is focused on the expansion of existing client relationships. We plan to continue to grow these relationships and the resulting opportunities in both scale and depth. We believe these relationships will continue to transition from vendor relationships, focusing on the operational delivery of services, to strategic partnerships focused on long-term, goal-oriented delivery of services. A key focus of this strategy is leveraging existing client relationships in one market to cross-sell our services in other markets.

Enhance our operating margins – We intend to continue pursuing the following initiatives to increase profitability:

- standardization of systems and practices;
- consolidation of facilities;
- automation of clerical functions;
- utilization of near shore and offshore labor;
- use of statistical analysis to improve performance and reduce operating expenses;
- use of segmentation strategy to improve profitability; and
- leveraging our international size and presence.

Continuously improve business processes – We intend to continue developing and enhancing our technology and infrastructure with initiatives that improve the efficiency of our operations and enhance client service. Examples of our recent initiatives include:

- *Enhanced data management and analytics:* We have implemented both client-specific and pooled segmentation models to focus better our collections efforts. These models, coupled with iterative segment-based treatment testing, provide benefits by reducing operating expense and increasing collection revenues. Segmentation allows us to focus resources on accounts with the highest likelihood of recovery, and devote less costly resources to lower probability accounts. Additionally, we began applying the use of segmentation models to make more strategic portfolio purchase decisions.

- *Online access for our clients' customers:* We implemented a self-service website to allow our clients' customers to access their accounts with us. Customers can use the website to update their account information, request statements and make payments. We plan to expand the functionality of the website to enhance customer service and improve collections for our clients.

- *Pattern recognition system:* In December 2005, we acquired a pattern recognition system designed to determine the patterns and profiles that precede customer decisions such as purchase or defection. Leveraging predictive analytic technologies increases the ability to predict customers' behaviors, thus improving the results of the outsourced solutions we provide to our clients, as well as improving our purchased portfolio analytics.

- *Enterprise resource planning system:* In 2005, we converted our financial, human resources and CRM platforms to an integrated enterprise resource planning, or ERP platform. This implementation enabled us to more efficiently manage the changing requirements of our industry and clients, and provide critical business information to operate our business more effectively.

- *Online access for subcontractor agencies:* Leveraging the technology used to service our Attorney Network System, which brings us online with over 100 law firms across the United States, we have expanded this system to also support the data exchange requirements with other agencies we utilize to service accounts. These agencies are now able to receive, process, and return updates using the latest web server technology.

- *Enhanced data security:* We continue to deploy both physical and system security enhancements to help ensure ongoing protection and privacy of NCO and client data as well as network and systems hardening. We incorporate sophisticated password, access and authentication controls, and emphasize security awareness training programs.

Expand internationally – We believe that the BPO industry is gaining widespread acceptance throughout Canada, Europe and the Asia-Pacific region. Our international expansion strategy is designed to capitalize on each of these markets in the near term, as well as continue to develop access to lower-cost foreign labor. We believe that we are one of the largest providers of BPO services in Canada. We also have operations in Europe. In 2006, we entered two new markets through acquisitions. We purchased Australian Receivables Limited, a provider of ARM services in Australia and Star Contact (BVI) Ltd., a provider of multi-lingual CRM services based in Panama. In 2007, we increased our presence in Australia through the acquisition of Statewide Mercantile Services, a provider of ARM services and purchaser of accounts receivable in Australia. We expect to further penetrate these markets through increased sales of ARM and CRM services, as well as through the pursuit of accounts receivable purchasing opportunities. Additionally, we expect to pursue direct investments, strategic alliances and partnerships as well as

further explore acquisitions in these markets and other markets. In addition, we are in the process of exploring new opportunities in other labor markets such as Eastern Europe, Central America and the Caribbean.

Continue to pursue debt purchasing opportunities – Since 1999, we have expanded our portfolio purchase platform. In 2005, we expanded our presence in the medical and utilities industries, as well as with telecommunication companies and credit card issuers. We purchased an aggregate of \$117.5 million (in terms of cost) of portfolios of accounts receivable in 2007. Our strategic plan focuses on purchasing larger portfolios of accounts receivable and medical receivables, for which we currently believe there is less competition.

Our strategy of seeking sizable opportunities has been successful, and we intend to continue to pursue larger debt purchasing opportunities. Through enhanced analysis of portfolio performance and utilizing the collections experience of our ARM business for similar classes of debt, we have been able to target the most profitable segments within available portfolios. In order to facilitate our purchase of large portfolios of accounts receivable, we have an agreement with a lender to finance such purchases on a nonrecourse basis. We also sell certain older, unresolved accounts and bankruptcy status accounts that we believe have a low probability of payment under our collection platform. These accounts can generally be sold currently for more than we can collect over time, net of servicing costs.

While our principal portfolios continue to be larger credit card and similar U.S.-based consumer receivables, our growth strategy includes the expansion into telecommunications, utilities, medical and international purchase opportunities.

Pursue strategic acquisition opportunities – We have developed a disciplined approach to acquisitions. We believe our approach enables us to efficiently integrate acquired businesses, personnel and facilities into our existing technology platform, personnel matrix and facilities. By leveraging our shared services and infrastructure, we facilitate the realization of cost synergies and growth of sales and earnings. We intend to evaluate and pursue strategic acquisitions on an opportunistic basis as they become available.

Our Services

We provide the following BPO services:

Accounts Receivable Management

We provide a wide range of ARM services to our clients by utilizing an extensive technological infrastructure. Although traditional ARM services have focused on the recovery of delinquent accounts, we also engage in the recovery of current accounts receivable and early stage delinquencies (generally, accounts that are 180 days or less past due). We generate approximately 60 percent of our ARM revenue from the recovery of delinquent accounts receivable on a contingency fee basis. In addition, we generate revenue from contractual collection services and other related services.

ARM services typically include the following activities:

Engagement Planning. We customize solutions for our clients based on a number of factors, including account size and demographics, the client's specific requirements and our management's estimate of the collectibility of the account. We integrate our standard processes for accounts

receivable management, developed from decades of accumulated experience, to create a customized recovery solution. In many instances, the approach will evolve and change as the relationship with the client develops, and both parties evaluate the most effective means of recovering accounts receivable. Our systematic approach to accounts receivable management removes most decision making from the recovery staff and is designed to ensure uniform, cost-effective performance.

Once the approach has been defined, we electronically or manually transfer pertinent client data into our information system. When the client's records have been established in our system, we begin the recovery process.

Account Notification. We initiate the recovery process by forwarding a preliminary letter that is designed to seek payment of the amount due or open a dialogue with the client's customers. This letter also serves as an official notification to each client's customer of his or her rights as required by the Federal Fair Debt Collection Practices Act. We continue the recovery process with a series of mail and telephone notifications. Telephone representatives remind the client's customer of their obligation, inform them that their account has been placed for collection with us and begin a dialogue to develop a payment program.

Skip Tracing. In cases where the client's customer's contact information is unknown, we systematically search the U.S. Post Office National Change of Address service, consumer databases, electronic telephone directories, credit agency reports, tax assessor and voter registration records, motor vehicle registrations, military records, and other sources. The geographic expansion of banks, credit card companies, national and regional telecommunications companies, and national and regional hospital chains, along with the mobility of consumers, has increased the demand for locating the client's customers. Once we have located the client's customer, the notification process can begin.

First Party Early Stage Delinquency Calls. Although companies understand the importance of contacting customers early in the delinquency cycle, some do not possess the resources necessary to sustain consistent and cost-effective outbound telephone campaigns. We provide a customized, service approach to contact our clients' customers and remind them of their obligation to pay their accounts.

We typically conduct reminder calls in the client's name to recently past due customers and courtesy collection calls to more seriously delinquent customers. Our representatives leave courteous messages if telephone contact attempts are unsuccessful after the second day.

Third Party Collection Services. The most common challenges encountered by companies are how to prompt seriously delinquent customers to make payment before they are charged off as uncollectible or to collect the full balance after charge-off. Our third party collection services communicate a sense of urgency to seriously delinquent customers during these periods, reducing net charge-offs and the cost of collection.

Credit Reporting. Credit bureau reporting is used as a collection tool in accordance with NCO's policy, applicable laws, and client guidelines. At a client's request, we will electronically report delinquent accounts to one or more of the national credit bureaus where it will remain for a period of up to seven years. The possible denial of future credit often motivates the resolution of past due accounts.

Payment Processing. After we receive payment from the client's customer, depending on the terms of our contract with the client, we can either remit the amount received minus our fee to the client or remit the entire amount received to the client and subsequently bill the client for our collection services.

Activity Reports. Clients are provided with a system-generated set of customized reports that fully describe all account activity and current status. These reports are typically generated monthly; however, the information included in the report and the frequency that the reports are generated can be modified to meet the needs of the client.

Quality Tracking. We emphasize quality control throughout all phases of the accounts receivable management process. Some clients may specify an enhanced level of supervisory review and others may request customized quality reports. For example, large financial services organizations will typically have exacting performance standards which require sophisticated capabilities, such as documented complaint tracking and specialized software to track quality metrics to facilitate the comparison of our performance to that of our peers.

Customer Relationship Management

Our CRM services allow our clients to strengthen their customer relationships by providing a high level of support to their customers and generate incremental sales by acquiring new customers. We design and implement customized outsourced customer care solutions including the following:

Customer Care and Retention. Our representatives specialize in developing and maintaining the relationships that our clients value. Customer care programs vary depending upon each client's specific goals, but often include services such as customer development and outbound and inbound calling campaigns. Our representatives handle customer care inquiries such as billing questions, product and service inquiries, and complaint resolution. We also place calls on behalf of clients in welcoming new customers, retaining current customers, delivering notifications and conducting market research or satisfaction surveys. Our programs include specialized training in order to ensure that each representative is a seamless extension of our clients' businesses.

Customer Acquisition and Sales. We support inbound and outbound sales efforts by conducting customized programs designed to acquire new customers, renew current customers, and win back or win over targeted customers. We execute multiple phases of the sales order process, pre- and post-sale, from answering product related questions and making sales presentations to up selling, cross selling and order processing.

Product and Technical Support. In support of the increasing dependence of customers and businesses on technology, prompt and accurate responses to technology inquiries, product-related support issues, and service related concerns has become a cornerstone to maintaining high customer satisfaction and achieving retention goals. Our product support services include help desk, troubleshooting, warranty, recall, and upgrade support. We strive for first call resolution and are committed to meeting client service level requirements. We believe that our highly trained customer contact staff is knowledgeable in all components of technical support and help desk related service requirements, and is adept at troubleshooting, evaluation and escalation procedures and resolving complaints quickly and effectively to increase our clients' customer retention and loyalty.

Interactive Voice Response. We use interactive voice response technology to cost-effectively facilitate customer care for our clients. Customers can efficiently obtain account balance information, transfer funds, place an order, check status of an order, pay a bill, or answer a survey. Incoming calls are routed to representatives through systematic call transfer protocols or as a result of a toll-free number being included on customer correspondence. The process is completely automated, and if the caller wants to speak to a representative they can choose to be connected to a live NCO customer service professional. This combination of live and recorded telephone interaction benefits the customer through efficient, 24-hour service, and decreased operating costs.

Email Management. An important component to attracting and retaining customers is easy accessibility. Our email management services allow our clients' customers to communicate with them day or night, 24 hours a day, seven days a week. Our response generation and intelligent routing provide an efficient means to respond to customer needs while increasing our clients' operational effectiveness and decreasing their costs.

Web Chat. We have the ability to communicate with clients' customers through our live Web chat service. Faster than email, our Web chat solution allows customers to interact with agents in real time. We can leverage our Web chat technology to provide customer care, answer product questions, or offer technical support.

In-Language Contact. Our global network of call centers support all major languages, including English, Spanish, French, Arabic, Korean, Hindi, Polish, Russian, Tagalog, and numerous Asian dialects. We have a wealth of experience supporting multilingual programs and can work with clients to meet any language requirement.

Pattern Recognition System. We have a pattern recognition system designed to enhance client results by determining the patterns and profiles that precede customer decisions such as purchase or defection. Leveraging predictive analytic technologies increases the ability to predict customers' behavior thus improving the results of the outsourced solutions we provide to our clients.

Portfolio Management

Our Portfolio Management business segment purchases and manages portfolios of purchased accounts receivable. With over 20 years of experience and an internal database of over 350 million customer accounts, the breadth of our ARM business provides unique insight into a wide variety of credit portfolios. As a result, we are able to adopt more disciplined and successful pricing strategies. Additionally, our scale and proprietary valuation techniques, supported by a significant amount of historical collection data, give us critical competitive differentiation in purchasing receivables. As customers tend towards offering larger portfolios, larger participants such as ourselves are better positioned to gain market share.

Our portfolios of purchased accounts receivable consist primarily of delinquent consumer accounts receivable, which represent the unpaid debts of individuals to consumer creditors such as banks, finance companies, retail merchants, utilities, healthcare companies, and other consumer-oriented companies. We typically purchase accounts that are 36 to 60 months past due. In 2007, we purchased an aggregate of \$5.9 billion of delinquent consumer accounts receivable for a cost of \$125.3 million. Collection services for the portfolios are primarily provided to Portfolio Management by our ARM business segment. We ranked among the top 10 debt purchasers, according to data gathered by Credit & Collections World, an online industry news source, based on 2006 revenues.

Additional Services

We selectively provide other related services that complement our traditional ARM and CRM businesses and leverage our technological infrastructure. We believe that the following services will provide additional growth opportunities for us:

Attorney Network Services. We coordinate and implement legal collection solutions undertaken on behalf of our clients through the management of nationwide legal resources specializing in collection litigation. Our collection support staff manages the attorney relationships and facilitates the transfer of necessary documentation.

NCOePayments. We provide our clients' customers with multiple secure payment options, accessible via the telephone and the Internet, 24 hours a day, 365 days a year. We also provide contact center solutions utilizing our extranet technology, allowing representatives to take payments directly from the customer.

Financial Investigative Services. We develop the information needed to profile commercial debtors and make decisions affecting extensions of credit. Our investigators uncover background and financial data using resources such as asset and liability searches, background investigations, and chain of title investigations.

Order Processing. We support multiple phases of order processing, including answering product-related questions and making sale presentations, up selling and cross selling, order entry, and providing post-sale support.

Back Office Support. We coordinate customizable back office solutions including billing, payment processing, medical certification, bankruptcies, and accounting.

Technology and Infrastructure

We have implemented a scalable technical infrastructure that can flexibly support growing client volume while delivering a high level of service. Our customer contact centers feature advanced technologies, including predictive dialers, automated call distribution systems, digital switching, digital recording, workforce management systems and customized computer software, including the NCO ACCESS Interface Manager. This is a graphical user interface and computer desktop application we developed for use in large-scale outsourcing engagements that enables data integration, enhanced reporting, representative productivity, implementation speed, and security. As a result, we believe we are able to address outsourced business process activities more reliably and more efficiently than our competitors. Our IT staff is comprised of over 250 employees. We provide our services through the operation of over 140 centers that are electronically linked through an international wide area network.

We maintain disaster recovery contingency plans and have implemented procedures to protect against the loss of data resulting from power outages, fire and other casualties. We believe fast recovery and continuous operation are ensured with multiple redundancies, uninterruptible power supplies and contracted backup and recovery services. We have implemented a security system to protect the integrity and confidentiality of our computer systems and data, and we maintain comprehensive business interruption and critical systems insurance on our telecommunications and computer systems. Our systems also permit secure network access to enable clients to electronically communicate with us and monitor operational activity on a real-time basis. We employ a variety of measures including firewalls, encryption, data access, permissions, and site

security to ensure data remains safe and secure.

Our ARM call centers utilize predictive dialers with a total of over 7,700 stations to address our low-balance, high-volume accounts, and our CRM centers utilize approximately 1,500 predictive dialer stations to conduct our clients' outbound calling campaigns. These systems scan our databases, simultaneously initiate calls on all available telephone lines, and determine if a live connection is made. Upon determining that a live connection has been made, the computer immediately switches the call to an available representative and instantaneously displays the associated account record on the representative's workstation. Calls that reach other signals, such as a busy signal, telephone company intercept or no answer, are tagged for statistical analysis and placed in priority recall queues or multiple-pass calling cycles. The system also automates almost all record keeping and follow-up activities including letter and report generation. We believe that our automated method of operations dramatically improves the productivity of our staff.

Quality Assurance and Client Service

We believe a reputation for quality service is critical to acquiring and retaining clients. Therefore, our representatives are supervised, by both NCO and our clients, for strict compliance with client specifications, our policies, and applicable laws and regulations. We regularly measure the quality of our services by capturing and reviewing such information as the amount of time spent talking with clients' customers, level of customer complaints and operating performance. In order to provide ongoing improvement to our telephone representatives' performance and to ensure compliance with our policies and standards, as well as federal, state and local guidelines, quality assurance personnel supervise each telephone representative on a frequent basis and provide ongoing training to the representative based on this review. Our information systems enable us to provide clients with reports on a real-time basis as to the status of their accounts and clients can choose to network with our computer system to access such information directly.

We maintain a client service department to promptly address client issues and questions and alert senior executives of potential problems that require their attention. In addition to addressing specific issues, a team of client service representatives contact clients on a regular basis in order to establish a close relationship, determine clients' overall level of satisfaction, and identify practical methods of improving their satisfaction.

Client Relationships

Our active client base currently includes over 19,000 companies in the financial services, telecommunications, healthcare, retail and commercial, utilities, education, technology, transportation/logistics and government sectors. Our 10 largest clients in 2007 accounted for approximately 40 percent of our consolidated revenue. No client accounted for more than 10 percent of our consolidated revenue. While our CRM division relies on revenue from a few key clients, none of these clients represented more than 10 percent of our consolidated revenue. In 2007, we derived 32.2 percent of our revenue from financial services (which includes the banking and insurance sectors), 24.1 percent from telecommunications companies, 13.8 percent from healthcare organizations, 9.5 percent from retail and commercial entities, 6.8 percent from utilities, 4.8 percent from educational organizations, 4.0 percent from technology companies, 3.7 percent from transportation/logistics companies and 1.1 percent from government entities, in each case excluding purchased accounts receivable.

We enter into ARM contracts with most of our clients that define, among other things, fee arrangements, scope of services and termination provisions. Clients may usually terminate such

contracts on 30 or 60 days notice. In the event of termination, however, clients typically do not withdraw accounts referred to us prior to the date of termination, thus providing us with an ongoing stream of revenue from such accounts, which diminishes over time. Under the terms of our contracts, clients are not required to place accounts with us but do so on a discretionary basis.

Our CRM contracts are generally for terms of up to three years. Contracts are typically terminable by either party upon 60 days notice; however, in some cases, particularly in our longer term inbound contracts which often require substantial capital expenditures on our part, a client may be required to pay us a termination fee in connection with an early termination of the contract.

In addition, certain inbound CRM contracts may contain minimum volume commitments requiring our clients to provide us with agreed-upon levels of calls during the terms of the contracts. Our fees for services rendered under these contracts are based on pre-determined contracted chargeable rates that may include a base rate per minute or per hour plus a higher rate or “bonus” rate if we meet pre-determined objective performance criteria, such as sales generated during a defined period, and may be reduced by any contractual monthly performance penalties to which the client may be entitled. Additionally, we may receive additional discretionary client determined bonuses based upon criteria established by our clients.

Some of our customer contracts provide for limited currency rate protection below certain pre-determined exchange rate levels and limited gain sharing above certain pre-determined exchange rate levels. Such contracts may mitigate certain currency risks, however, there can be no assurance that new contracts will be successfully negotiated with such provisions or that existing contract provisions will result in the reduction of currency risk for such contracts.

On occasion we enter into “forward-flow” agreements for the purchase of accounts receivable from consumer credit grantors. A forward-flow agreement is a commitment to purchase a defined volume of accounts from a seller for a designated period of time at a fixed price. The terms of the agreements vary; some may be terminated with either 30 days, 60 days or 90 days written notice.

Personnel and Training

Our success in recruiting, hiring and training a large number of employees is critical to our ability to provide high quality BPO services to our clients. We seek to hire personnel with previous experience in the industry or with experience as telephone representatives. We generally offer internal promotion opportunities and competitive compensation and benefits.

All of our call center personnel receive comprehensive training that consists of three stages: introduction training, behavioral training and functional training. These programs are conducted through a combination of classroom and role-playing sessions. Prior to customer contact, new employees receive one week of training in our operating systems, procedures and telephone techniques and instruction in applicable federal and state regulatory requirements. Our personnel also receive a wide variety of continuing professional education and on-going refresher training, as well as additional product training on an as-needed basis.

As of December 31, 2007, we had a total of approximately 22,400 full-time employees and 1,600 part-time employees, of which approximately 19,000 are telephone representatives. In addition, as of December 31, 2007, we utilized approximately 1,500 telephone representatives through subcontractors. We believe that our relations with our employees are good.

Typically our employees are not represented by a labor union; however, in February 2006, our employees in Surrey, British Columbia, Canada voted in favor of joining the B.C. Government and Services Employees' Union. A collective agreement was ratified by the employees in the first quarter of 2007. From time to time, our facilities are targeted by union organizers. During May 2006, our Jackson, Michigan facility was the subject of a union campaign from the Teamsters. In July 2007, the Syndicat Canadien des Communications, de l'Énergie et du Papier (SCEP), filed a petition with the Montreal, Quebec labour board for one of our facilities in Montreal to be represented. This location performed work for one client, with whom we discontinued our relationship for other business reasons. We are not aware of any union organizing efforts at any of our other facilities.

Sales and Marketing

Our sales force is organized into two functional groups to best match our sales professionals' experience and expertise with the appropriate target market. The commercial sales group consists of approximately 70 telephone sales representatives who specialize in business-to-business BPO solutions for small to mid-sized companies. Our core sales force, composed of approximately 50 sales professionals, is organized by industry and geographical location to ensure the highest level of focus and service to potential and existing business partners. This group is focused on forming and cultivating strategic, long-term partnerships with large, multinational firms in order to maximize outsourcing opportunities via our full suite of BPO services.

We have a Client Relationship Management system that provides tools to support both sales and operations in the management of client relationships from initial identification of a prospect to the care and retention of long-term clients.

Our in-house marketing department provides innovative customer contact solutions and sales support by performing a wide range of personalized services such as customer database administration, advertising, marketing campaigns and direct mailings, collateral development, trade show and site visit management, market and competitive research, and more. We also maintain a dedicated team of skilled writers who prepare detailed, professional responses to formal requests for proposals and requests for information.

Competition

The BPO industry is highly competitive. We compete with a large number of ARM providers, including large national corporations such as Alliance One, GC Services LP and IntelliRisk Management Corporation, as well as many regional and local firms. We also compete with large CRM providers such as Convergys Corporation, ICT Group, TeleTech Holdings, Inc., and West Corporation. Some of our competitors may offer more diversified services and/or operate in broader geographic areas than we do. In addition, many companies perform the BPO services offered by us in-house. Moreover, many larger clients retain multiple outsourcing providers, which exposes us to continuous competition in order to remain a preferred vendor. We believe that the primary competitive factors in obtaining and retaining clients are the ability to provide customized solutions to a client's requirements, personalized quality service, sophisticated call and information systems, and a competitive price.

Our Portfolio Management segment competes with other purchasers of delinquent consumer accounts receivable, such as Asset Acceptance Capital Corp., Asta Funding, Inc., Encore Capital Group, Inc. and Portfolio Recovery Associates, Inc. The purchased accounts receivable business has become increasingly competitive over the past few years, with several new companies entering

the market. While the number of portfolios available for sale has increased somewhat, we believe the demand outweighs the supply, which has caused pricing to increase. Our competitors may have greater access to financing sources to purchase portfolios than we do, and may be able to outbid us on available portfolios. We believe the primary competitive factor in this business is the ability to purchase portfolios at reasonable prices.

Regulation

Accounts Receivable Management

The ARM industry in the United States is regulated both at the federal and state level. The Federal Fair Debt Collection Practices Act, referred to as the FDCPA, regulates any person who regularly collects or attempts to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. The FDCPA establishes specific guidelines and procedures that debt collectors must follow in communicating with consumer debtors, including the time, place and manner of such communications. Further, it prohibits harassment or abuse by debt collectors, including the threat of violence or criminal prosecution, obscene language or repeated telephone calls made with the intent to abuse or harass. The FDCPA also places restrictions on communications with individuals other than consumer debtors in connection with the collection of any consumer debt and sets forth specific procedures to be followed when communicating with such third parties for purposes of obtaining location information about the consumer. Additionally, the FDCPA contains various notice and disclosure requirements and prohibits unfair or misleading representations by debt collectors. We are also subject to the Fair Credit Reporting Act, which regulates the consumer credit reporting industry and which may impose liability on us to the extent that the adverse credit information reported on a consumer to a credit bureau is false or inaccurate. The Federal Trade Commission, referred to as the FTC, has the authority to investigate consumer complaints against debt collection companies and to recommend enforcement actions and seek monetary penalties. The ARM business is also subject to state regulation. Some states require that we be licensed as a debt collection company. We believe that we currently hold applicable state licenses from all states where required.

We provide services to healthcare clients that are considered “covered entities” under the Health Insurance Portability and Accountability Act of 1996, referred to as HIPAA. As covered entities, our clients must comply with the standards for privacy, transaction and code sets, and data security. Under HIPAA, we are considered a “business associate,” which requires that we protect the security and privacy of “protected health information” provided to us by our clients for the collection of payments for healthcare services. We believe that we operate in compliance with all applicable standards under HIPAA in all material respects.

The collection of accounts receivable by collection agencies in Canada is regulated at the provincial and territorial level in substantially the same fashion as is accomplished by federal and state laws in the United States. The manner in which we conduct the business of collecting accounts is subject, in all provinces and territories, to established rules of common law or civil law and statute. Such laws establish rules and procedures governing the tracing, contacting and dealing with debtors in relation to the collection of outstanding accounts. These rules and procedures prohibit debt collectors from engaging in intimidating, misleading and fraudulent behavior when attempting to recover outstanding debts. In Canada, our collection operations are subject to licensing requirements and periodic audits by government agencies and other regulatory bodies. Generally, such licenses are subject to annual renewal. We believe that we hold all necessary licenses in those provinces and territories that require them.

In Australia, debt collection and debt purchasing activities are regulated by legislation and regulation at a state and federal level, with licenses required for corporations and individuals with varying effect at a state level. The Trade Practices Act, The Privacy Act and the new Anti Money Laundering legislation are the primary federal laws, and the Commercial Agents legislation is the state level legislation. NCO's Australian operations are licensed across all required jurisdictions. We believe that we hold all necessary licenses in those jurisdictions that require them.

In addition, the ARM industry is regulated in the United Kingdom and Europe, including licensing requirements. We believe we hold all necessary licenses required in the United Kingdom and Europe. If we expand our international operations, we may become subject to additional government control and regulation in other countries, which may be more onerous than those in the United States.

Several of the industries served by us are also subject to varying degrees of government regulation. Although compliance with these regulations is generally the responsibility of our clients, we could be subject to various enforcement or private actions for our failure or the failure of our clients to comply with such regulations.

Customer Relationship Management

In the United States, there are two major federal laws that specifically address telemarketing, the Telephone Consumer Protection Act, referred to as TCPA, which authorized the Federal Communications Commission, referred to as the FCC, to adopt rules implementing the TCPA, and the Telemarketing and Consumer Fraud and Abuse Prevention Act, referred to as the Fraud Prevention Act, which authorized the FTC, to adopt the Telemarketing Sales Rule, referred to as the TSR. Over the past few years, the TSR has been amended to include several new restrictions on telemarketing activities. In addition, the states have various regulatory restrictions and requirements for telemarketing companies.

The TCPA places restrictions on unsolicited automated telephone calls to residential telephone subscribers by means of automatic telephone dialing systems, prerecorded or artificial voice messages and telephone fax machines. In addition, the regulations require CRM firms to develop a "do not call" list and to train their CRM personnel to comply with these restrictions. The TCPA creates a right of action for both consumers and state attorneys general. A court may award damages or impose penalties of \$500 per violation, which may be trebled for willful or knowing violations. Currently, we train our service representatives to comply with the regulations of the TCPA. On March 11, 2003, the Do-Not-Call Implementation Act, referred to as the Do-Not-Call Act, was signed into law. The Do-Not-Call Act required the FCC to issue final rules under the TCPA to maximize the consistency of the TCPA with the FTC's December 18, 2002 amendments to the TSR, as discussed below. Accordingly, on July 3, 2003, the FCC issued rules regarding the national do-not-call registry, call abandonment and caller ID requirements.

The FTC regulates both general sales practices and telemarketing specifically and has broad authority to prohibit a variety of advertising or marketing practices that may constitute "unfair or deceptive acts or practices." Pursuant to its general enforcement powers, the FTC can obtain a variety of types of equitable relief, including injunctions, refunds, disgorgement, the posting of bonds and bars from continuing to do business for a violation of the acts and regulations it enforces.

The FTC also administers the Fraud Prevention Act under which the FTC has issued the TSR prohibiting a variety of deceptive, unfair or abusive practices in direct telephone sales. Generally, these rules prohibit misrepresentations of the cost, quantity, terms, restrictions, performance or characteristics of products or services offered by telephone solicitation or of refund, cancellation or exchange policies. The rules also regulate the use of prize promotions in direct telephone sales to prevent deception and require that a telemarketer identify promptly and clearly the seller on whose behalf the CRM representative is calling, the purpose of the call, the nature of the goods or services offered and that no purchase or payment is necessary to win a prize. The regulations also require that providers of services maintain records on various aspects of their businesses.

On December 18, 2002, the FTC amended the TSR. The major change was the creation of a centralized national “do not call” registry. Federal enforcement of the National Do Not Call Registry began on October 1, 2003. A consumer who receives a telemarketing call despite being on the registry can file a complaint with the FTC, either online or by calling a toll free number. Violators could be fined up to \$11,000 per incident. In addition, the amended TSR restricts call abandonment (with certain safe harbors) and unauthorized billing. Further, as of January 29, 2004, the amended TSR requires telemarketers to transmit their telephone numbers and, if possible, their names to consumers’ “caller id” services.

At the state level, most states have enacted consumer protection statutes prohibiting unfair or deceptive acts or practices as they relate to telemarketing sales. For example, telephone sales in certain states are not final until a written contract is delivered to and signed by the buyer, and such a contract often may be canceled within three business days. At least one state also prohibits parties conducting direct telephone sales from requesting credit card numbers in certain situations, and several other states require certain providers of such services to register annually, post bonds or submit sales scripts to the state’s attorney general. Under these general enabling statutes, depending on the willfulness and severity of the violation, penalties can include imprisonment, fines and a range of equitable remedies such as consumer redress or the posting of bonds before continuing in business.

Additionally, some states have enacted laws and others are considering enacting laws targeted at direct telephone sales practices. Some examples include laws regulating electronic monitoring of telephone calls and laws prohibiting any interference by direct telephone sales with “caller id” devices. Most of these statutes allow a private right of action for the recovery of damages or provide for enforcement by state agencies permitting the recovery of significant civil or criminal penalties, costs and attorneys’ fees. There can be no assurance that any such laws, if enacted, will not adversely affect or limit our current or future operations.

To date, 16 states have established statewide “do not call” lists. Twenty-five states have opted to use the FTC’s Do Not Call list as the official state list.

The industries we serve are also subject to government regulation, and, from time to time, bills are introduced in Congress, which, if enacted, could affect our operations. We, and our employees who sell insurance products, are required to be licensed by various state and provincial insurance commissions for the particular type of insurance product to be sold and are required to participate in regular continuing education programs.

Telecommunications is another industry we serve that is subject to government regulation. For example, “slamming” is the illegal practice of changing a consumer’s telephone service without permission. The FCC has promulgated regulations regarding slamming rules that apply solely to the telecommunications carrier and not the telemarketer or the independent party verifying the

service change. However, some state slamming rules may extend liability for violations to agents and other representatives of telecommunications carriers, such as telemarketers.

Our representatives undergo an extensive training program, part of which is designed to educate them about applicable laws and regulations and to try to ensure their compliance with such laws and regulations. Also, we program our call management system to avoid initiating telephone calls during restricted hours or to individuals maintained on our “do not call” list.

In Canada, the Canadian Radio-Television and Telecommunications Commission, referred to as CRTC, enforces rules regarding unsolicited communications using automatic dialing and announcing devices, live voice and fax. Companies that violate any of the restrictions on unsolicited calls may have their telephone service terminated after two business days’ notice from the telephone company. Effective October 1, 2004, the CRTC was to require telemarketers to provide consumers with a unique registration number confirming a consumer’s do not call request; however, on September 28, 2005, the CRTC granted the request of the Canadian Marketing Association, referred to as CMA, for a stay of decision, pending its consideration of the CMA’s appeal.

In November 2005, a bill was announced to amend the Telecommunications Act, which would allow the creation of a Canadian National Do Not Call list where consumers could register once to stop all unwanted telemarketing calls. The CRTC announced on January 2, 2008 that the list is expected to be launched by September 30, 2008, and that Bell Canada will be responsible for registering numbers, providing telemarketers with up-to-date versions of the list, and receiving consumer complaints about telemarketing calls.

In 2001, the federal government of Canada enacted the Personal Information Protection and Electronic Documents Act, referred to as the Federal Act. Effective January 1, 2004, the Federal Act requires all commercial enterprises to obtain consent for the collection, use, and disclosure of an individual’s personal information. Failure to comply with the Federal Act could result in significant fines and penalties or possible damage awards for the tort of public humiliation. In addition to the foregoing sanctions, the Federal Act also contemplates that any finding of an improper use of personal information will be subject to public disclosure by the Privacy Commissioner. The Federal Act permits any Province of Canada to enact substantially similar legislation governing the subject matter of the Federal Act, in which case the legislation of the Province will override the provisions of the Federal Act. Our Canadian operations are located primarily in the Provinces of Ontario, British Columbia and New Brunswick. British Columbia has enacted legislation, referred to as the B.C. Act, governing the subject matter of the Federal Act. The federal government of Canada has not yet declared the B.C. Act substantially similar to the Federal Act. Until such time as the federal government of Canada makes such declaration, both the B.C. Act and the Federal Act will apply concurrently to our operations in British Columbia. Though neither has yet enacted legislation that is substantially similar to the Federal Act, both Ontario and New Brunswick have indicated that they may enact legislation governing the subject matter of the Federal Act. Failure to comply with the Federal Act, the B.C. Act, as well as, any such future legislation enacted by Ontario, New Brunswick or any other provinces in which we operate, may have an adverse affect on, or limit our current or future, operations.

The Competition Act contains a number of provisions that regulate the conduct of telemarketers in Canada, in particular the manner in which outbound calls are to be conducted. Failure to comply with such legislation could adversely affect our business.

We devote significant and continuous efforts, through training of personnel and monitoring of compliance, to ensure that we comply with all applicable foreign, federal and state regulatory requirements. We believe that we are in material compliance with all such regulatory requirements.

Segment and Geographical Financial Information

See Note 19 in our Notes to Consolidated Financial Statements for the year ended December 31, 2007 for disclosure of financial information regarding our segments. The following table presents revenues and total assets, net of any intercompany balances, from the U.S., Canada and all other foreign countries in total (amounts in millions):

	For the Years Ended December 31,		
	2007	2006	2005
Revenues:			
U.S.	\$ 1,081.8	\$ 1,112.4	\$ 1,005.7
Canada	57.2	48.7	31.9
Other	76.4	29.0	14.7
Total assets:			
U.S.	\$ 1,391.6	\$ 1,482.6	\$ 1,177.6
Canada	118.2	81.7	120.6
Other	119.9	79.8	29.8

Selected Financial Data

SELECTED FINANCIAL DATA ⁽¹⁾ (Amounts in thousands)

	Successor			Predecessor			
	For the year ended December 31, 2007	Combined For the year ended December 31, 2006 (unaudited) ⁽²⁾⁽³⁾	Period from July 13, 2006 (date of inception) through December 31, 2006 ⁽⁴⁾	Period from January 1 through November 15, 2006 ⁽⁵⁾	For the years ended December 31,		
					2005	2004	2003
Statement of Operations Data:							
Revenues:							
Services	\$ 1,061,941	\$ 1,002,077	\$ 126,739	\$ 875,338	\$ 906,258	\$ 840,346	\$ 676,793
Portfolio	132,413	165,263	13,557	151,706	133,868	99,451	77,023
Portfolio sales	21,093	22,757	-	22,757	12,157	-	-
Total revenues	<u>1,215,447</u>	<u>1,190,097</u>	<u>140,296</u>	<u>1,049,801</u>	<u>1,052,283</u>	<u>939,797</u>	<u>753,816</u>
Operating costs and expenses:							
Payroll and related expenses	645,106	630,494	76,611	553,883	528,932	472,915	350,369
Selling, general and administrative expense:	422,094	422,927	47,777	375,150	376,606	324,187	282,268
Depreciation and amortization expense	97,254	58,243	11,548	46,695	45,787	40,225	31,628
Restructuring charges	-	12,765	-	12,765	9,621	-	-
Income from operation:	50,993	65,668	4,360	61,308	91,337	102,470	89,551
Other expense	89,705	36,187	14,545	21,642	19,423	17,612	17,943
Income (loss) before provision for income taxes	(38,712)	29,481	(10,185)	39,666	71,914	84,858	71,608
Income tax expense (benefit)	(14,071)	10,965	(3,777)	14,742	26,182	32,389	26,732
Income (loss) before minority interest	(24,641)	18,516	(6,408)	24,924	45,732	52,469	44,876
Minority interest	(2,735)	(4,047)	(157)	(3,890)	(1,213)	(606)	(2,430)
Net income (loss)	<u>\$ (27,376)</u>	<u>\$ 14,469</u>	<u>\$ (6,565)</u>	<u>\$ 21,034</u>	<u>\$ 44,519</u>	<u>\$ 51,863</u>	<u>\$ 42,446</u>

Statement of Cash Flows Data:

Net cash provided by (used in) operating activities	\$ 51,546	\$ 100,374	\$ (9,298)	\$ 109,672	\$ 89,550	\$ 99,019	\$ 101,056
Net cash (used in) provided by investing activities	(37,090)	(1,001,759)	(988,216)	(13,543)	(189,486)	(1,458)	9,996
Net cash (used in) provided by financing activities	(3,392)	910,639	1,008,919	(98,280)	97,639	(119,542)	(92,245)

	Successor		Predecessor		
	December 31,		December 31,		
	2007	2006	2005	2004	2003
Balance Sheet Data:					
Cash and cash equivalents	\$ 27,136	\$ 13,899	\$ 23,716	\$ 26,334	\$ 45,644
Working capital	135,000	181,287	171,587	73,547	106,409
Total assets	1,628,639	1,644,139	1,327,962	1,113,889	946,111
Long-term debt, net of current portion	903,052	881,621	321,834	186,339	248,964
Minority interest	48,948	55,628	34,643	-	26,848
Stockholders' equity	365,337	388,321	743,114	695,601	490,417

⁽¹⁾ This data should be read in conjunction with the consolidated financial statements, including the accompanying notes, included elsewhere in this Annual Report.

⁽²⁾ The combined results for the year ended December 31, 2006 represent the addition of the Predecessor period from January 1, 2006 through November 15, 2006 and the Successor period from July 13, 2006 through December 31, 2006. Collect Holdings was formed on July 13, 2006 (there were no operations from the date of inception until the Transaction on November 15, 2006). This combination does not comply with GAAP or with the rules of pro forma presentation, however we believe it provides the most meaningful comparison of our results. The combined operating results do not reflect the actual results we would have achieved if the Transaction did not occur and may not be predictive of future results of operations.

⁽³⁾ Includes \$33.9 million, net of taxes, of charges and costs related to the Transaction and restructuring and integration plans.

⁽⁴⁾ Includes \$22.8 million, net of taxes, of charges and costs related to the Transaction.

⁽⁵⁾ Includes \$11.1 million, net of taxes, of charges and costs related to the Transaction and restructuring and integration plans.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

On November 15, 2006, NCO Group, Inc. was acquired by and became a wholly owned subsidiary of Collect Holdings Inc., an entity controlled by One Equity Partners and its affiliates, with participation by Michael J. Barrist, Chairman, President and Chief Executive Officer of NCO Group, Inc., certain other members of executive management and other co-investors, referred to as the Transaction. Under the terms of the merger agreement, NCO Group, Inc. shareholders received \$27.50 in cash, without interest, for each share of NCO Group, Inc. common stock that they held. On February 27, 2007, NCO Group, Inc. was merged with and into Collect Holdings, Inc. and the surviving corporation was renamed NCO Group, Inc. The accompanying consolidated financial statements are presented for two periods, Predecessor and Successor which relate to the period of operations preceding the Transaction and the period of operations succeeding the Transaction, respectively. Collect Holdings was formed on July 13, 2006 (there were no operations from the date of inception until the Transaction on November 15, 2006). We have prepared our discussion of the 2006 results of operations by comparing the mathematical combination, without making any pro forma adjustments, of the Successor and Predecessor periods in the year ended December 31, 2006. This unaudited presentation does not comply with generally accepted accounting principles (GAAP); however, we believe it provides the most meaningful comparison of our results. The combined operating results have not been prepared as pro forma results under applicable regulations and may not reflect the actual results we would have achieved if the Transaction did not occur and may not be predictive of future results of operations.

We are a holding company and conduct substantially all of our business operations through our subsidiaries. We are an international provider of business process outsourcing services, referred to as BPO, primarily focused on accounts receivable management, referred to as ARM, and customer relationship management, referred to as CRM, serving a wide range of clients in North America and abroad through our global network of over 140 offices. We also purchase and manage past due accounts receivable from consumer creditors such as banks, finance companies, retail merchants, utilities, healthcare companies, and other consumer-oriented companies.

We operate our business in three segments: ARM, CRM and Portfolio Management.

During 2007, we generated approximately 60 percent of our ARM revenue from the recovery of delinquent accounts receivable on a contingency fee basis. Our ARM contingency fees range from six percent for the management of accounts placed early in the accounts receivable cycle to 50 percent for accounts that have been serviced extensively by the client or by third-party providers. Our average fee for ARM contingency-based revenue across all industries was approximately 17 percent during 2007 and 2006, and 18 percent during 2005. In addition, we generate revenue from certain contractual ARM services. Generally, revenue is earned and recognized upon collection of accounts receivable for contingency fee services and as work is performed for contractual services. We enter into contracts with most of our clients that define, among other things, fee arrangements, scope of services, and termination provisions. Clients typically have the right to terminate their contracts on 30 or 60 days' notice. Approximately 40 percent of our ARM revenue is generated from contractual collection services, where fees are based on a monthly rate or a per service charge, and other ARM services.

During 2007, approximately 82 percent of our CRM revenue was generated from inbound services, which consist primarily of customer service and technical support programs, and to a lesser extent acquisition and retention services. Inbound services involve the processing of

incoming calls, often placed by our clients' customers using toll-free numbers, to a customer service representative for service, order fulfillment or information. During 2007, outbound services, which consist of customer acquisition and customer retention services, represented approximately 18 percent of our CRM revenue.

Our operating costs consist principally of payroll and related costs; selling, general and administrative costs; and depreciation and amortization. Payroll and related expenses consist of wages and salaries, commissions, bonuses, and benefits for all of our employees, including management and administrative personnel. Selling, general and administrative expenses include telephone, postage and mailing costs, outside collection attorneys and other third-party collection services providers, and other collection costs, as well as expenses that directly support operations, including facility costs, equipment maintenance, sales and marketing, data processing, professional fees, and other management costs. During the second half of 2007, our payroll and related expenses were negatively impacted by the decline in the U.S dollar against the Canadian dollar. During 2005 and the first six months of 2006, the earnings of the CRM division were impacted by increased expenses associated with implementing new clients. We incur the upfront expenses required to begin working for a new client, such as facilities and telephone expense, before we begin generating the offsetting revenue.

We have grown rapidly, through both acquisitions as well as internal growth. On January 9, 2007, we acquired Statewide Mercantile Services, referred to as SMS, a provider of ARM services in Australia for approximately \$2.0 million, which included SMS' portfolio of purchased accounts receivable. During 2006, we completed two acquisitions: Australian Receivables Limited, referred to as ARL, a provider of ARM services in Australia, in July 2006 for approximately \$3.3 million plus potential earnout amounts; and Star Contact (BVI) Ltd and Call Center Telemarketing Pro-Panama, S.A., referred to as Star Contact, a provider of CRM services in Panama, in December 2006 for approximately \$36.2 million, plus potential earnout amounts.

In addition, we completed two acquisitions to date in 2008: Systems & Services Technologies, Inc., referred to as SST, in January 2008, and Outsourcing Solutions Inc., referred to as OSI, in February 2008. For more information regarding these two acquisitions, see note 22 in our Notes to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

General

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. We believe the following accounting policies and estimates are the most critical and could have the most impact on our results of operations. For a discussion of these and other accounting policies, see note 2 in our Notes to Consolidated Financial Statements.

As a result of the Transaction, the majority of our assets and liabilities, including our portfolio of accounts receivable, have been adjusted to their fair value as of the date of the Transaction, in accordance with SFAS No. 141, "Business Combinations." We made significant assumptions in determining the fair value of intangible assets and other assets and liabilities in connection with purchase accounting. Such adjustments to fair value and the allocation of purchase price between identifiable intangibles and goodwill (as discussed below) will have an impact on our revenues and

profitability. Additionally, in accordance with Emerging Issues Task Force Issue No. 88-16, "Basis in Leveraged Transactions," a portion of the equity related to our management stockholders was recorded at the stockholder's predecessor basis and a corresponding portion of the acquired assets was reduced accordingly.

Goodwill, Other Intangible Assets and Purchase Accounting

Purchase accounting requires that assets acquired and liabilities assumed be recorded at their fair value at the date of acquisition. Our balance sheet includes amounts designated as "Goodwill", "Trade name" and "Customer relationships and other intangible assets." Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired businesses. Trade name represents the fair value of the NCO name. Other intangible assets consist primarily of customer relationships, which represent the information and regular contact we have with our clients, and non-compete agreements.

As of December 31, 2007, our balance sheet included goodwill, trade name and other intangibles that represented 37.7 percent, 5.9 percent and 17.2 percent of total assets, respectively, and 168.3 percent, 26.4 percent and 76.7 percent of stockholders' equity, respectively.

Goodwill is tested for impairment at least annually and as triggering events occur. The test for impairment is performed at the reporting unit level and involves a two-step approach, the first step identifies any potential impairment and the second step measures the amount of the impairment, if applicable. The first test for potential impairment uses a fair value based approach, whereby the implied fair value of a reporting unit's goodwill is compared to its carrying amount, if the fair value is less than the carrying amount, the reporting unit's goodwill would be considered impaired and we would be required to take a charge to earnings, which could be material. We do not believe that goodwill was impaired during 2007.

The trade name intangible asset is also reviewed for impairment on an annual basis and as triggering events occur. We did not record any impairment charges in connection with the annual impairment test, and we do not believe that the trade name intangible asset was impaired during 2007.

We make significant assumptions to estimate the future revenue and cash flows used to determine the fair value of our reporting units. These assumptions include future growth rates, profitability, discount factors, market comparables, future tax rates, and other factors. If the expected revenue and cash flows are not realized, or if a sustained significant depression in our market capitalization indicates that our assumptions are not accurately estimating our fair value, impairment losses may be recorded in the future.

Revenue Recognition for Purchased Accounts Receivable

In the ordinary course of accounting for purchased accounts receivable, estimates have been made by management as to the amount of future cash flows expected from each portfolio. We have historical collection records for all of our purchased accounts receivable, as well as debtor records since our entrance into this business and for acquired businesses since 1986, which provides us a reasonable basis for our judgment that it is probable that we will ultimately collect the recorded amount of our purchased accounts receivable plus a premium or yield. The historical collection amounts also provide a reasonable basis for determining the timing of the collections. We use all available information to forecast the cash flows of our purchased accounts receivable including, but not limited to, historical collections, payment patterns on similar purchases, credit scores of the

underlying debtors, seller's credit policies, and location of the debtor. The estimated future cash flow of each portfolio is used to compute the internal rate of return, referred to as the IRR, for each portfolio. The IRR is used to allocate collections between revenue and amortization of the carrying values of the purchased accounts receivable.

We apply the American Institute of Certified Public Accountants Statement of Position 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," referred to as SOP 03-3. SOP 03-3 addresses accounting for differences between contractual versus expected cash flows over an investor's initial investment in certain loans when such differences are attributable, at least in part, to credit quality. SOP 03-3 does not allow the original estimate of the effective interest, or the IRR, to be lowered for revenue recognition or for subsequent testing for provision for impairments. If the original collection estimates are lowered, an allowance is established in the amount required to maintain the original IRR. If collection estimates are raised, increases are first used to recover any previously recorded allowances and then recognized prospectively through an increase in the IRR, which are realized over a portfolio's remaining life. Any increase in the IRR must be used for subsequent revenue recognition and allowance testing.

If management came to a different conclusion as to the future estimated collections, it could have had a significant impact on the amount of revenue that was recorded from the purchased accounts receivable. A five percent increase in the amount of future expected collections would have resulted in a \$5.4 million increase in net income for the year ended December 31, 2007, largely as a result of lower allowances since increases in future expected collections are recognized to the extent sufficient to recover any allowances or to increase the expected IRR. A five percent decrease in the amount of future expected collections would have resulted in a \$5.4 million decrease in net income for the year ended December 31, 2007, largely as a result of higher allowances.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," referred to as SFAS 109, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance, if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries because such amounts are expected to be reinvested indefinitely.

At December 31, 2007, our balance sheet included deferred tax assets of \$43.4 million for the assumed utilization of federal net operating loss carryforwards. We believe that we will be able to utilize the net operating loss carryforwards so we have not reduced the deferred tax asset by a valuation allowance. However, we have provided a \$24.0 million valuation allowance against the \$24.6 million deferred tax asset for state net operating loss carryforwards due to the uncertainty that they can be realized. The utilization of net operating loss carryforwards is an estimate based on a number of factors beyond our control, including the level of taxable income available from successful operations in the future. If we are unable to utilize the federal net operating loss carryforwards, it may result in incremental tax expense in future periods.

Our annual provision for income taxes and the determination of the resulting deferred tax assets and liabilities involve a significant amount of judgment and are based on the latest information available at the time. We are subject to audit within the federal, state and international

taxing jurisdictions, and these audits can involve complex issues that may require an extended period of time to resolve. We maintain reserves for estimated tax exposures, which are ultimately settled primarily through the settlement of audits within these tax jurisdictions, changes in applicable tax law, or other factors. We believe that an appropriate liability has been established for financial statement purposes; however, actual results may differ from these estimates.

On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," referred to as FIN 48, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position, be recognized in the financial statements. The adoption of FIN 48 did not have a material impact on our financial position or results of operations. As of January 1, 2007, we had \$8.5 million in reserves for uncertain tax positions, including penalties, that, if recognized, would affect the effective tax rate. As of December 31, 2007, we had \$9.1 million in reserves for uncertain tax positions, including penalties, that, if recognized, would affect the effective tax rate.

We recognize interest related to uncertain tax positions in interest expense. As of January 1, 2007, the date of adoption, and December 31, 2007, we had approximately \$4.2 million and \$4.1 million, respectively, of accrued interest related to uncertain tax positions. The Company recognizes penalties related to uncertain tax positions in the provision for income taxes.

We are subject to federal, state and foreign income tax audits from time to time that could result in proposed assessments. We cannot predict with certainty how these audits will be resolved and whether we will be required to make additional tax payments, which may or may not include penalties and interest. As of December 31, 2007, we are subject to audit by the Internal Revenue Service for the tax years of 2005 and 2006. For most states and foreign countries where we conduct business, we are subject to examination for the preceding three to six years. In certain states and foreign countries, the period could be longer.

Allowance for Doubtful Accounts

Allowances for doubtful accounts are determined based on estimates of losses related to customer receivable balances. In establishing the appropriate provision for customer receivables balances, we make assumptions with respect to their future collectibility. Our assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivable balances. Generally, these individual credit assessments occur at regular reviews during the life of the exposure and consider factors such as a customer's ability to meet and sustain their financial commitments, a customer's current financial condition and historical payment patterns. Once the appropriate considerations referred to above have been taken into account, a determination is made as to the probability of default. An appropriate provision is made, which takes into account the severity of the likely loss on the outstanding receivable balance. Our level of reserves for our customer accounts receivable fluctuates depending upon all of the factors mentioned above, in addition to any contractual rights that allow us to reduce outstanding receivable balances through the application of future collections. If our estimate is not sufficient to cover actual losses, we would be required to take additional charges to our earnings.

Results of Operations

The following table sets forth selected historical statement of operations data (amounts in thousands):

	Successor		Combined		Successor	Predecessor		
	For the year ended December 31, 2007		For the year ended December 31, 2006 (unaudited)		Period from July 13, 2006 (date of inception) through December 31, 2006	Period from January 1, 2006 through November 15, 2006	For the year ended December 31, 2005	
	Amount	Ratio	Amount	Ratio	Amount	Amount	Amount	Ratio
Revenues	\$1,215,447	100.0%	\$ 1,190,097	100.0%	\$ 140,296	\$ 1,049,801	\$ 1,052,283	100.0%
Payroll and related expenses	645,106	53.1	630,494	53.0	76,611	553,883	528,932	50.3
Selling, general and administrative expenses	422,094	34.7	422,927	35.5	47,777	375,150	376,606	35.8
Depreciation and amortization	97,254	8.0	58,243	4.9	11,548	46,695	45,787	4.3
Restructuring charges	-	-	12,765	1.1	-	12,765	9,621	0.9
Income from operations	50,993	4.2	65,668	5.5	4,360	61,308	91,337	8.7
Other expense	89,705	7.4	36,187	3.0	14,545	21,642	19,423	1.9
Income tax expense (benefit)	(14,071)	1.2	10,965	0.9	(3,777)	14,742	26,182	2.5
Minority interest	(2,735)	0.2	(4,047)	0.3	(157)	(3,890)	(1,213)	0.1
Net income (loss)	\$ (27,376)	2.2%	\$ 14,469	1.3%	\$ (6,565)	\$ 21,034	\$ 44,519	4.2%

Year ended December 31, 2007 Compared to Year ended December 31, 2006

Revenue. Revenue increased \$25.3 million, or 2.1 percent, to \$1,215.4 million for 2007, from \$1,190.1 million in 2006. ARM, CRM and Portfolio Management accounted for \$845.6 million, \$328.5 million and \$150.9 million, respectively, of the 2007 revenue. ARM's revenue included \$109.1 million of intercompany revenue earned on services performed for Portfolio Management and CRM's revenue included \$532,000 of intercompany revenue earned on services performed for ARM, which was eliminated upon consolidation. For 2006, these divisions accounted for \$866.0 million, \$251.2 million and \$187.0 million, respectively. ARM's revenue included \$113.7 million of intercompany revenue earned on services performed for Portfolio Management and CRM's revenue included \$363,000 of intercompany revenue earned on services performed for ARM, which was eliminated upon consolidation.

ARM's revenue decreased \$20.4 million, or 2.4 percent, to \$845.6 million in 2007, from \$866.0 million in 2006. The decrease in ARM's revenue was primarily attributable to a weaker collection environment during 2007 and a \$4.6 million decrease in fees from collection services performed for Portfolio Management. Included in ARM's intercompany service fees for the year ended December 31, 2007, was \$12.8 million of commissions from the sales of portfolios by Portfolio Management, compared to \$10.3 million in 2006.

CRM's revenue increased \$77.3 million, or 30.8 percent, to \$328.5 million in 2007, from \$251.2 million in 2006. The increase in CRM's revenue was primarily due to increased client volume following the implementation of new contracts during 2006 and 2007.

Portfolio Management's revenue decreased \$36.1 million, or 19.3 percent, to \$150.9 million in 2007, from \$187.0 million in 2006. Portfolio Management's collections, excluding all portfolio sales, decreased \$25.6 million, or 10.3 percent, to \$222.7 million in 2007, from \$248.3 million in

2006. Portfolio Management's revenue represented 58.3 percent of collections, excluding all portfolio sales, in 2007, as compared to 67.3 percent of collections, excluding all portfolio sales, in 2006. The decrease in revenue primarily reflects a \$25.0 million impairment charge recorded to establish a valuation allowance against the carrying value of the portfolios. Excluding the effect of the impairment charge, Portfolio Management's revenue represented 69.5 percent of collections in 2007. The increase compared to the prior year was mainly attributable to lower collections due to the weaker collection environment during 2007. Gains on sales of portfolios for the year ended December 31, 2007 were \$21.1 million compared to \$22.8 million for the year ended December 31, 2006.

Payroll and related expenses. Payroll and related expenses increased \$14.6 million to \$645.1 million in 2007, from \$630.5 million in 2006, but remained essentially flat as a percentage of revenue at 53.1 percent. Included in ARM's payroll and related expenses was \$532,000 of intercompany expense to CRM, for services provided to ARM.

ARM's payroll and related expenses decreased \$27.9 million to \$391.3 million in 2007, from \$419.2 million in 2006, and decreased as a percentage of revenue to 46.3 percent from 48.4 percent. The decrease in payroll and related expenses as a percentage of revenue was primarily due to the effective management of labor, as well as the \$7.1 million of stock-based compensation expense recorded in 2006 related to the adoption of FASB Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," and the acceleration of the vesting of all outstanding unvested stock options and restricted stock units in connection with the Transaction.

CRM's payroll and related expenses increased \$43.1 million to \$246.7 million in 2007, from \$203.6 million in 2006, but decreased as a percentage of revenue to 75.1 percent from 81.0 percent. The decrease in payroll and related expenses as a percentage of revenue was primarily attributable to the increased revenue from the ramp up of the new contracts implemented during 2007, as well as the absorption of the fixed payroll costs of the higher revenue base.

Portfolio Management's payroll and related expenses decreased \$457,000 to \$7.6 million in 2007, from \$8.1 million in 2006, but increased as a percentage of revenue to 5.9 percent from 4.9 percent. Portfolio Management outsources all of the collection services to ARM and, therefore, has a relatively small fixed payroll cost structure. The increase in payroll and related expenses as a percentage of revenue was due primarily to the decrease in revenue resulting from the impairment charge in 2007.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased \$833,000 to \$422.1 million in 2007, from \$422.9 million in 2006, and decreased as a percentage of revenue to 34.7 percent from 35.5 percent. Included in Portfolio Management's selling, general and administrative expenses for 2007 was \$109.1 million of intercompany expense to ARM, for services provided to Portfolio Management.

ARM's selling, general and administrative expenses decreased \$4.7 million to \$364.2 million in 2007, from \$368.9 million in 2006, but increased slightly as a percentage of revenue to 43.1 percent from 42.6 percent. The increase in selling, general and administrative expenses as a percentage of revenue was primarily attributable to leveraging our infrastructure over a lower revenue base. Included in ARM's selling, general and administrative expenses for 2006 were charges of \$5.1 million related to the Transaction as well as charges of \$2.9 million related to the integration of the acquisition of Risk Management Alternatives Parent Corp., referred to as RMA, in September 2005.

CRM's selling, general and administrative expenses increased \$9.6 million to \$54.3 million in 2007, from \$44.7 million in 2006, but decreased as a percentage of revenue to 16.5 percent from 17.8 percent. The decrease in selling, general and administrative expenses as a percentage of revenue was primarily attributable to the higher revenue base allowing for a better leverage of our infrastructure in this division.

Portfolio Management's selling, general and administrative expenses decreased \$10.3 million to \$112.7 million in 2007, from \$123.0 million in 2006, and increased as a percentage of revenue, not including revenue from the sales of portfolios, to 86.8 percent from 74.9 percent. The decrease in selling, general and administrative expenses was due primarily to a \$4.6 million decrease in fees for collection services provided by ARM. The increase as a percentage of revenue was mainly attributable to the decrease in revenue resulting from the impairment charge in 2007.

Depreciation and amortization. Depreciation and amortization increased to \$97.3 million in 2007, from \$58.2 million in 2006. This increase was primarily attributable to the amortization of the customer relationships acquired in connection with the Transaction in November of 2006, as well as higher depreciation on additions to property and equipment during 2007.

Other income (expense). Interest expense increased to \$95.0 million for 2007, from \$41.6 million for 2006. This increase was due primarily to the \$830.0 million of debt incurred in connection with the Transaction and higher interest rates associated with that debt. Other income (expense) for 2007 included approximately \$2.2 million of net gains from the settlement of certain foreign exchange contracts. Other income (expense) for 2006 included \$2.3 million in insurance proceeds related to the effects of Hurricane Katrina on our business and approximately \$566,000 of net gains resulting from the settlement of certain foreign exchange contracts.

Income taxes. For the year ended December 31, 2007, income tax benefit was \$14.1 million compared to income tax expense of \$11.0 million for 2006. The income tax benefit for 2007 resulted from losses in the domestic ARM and CRM businesses combined with income from certain foreign businesses which are not subject to income tax.

Year ended December 31, 2006 Compared to Year ended December 31, 2005

Revenue. Revenue increased \$137.8 million, or 13.1 percent, to \$1,190.1 million for 2006, from \$1,052.3 million in 2005. ARM, CRM and Portfolio Management accounted for \$866.0 million, \$251.2 million and \$187.0 million, respectively, of the 2006 revenue. ARM's revenue included \$113.7 million of intercompany revenue earned on services performed for Portfolio Management that was eliminated upon consolidation. CRM's revenue included \$363,000 of intercompany revenue earned on services performed for ARM that was eliminated upon consolidation.

ARM's revenue increased \$61.5 million, or 7.6 percent, to \$866.0 million in 2006, from \$804.5 million in 2005. The increase in ARM's revenue was primarily attributable to the acquisition of RMA in September 2005 as well as a \$26.4 million increase in fees from collection services performed for Portfolio Management, which was eliminated in consolidation. Included in ARM's intercompany service fees for the year ended December 31, 2006, was \$10.3 million of commissions from the sales of portions of older portfolios by Portfolio Management, compared to \$4.9 million in 2005.

CRM's revenue increased \$60.8 million, or 31.9 percent, to \$251.2 million in 2006, from \$190.4 million in 2005. The increase in CRM's revenue was primarily due to the implementation

of new contracts that began during the second half of 2005 and into 2006. This was partially offset by the loss of business during 2006 from a telecommunications client resulting from changes in the telecommunications laws in 2004.

Portfolio Management's revenue increased \$31.6 million, or 23.8 percent, to \$164.2 million in 2006, from \$132.6 million in 2005. The increase primarily represents additional revenue from portfolio assets acquired throughout 2005 and during 2006, including the RMA portfolio and Marlin portfolio acquisitions in September 2005. Portfolio Management's collections, excluding all portfolio sales, increased \$47.6 million, or 23.7 percent, to \$248.3 million in 2006, from \$200.7 million in 2005. Portfolio Management's revenue represented 67.3 percent of collections, excluding all portfolio sales, in 2006, as compared to 67.0 percent of collections, excluding all portfolio sales, in 2005.

In 2005, Portfolio Management began an on-going process to identify and sell certain aged and bankruptcy status portfolios of accounts receivable that have a low probability of payment under our collection platform and a low remaining carrying value. During 2006 and 2005, Portfolio Management recorded \$22.8 million and \$12.1 million, respectively, of revenue in connection with these sales.

Payroll and related expenses. Payroll and related expenses increased \$101.6 million to \$630.5 million in 2006, from \$528.9 million in 2005, and increased as a percentage of revenue to 53.0 percent from 50.3 percent.

ARM's payroll and related expenses increased \$41.9 million to \$419.2 million in 2006, from \$377.3 million in 2005, and increased as a percentage of revenue to 48.4 percent from 46.9 percent. The increase in payroll and related expenses as a percentage of revenue was primarily due to the additional payroll expense from the acquisition of RMA, as well as \$7.1 million of stock-based compensation expense recorded in 2006 related to the adoption of SFAS 123R and the acceleration of the vesting of all outstanding unvested stock options and restricted stock units in connection with the Transaction.

CRM's payroll and related expenses increased \$57.7 million to \$203.6 million in 2006, from \$145.9 million in 2005, and increased as a percentage of revenue to 81.0 percent from 76.6 percent. The increase in payroll and related expenses as a percentage of revenue was primarily attributable to the upfront expense associated with implementing new clients in advance of generating the resulting revenue.

Portfolio Management's payroll and related expenses increased \$2.4 million to \$8.1 million in 2006, from \$5.7 million in 2005, and increased slightly as a percentage of revenue to 4.9 percent from 4.0 percent. Portfolio Management outsources all of the collection services to ARM and, therefore, has a relatively small fixed payroll cost structure. The increase in payroll and related expenses as a percentage of revenue was due principally to the acquisition of Marlin in September 2005.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$46.3 million to \$422.9 million in 2006, from \$376.6 million in 2005, but decreased slightly as a percentage of revenue to 35.5 percent from 35.8 percent.

ARM's selling, general and administrative expenses increased \$31.9 million to \$368.9 million in 2006, from \$337.0 million in 2005, and increased as a percentage of revenue to 42.6 percent from 41.9 percent. Included in ARM's selling, general and administrative expenses for 2006 were

charges of \$5.1 million related to the Transaction as well as charges of \$2.9 million related to the integration of the RMA acquisition. This compares to charges of \$1.5 million in 2005 related to the integration of RMA. Excluding these charges, ARM's selling, general and administrative expenses as a percentage of revenue for 2006 was essentially flat compared to 2005.

CRM's selling, general and administrative expenses increased \$9.2 million to \$44.7 million in 2006, from \$35.5 million in 2005, but decreased as a percentage of revenue to 17.8 percent from 18.6 percent. The decrease in selling, general and administrative expenses as a percentage of revenue was primarily attributable to the increased utilization of call center capacity as a result of the continuing implementation of new client contracts. This was offset partially by the upfront expenses required during the year to begin working for the new clients, such as facilities and telephone expense.

Portfolio Management's selling, general and administrative expenses increased \$31.5 million to \$123.0 million in 2006, from \$91.5 million in 2005, and increased as a percentage of revenue, not including revenue from the sales of portfolios, to 74.9 percent from 69.0 percent. The increase was due primarily to increased servicing fees related to the acquisitions of Marlin and RMA portfolios.

Restructuring charges. During 2006, we incurred restructuring charges of \$12.8 million related to the restructuring of our legacy operations to streamline our cost structure, in conjunction with the acquisition of RMA, compared to \$9.6 million in 2005. The charges consisted primarily of costs associated with the closing of redundant facilities and severance.

Depreciation and amortization. Depreciation and amortization increased to \$58.2 million in 2006, from \$45.8 million in 2005. This increase was primarily attributable to the amortization of the customer relationships acquired in connection with acquisitions in 2005 and the Transaction in November of 2006, as well as higher depreciation on additions to property and equipment during the end of 2005 and during 2006.

Other income (expense). Interest expense increased to \$41.6 million for 2006, from \$22.6 million for 2005. This increase was due primarily to the \$830.0 million of debt incurred in connection with the Transaction. Interest expense for 2006 also included \$3.2 million of Transaction related expenses. Other income (expense) for 2006 included \$2.3 million in insurance proceeds related to the effects of Hurricane Katrina on our business and approximately \$566,000 of net gains resulting from the settlement of certain foreign exchange contracts. Other income (expense) for 2005 included \$532,000 in recoveries of aged accounts receivable that had been written off by RMH prior to the acquisition and a \$93,000 gain from our ownership interest in one of our insurance carriers that was sold, offset in part by a \$595,000 write-down of an investment that has subsequently been sold for the adjusted carrying value.

Income taxes. The effective income tax rate increased to 37.2 percent in 2006 from 36.4 percent in 2005, which was primarily attributable to the effect on the prior year tax rate of losses in the CRM division and higher earnings from Portfolio Management, which is taxed at a lower rate.

Liquidity and Capital Resources

Our primary sources of cash have been cash flows from operations, including collections on purchased accounts receivable, bank borrowings, nonrecourse borrowings, and equity and debt offerings. Cash has been used for acquisitions, repayments of bank borrowings, purchases of

equipment, purchases of accounts receivable, and working capital to support our growth.

We believe that funds generated from operations, together with existing cash and available borrowings under our senior credit facility and nonrecourse credit facility will be sufficient to finance our current operations, planned capital expenditure requirements, internal growth and debt service obligations at least through the next twelve months. However, we could require additional debt or equity financing if we were to make any significant acquisitions for cash during that period.

In January 2008, we issued 22,484 shares of preferred stock for merger consideration in connection with the acquisition of SST. In February 2008, we privately placed 802,262 shares of preferred stock, 33,338 shares of Class L common stock and 1,011,162 shares of Class A common stock for an aggregate purchase price of \$210.0 million. The entire amount of proceeds was used to acquire OSI. We amended the senior credit facility in connection with the OSI acquisition to, among other things, add \$139.0 million to the term loan. The entire amount of this term loan was used to fund the remainder of the purchase price to acquire OSI.

The cash flow from our contingency collection business and our purchased portfolio business is dependent upon our ability to collect from consumers and businesses. 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 expected future cash flows.

In connection with the Transaction on November 15, 2006, we repaid the Predecessor senior credit facility and entered into a new senior credit facility, referred to as the Credit Facility, to, in part, finance the Transaction and certain related costs and expenses. The Credit Facility consists of a \$465.0 million term loan and a \$100.0 million revolving credit facility.

Additionally, in connection with the Transaction, on November 15, 2006 we issued \$165.0 million of floating rate senior notes and \$200.0 million of 11.875 percent senior subordinated notes. As a result of the Transaction, we are significantly leveraged.

Cash Flows from Operating Activities. Cash provided by operating activities was \$51.5 million in 2007, compared to \$100.4 million in 2006. The decrease in cash provided by operating activities was primarily attributable to a net loss of \$27.4 million for 2007, compared to net income of \$14.5 million for 2006, primarily resulting from the higher interest expense on borrowings to complete the Transaction. Also contributing to the decrease in cash provided by operating activities was a \$13.7 million decrease in income taxes payable in 2007, compared to a \$23.5 million increase in the prior year, and a decrease of \$8.6 million in deferred income taxes in 2007, compared to an increase of \$505,000 in the prior year.

Cash provided by operating activities was \$100.4 million in 2006, compared to \$89.6 million in 2005. The increase in cash provided by operating activities was primarily attributable to a \$23.5 million increase in income taxes payable in 2006, compared to a \$19.7 million decrease in the prior year related to a lower tax rate due to losses in the CRM division and higher profits from Portfolio Management, which are taxed at a lower rate. Also contributing to the increase in 2006 was an increase in trade accounts receivable of \$18.5 million for 2005 due to increased billings to new clients in that year. These items were partially offset by a \$2.2 million increase in other assets in 2006 compared to a \$13.6 million decrease in 2005, primarily resulting from the settlement of a long-term collection contract in 2005, as well as a decrease in net income for 2006.

Cash Flows from Investing Activities. Cash used in investing activities was \$37.1 million in 2007 compared to \$1,006.1 million in 2006. The decrease in cash used in investing activities was primarily attributable to cash paid for acquisitions and acquisition-related costs of \$983.2 million in 2006 primarily incurred in connection with the Transaction and the acquisition of Star Contact. Also contributing to the decrease was lower purchases of property and equipment during 2007, offset in part by higher purchases of accounts receivable portfolios.

Cash used in investing activities was \$1,006.1 million in 2006, compared to \$222.0 million in 2005. The increase in cash used in investing activities was primarily attributable to cash paid for acquisitions and acquisition-related costs of \$983.2 million in 2006 primarily incurred in connection with the Transaction and the acquisition of Star Contact. Also contributing to the increase was an increase in purchases of accounts receivable, offset in part by increases in collections applied to purchased accounts receivable and proceeds from sales and resales of purchased accounts receivable. Cash flows from investing activities for 2005 did not include \$17.2 million of Portfolio Management's purchases of large accounts receivable portfolios financed through an agreement we have with a lender. The purchases were noncash transactions as the lender sent borrowings directly to the seller of the accounts (see note 16 to our Notes to Consolidated Financial Statements).

Cash Flows from Financing Activities. Cash used in financing activities was \$3.4 million in 2007, compared to cash provided by financing activities of \$914.9 million in 2006. The change in financing activities resulted from the 2006 borrowings of \$830.0 million to fund the Transaction, consisting of the \$465.0 million term loan under the senior credit facility, \$165.0 million of senior notes and \$200.0 million of senior subordinated notes. Also contributing to the change was the 2006 issuance of \$396.0 million of capital stock in connection with the Transaction. Partially offsetting these items was net borrowings under the senior credit facility of \$6.4 million in 2007, compared to net repayments of \$134.5 million in 2006.

Cash provided by financing activities was \$914.9 million in 2006, compared to \$130.1 million in 2005. The increase in cash provided by financing activities during 2006 resulted from the borrowings of \$830.0 million to fund the Transaction, consisting of the \$465.0 million term loan under the senior credit facility, \$165.0 million of senior notes and \$200.0 million of senior subordinated notes. Also contributing to the increase was the issuance of \$396.0 million of capital stock in connection with the Transaction. Partially offsetting these items was the repayments of Predecessor borrowings under the revolving credit agreement and convertible notes. Cash flows from financing activities for 2005 did not include \$17.2 million of Portfolio Management's borrowings under nonrecourse debt, used to purchase large accounts receivable portfolios financed through an agreement we have with a lender. These borrowings were noncash transactions as the lender sent borrowings directly to the seller of the accounts (see note 16 to our Notes to Consolidated Financial Statements).

Senior Credit Facility. In connection with the Transaction, on November 15, 2006 we repaid the Predecessor senior credit facility and entered into a new senior credit facility, referred to as the Credit Facility, with a syndicate of financial institutions. The Credit Facility consists of a \$465.0 million term loan and a \$100.0 million revolving credit facility, with an option to allow us to increase our borrowing capacity under the Credit Facility in an aggregate amount not to exceed \$100.0 million, subject to the satisfaction of certain conditions. We are required to make quarterly repayments of \$1.2 million on the term loan until the maturity date of May 15, 2013, at which time the remaining balance outstanding is due. We are also required to make annual prepayments, beginning in 2007, of 50 percent, 25 percent or zero percent of our excess annual cash flow, based on our leverage ratio. The revolving credit facility requires no minimum principal payments until

its maturity date of November 15, 2011. At December 31, 2007, the balance outstanding on the term loan was \$460.4 million and the balance outstanding on the revolving credit facility was \$47.0 million. The availability of the revolving credit facility is reduced by any unused letters of credit (\$8.8 million at December 31, 2007). As of December 31, 2007, we had \$44.2 million of remaining availability under the revolving credit facility.

Borrowings under the Credit Facility are collateralized by substantially all of our assets. The Credit Facility contains certain financial and other covenants such as maintaining a maximum leverage ratio and a minimum interest coverage ratio, and includes restrictions on, among other things, acquisitions, the incurrence of additional debt, investments, disposition of assets, liens and dividends and other distributions. If an event of default, such as failure to comply with covenants or a change of control, were to occur under the Credit Facility, the lenders would be entitled to declare all amounts outstanding under it immediately due and payable and foreclose on the pledged assets. We were in compliance with all required financial covenants and we were not aware of any events of default as of December 31, 2007.

In February 2008, we amended the senior credit facility in connection with the OSI acquisition to, among other things, add \$139.0 million to the term loan. The entire amount of this term loan was used to fund a portion of the purchase price to acquire OSI. For additional information concerning the OSI acquisition, see note 22 to our Notes to Consolidated Financial Statements.

Senior Notes and Senior Subordinated Notes. In connection with the Transaction, on November 15, 2006 we issued \$165.0 million of floating rate senior notes due 2013, referred to as the Senior Notes, and \$200.0 million of 11.875 percent senior subordinated notes due 2014, referred to as the Senior Subordinated Notes, collectively referred to as the Notes. The Notes are guaranteed, jointly and severally, on a senior basis with respect to the Senior Notes and on a senior subordinated basis with respect to the Senior Subordinated Notes, in each case by all of our existing and future domestic restricted subsidiaries (other than certain subsidiaries and joint ventures engaged in financing the purchase of delinquent accounts receivable portfolios and certain immaterial subsidiaries).

The Senior Notes are unsecured senior obligations and are senior in right of payment to all existing and future senior subordinated indebtedness, including the Senior Subordinated Notes, and all future subordinated indebtedness. The Senior Notes bear interest at an annual rate equal to the London Interbank Offered Rate, referred to as LIBOR, plus 4.875 percent, reset quarterly. We may redeem the Senior Notes, in whole or in part, at any time on or after November 15, 2008 at varying redemption prices depending on the redemption date, plus accrued and unpaid interest.

The Senior Subordinated Notes are unsecured senior subordinated obligations and are subordinated in right of payment to all existing and future senior indebtedness, including the Senior Notes and borrowings under the Credit Facility. We may redeem the Senior Subordinated Notes, in whole or in part, at any time on or after November 15, 2010 at varying redemption prices depending on the redemption date, plus accrued and unpaid interest. We also may redeem some or all of the Senior Notes at any time prior to November 15, 2008 and some or all of the Senior Subordinated Notes at any time prior to November 15, 2010, at a redemption price equal to 100 percent of the principal amount of the respective Notes to be redeemed, plus accrued and unpaid interest and an additional premium. Finally, subject to certain conditions, we may redeem up to 35 percent of the aggregate principal amount of the Senior Notes at any time prior to November 15, 2008 and up to 35 percent of the aggregate principal amount of the Senior Subordinated Notes at any time prior to November 15, 2009 with the net proceeds of a sale of its capital stock at a

redemption price equal to 100 percent of the principal amount of the respective Notes to be redeemed, plus accrued and unpaid interest and an additional premium.

The indentures governing the Notes contain a number of covenants that limit our and our restricted subsidiaries' ability, among other things, to: incur additional indebtedness and issue certain preferred stock, pay certain dividends, acquire shares of capital stock, make payments on subordinated debt or make investments, place limitations on distributions from restricted subsidiaries, issue or sell stock of restricted subsidiaries, guarantee indebtedness, sell or exchange assets, enter into transactions with affiliates, create certain liens, engage in unrelated businesses, and consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis. In addition, upon a change of control, we are required to offer to repurchase all of the Notes then outstanding, at a purchase price equal to 101 percent of their principal amount, plus any accrued interest to the date of repurchase.

Upon certain events of default, the trustee or the holders of at least 25 percent in the aggregate principal amount of the notes, then outstanding, may, and the trustee at the request of the holders will, declare the principal of, premium, if any, and accrued interest on the notes to be immediately due and payable. In the event a court enters a decree or order for relief against us in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, the court appoints a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official or for all or substantially all of our property and assets or the winding up or liquidation of our affairs and, in each case, such decree or order remains unstayed and in effect for a period of 60 consecutive days, the principal of, premium, if any, and accrued interest on the notes then outstanding will automatically become and be immediately due and payable. Additionally, if we or any subsidiary guarantor commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, consent to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official or for all or substantially all of our property and assets or substantially all of the property and assets of a significant subsidiary (as defined in the indentures) or effect any general assignment for the benefit of creditors, the principal of, premium, if any, and accrued interest on the notes then outstanding will automatically become and be immediately due and payable.

Nonrecourse Credit Facility. On August 31, 2007, we amended our existing nonrecourse credit facility and exclusivity agreement with a lender due to the lender's spin off of its unit to an investment fund. Under the new agreements, all financings from September 1, 2006 and forward are now with the investment fund. The amended agreement provides that all purchases of accounts receivable by us with a purchase price in excess of \$1.0 million are first offered to the lender for financing at its discretion. If the lender chooses to participate in the financing of a portfolio of accounts receivable, the financing may be structured, depending on the size and nature of the portfolio to be purchased, either as a borrowing arrangement or under various equity sharing arrangements. The lender will finance non-equity borrowings with floating interest at an annual rate equal to LIBOR plus 2.50 percent. These borrowings are nonrecourse to us and are due two years from the date of each respective loan, unless otherwise negotiated. As additional return on the debt financed portfolios, the lender receives residual cash flows, as negotiated, which is defined as all cash collections after servicing fees, floating rate interest, repayment of the borrowing, and our initial investment, including interest. We may terminate the agreement for a cost of \$250,000 for each month remaining under the agreement from the date of termination until June 30, 2009, when the agreement expires. All financings entered into prior to September 1, 2006 remain under the prior agreement. Total debt outstanding under this facility as of December 31,

2007 was \$53.7 million, including \$9.6 million of accrued residual interest. As of December 31, 2007, we were in compliance with all required covenants.

Borrowings under the amended credit facility are nonrecourse to us, except for the assets within the entities established in connection with the financing agreement. This loan agreement contains a collections performance requirement, among other covenants, that, if not met, provides for cross-collateralization with any other portfolios financed through the agreement, in addition to other remedies.

Contractual Obligations. The following summarizes our contractual obligations as of December 31, 2007 (amounts in thousands). For a detailed discussion of these contractual obligations, see notes 10, 11 and 18 in our Notes to Consolidated Financial Statements.

	Payments Due by Period ⁽¹⁾				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Credit Facility	\$ 507,350	\$ 9,341	\$ 9,300	\$ 56,300	\$ 432,409
Notes	365,000	-	-	-	365,000
Nonrecourse credit facility	53,742	14,135	28,023	7,549	4,035
Other long-term debt	1,604	1,167	248	161	28
Estimated interest payments ⁽²⁾	466,123	82,049	161,134	152,272	70,668
Operating leases ⁽³⁾	178,701	42,809	66,298	41,328	28,266
Purchase commitments	41,541	23,202	18,339	-	-
Forward-flow agreements	133,697	78,563	51,140	3,994	-
Total contractual obligations	<u>\$ 1,747,758</u>	<u>\$ 251,266</u>	<u>\$ 334,482</u>	<u>\$ 261,604</u>	<u>\$ 900,406</u>

(1) Does not include deferred income taxes since the timing of payment is not certain (see note 12 in our Notes to Consolidated Financial Statements). Payments of debt assume no prepayments.

(2) Represents estimated future interest expense based on applicable rates.

(3) Does not include the leases from our former Fort Washington locations (see note 18 in our Notes to Consolidated Financial Statements).

Because their future cash outflows are uncertain, noncurrent liabilities for income tax contingencies are excluded from the table above. As discussed in Note 2 in our Notes to Consolidated Financial Statements, we adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," referred to as FIN 48, on January 1, 2007. At December 31, 2007, we had approximately \$9.1 million in reserves for uncertain tax positions and an accrual for related interest expense of \$4.1 million. Currently, we do not estimate a cash settlement with the applicable taxing authority will occur within 12 months for the majority of these unrecognized tax benefits.

Off-Balance Sheet Arrangements

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

Market Risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in corporate tax rates, and inflation. We employ risk management strategies that may include the use of derivatives, such as interest rate swap agreements, interest rate cap agreements, and foreign currency forwards and options to manage these exposures. We do not enter into derivatives for trading purposes.

Foreign Currency Risk. Foreign currency exposures arise from transactions denominated in a currency other than the functional currency and from foreign denominated revenue and profit translated into U.S. dollars. The primary currencies to which we are exposed include the Canadian dollar, the British pound, the Australian dollar and the Philippine peso. Due to the size of the Canadian and Philippine operations, we currently use forward exchange contracts to limit potential losses in earnings or cash flows from adverse foreign currency exchange rate movements. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such contracts will be adversely affected by changes in exchange rates. Our objective is to maintain economically balanced currency risk management strategies that provide adequate downside protection. A five percent increase or decrease in the Canadian exchange rate could have an annual impact of approximately \$4.0 million on our business, excluding the impact of foreign currency hedges. During the later half of 2007, we continued to see acceleration in the devaluation of the U.S. dollar, primarily as it relates to the Canadian dollar. We believe this trend may continue, and if so, it could have a negative impact on our future results of operations.

Interest Rate Risk. At December 31, 2007, we had \$726.1 million in outstanding variable rate borrowings. A material change in interest rates could adversely affect our operating results and cash flows. A 25 basis-point increase in interest rates could increase our annual interest expense by \$125,000 for each \$50 million of variable debt outstanding for the entire year. We currently use interest rate swap agreements and interest rate cap agreements in an effort to limit potential losses from adverse interest rate changes.

Impact of Recently Issued and Proposed Accounting Pronouncements

FASB Statement of Financial Accounting Standards No. 157, “Fair Value Measurements.” In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements,” referred to as SFAS 157. This statement defines fair value and provides guidance for measuring assets and liabilities at fair value. This statement also expands the disclosure requirements about the use of fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2, which defers the effective date of SFAS No. 157 for non-financial assets and liabilities until fiscal years and interim periods beginning after November 15, 2008. Accordingly, we adopted the standard for financial assets and liabilities on January 1, 2008, and it did not have a material impact on our financial statements.

FASB Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.” In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115,” referred to as SFAS 159. This statement permits the choice, at specified election dates, to measure certain financial instruments and other items at fair value, which are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not believe the adoption of SFAS 159 will have a material impact on our financial statements.

FASB Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations.” In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations,” referred to as SFAS 141(R), which replaces FASB Statement of Financial Accounting Standards No. 141, “Business Combinations,” referred to as SFAS 141. While SFAS 141(R) retains the fundamental requirements of SFAS 141

to use the purchase method for acquisitions, it broadens the scope to apply this method to all transactions in which one entity obtains control over one or more other businesses. Among other things, SFAS 141(R) requires that acquired businesses be recognized at their fair values at the date of acquisition, acquisition-related costs to be recognized separately from the acquisition, contingent assets and liabilities to be recognized at fair value at the date of acquisition and restructuring costs of the acquirer to be recognized separately from the acquisition. SFAS 141 (R) is effective for business combinations effected on or after the first annual reporting period beginning on or after December 31, 2008, with early adoption prohibited. We have not completed our review and assessment of the impact of the adoption of SFAS 141(R).

FASB Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51.” In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51,” referred to as SFAS 160. This statement establishes accounting and reporting standards that require a noncontrolling interest, or minority interest, in a subsidiary to be presented in the equity section of the consolidated balance sheet, net income attributable to the parent and to the noncontrolling interest to be presented on the consolidated statement of income and sufficient disclosures to clearly distinguish between the interests of the parent and the noncontrolling interest, among other requirements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. We have not completed our review and assessment of the impact of the adoption of SFAS 160.

FASB Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.” In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133,” referred to as SFAS 161. This statement requires enhanced disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS 133 and related interpretations, and how derivative instruments and related hedged items affect the entity’s financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently reviewing the standard to assess the impact of the adoption of SFAS 161.

Directors and Executive Officers

Set forth below is information concerning our directors and executive officers.

Name	Age⁽¹⁾	Position
Michael J. Barrist	47	Chairman of the Board ⁽²⁾ , President and Chief Executive Officer
Stephen W. Elliott	46	Executive Vice President, Information Technology and Chief Information Officer
Joshua Gindin, Esq.	51	Executive Vice President and General Counsel
Steven Leckerman.....	55	Executive Vice President and Chief Operating Officer – Global Services
John R. Schwab.....	40	Executive Vice President, Finance, Chief Financial Officer and Treasurer
Steven L. Winokur	48	Executive Vice President, Development and Chief Administrative Officer
Albert Zezulinski	60	Executive Vice President, Global Portfolio Operations
Austin A. Adams.....	64	Director ⁽²⁾
Richard M. Cashin, Jr.	54	Director ⁽²⁾
David M. Cohen.....	46	Director ⁽²⁾
Colin M. Farmer.....	34	Director ⁽²⁾
Edward A. Kangas	63	Director ⁽²⁾
Leo J. Pound.....	53	Director ⁽²⁾

(1) As of March 15, 2008

(2) Each Director serves a term of one year and until his successor is duly elected and qualified

Michael J. Barrist – Mr. Barrist has served as our Chairman of the Board, President and Chief Executive Officer since purchasing the Company in 1986. Mr. Barrist was employed by U.S. Healthcare, Inc., a managed healthcare company, from 1984 to 1986, most recently as Vice President of Operations, and was employed by Gross & Company, a certified public accounting firm, from 1980 through 1984. Mr. Barrist is a Certified Public Accountant.

Stephen W. Elliott – Mr. Elliott joined us in 1996 as Senior Vice President, Technology and Chief Information Officer after having provided consulting services to us for the year prior to his arrival. Mr. Elliott became an Executive Vice President in February 1999. Prior to joining us, Mr. Elliott was employed by Electronic Data Systems, a computer services company, for almost 10 years, most recently as Senior Account Manager.

Joshua Gindin, Esq. – Mr. Gindin joined us in May 1998. Prior to joining us, Mr. Gindin was a partner in the law firm of Kessler & Gindin, which had served as our legal counsel since 1986.

Steven Leckerman – Mr. Leckerman joined us in 1995 as Senior Vice President, Collection Operations, became Executive Vice President, U.S. Operations in January 2001, and in August 2003 became Executive Vice President and Chief Operating Officer – Accounts Receivable Management, North America. In November 2006, Mr. Leckerman became Chief Operating Officer of Global Services. From 1982 to 1995, Mr. Leckerman was employed by Allied Bond Corporation, a collection company that was a division of TransUnion Corporation, where he served as manager of dialer and special projects.

John R. Schwab – Mr. Schwab joined us as Senior Vice President, Finance and Chief Accounting Officer, through the acquisition of RMH Teleservices, Inc. in April 2004, where he was the Chief Financial Officer since 2003. In May 2006, Mr. Schwab became Executive Vice President, Finance, Chief Financial Officer and Treasurer. From 2000 to 2003, Mr. Schwab was employed by Inrange Technologies, Inc., a data storage networking company, most recently as the Chief Financial Officer. Prior to that, Mr. Schwab worked for Arthur Andersen for 11 years, most recently as Senior Manager in the Growth Company Practice. Mr. Schwab is a Certified Public Accountant.

Steven L. Winokur – Mr. Winokur joined us in December 1995 as Executive Vice President, Finance and Chief Financial Officer, and also became Chief Operating Officer - Shared Services in August 2003. In May 2006, Mr. Winokur became Executive Vice President, Development and Chief Administrative Officer. Prior to that, Mr. Winokur acted as a part-time consultant to us since 1986. From February 1992 to December 1995, Mr. Winokur was the principal of Winokur & Associates, a certified public accounting firm. From March 1981 to February 1992, Mr. Winokur was with Gross & Company, a certified public accounting firm, where he most recently served as Administrative Partner. Mr. Winokur is a Certified Public Accountant.

Albert Zezulinski – Mr. Zezulinski joined us in January 2001 as Executive Vice President, Health Services, became Executive Vice President, Corporate and Government Affairs in May 2002, and in September 2005 became Executive Vice President, Global Portfolio Operations. Mr. Zezulinski has more than 30 years of consulting and healthcare experience. Prior to joining us, Mr. Zezulinski was the Director of Healthcare Financial Services for BDO Seidman, LLP, an international accounting and consulting firm.

Austin A. Adams – Mr. Adams was the Corporate Chief Information Officer of JPMorgan Chase from July 2004, when JPMorgan Chase merged with Bank One Corporation, until his retirement in October 2006. Prior to the merger, Mr. Adams was Executive Vice President and Chief Information Officer of Bank One. Prior to joining Bank One in 2001, Mr. Adams was Chief Information Officer of First Union Corporation, now known as Wachovia Corp. Mr. Adams was appointed to the Board of Directors in February 2007. Mr. Adams is also a director of the Dun & Bradstreet Corporation and Spectra Energy Corp.

Richard M. Cashin, Jr. – Mr. Cashin is Managing Partner of One Equity Partners. Prior to founding One Equity Partners in 2001, Mr. Cashin was President of Citicorp Venture Capital, Ltd. Mr. Cashin is a member of the JPMorgan Chase Executive Committee. He sits on the Board of Titan International Inc. He is a Trustee for the Boys Club of New York, American University in Cairo, Central Park Conservancy, Jazz at Lincoln Center, Brooklyn Museum, the

National Rowing Foundation (Chairman) and is active in several inner-city educational initiatives.

David M. Cohen – Mr. Cohen is a Managing Director of One Equity Partners. Prior to joining One Equity Partners in September 2007, Mr. Cohen acted as a Managing Director and the Global Head of the Industrials Group at JPMorgan Securities from February 2004 to July 2007 and prior to that served as Co-Head of the North America M&A Group from March 2002 to February 2004. Before joining JPMorgan, Mr. Cohen was Co-Head of the M&A Group of S.G. Warburg Inc., and worked for Wasserstein Perella & Co. Inc. in both M&A and High Yield Financing. Mr. Cohen previously worked for Bain & Company as a management consultant.

Colin M. Farmer – Mr. Farmer is a Managing Director of One Equity Partners. Prior to joining One Equity Partners in October 2006, Mr. Farmer spent eight years at Harvest Partners, a middle-market private equity firm. Prior to that, Mr. Farmer worked at Robertson Stephens & Company. Mr. Farmer is a Trustee of the Princeton University Rowing Association.

Edward A. Kangas – Mr. Kangas was Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from 1989 until his retirement in 2000. Mr. Kangas served as Managing Partner of Deloitte & Touche (USA) from 1989 to 1994 and Managing Partner and Chief Executive Officer of Touche Ross in from 1985 to 1989. After his retirement, Mr. Kangas served as a consultant to Deloitte until 2004. Mr. Kangas was appointed to the Board of Directors in February 2007. Mr. Kangas is also a director of Eclipsys Corporation, Electronic Data Systems Corporation, Hovnanian Enterprises, Inc., Intuit Inc. and Tenet Healthcare Corporation.

Leo J. Pound – Mr. Pound has been a Principal of Pound Consulting, which provides management consultant services to both public and private enterprises, since July 2000. From February 1999 to July 2000, Mr. Pound was Chief Financial Officer of Marble Crafters, a stone importer and fabricator. From October 1995 to February 1999, he was Chief Financial Officer of Jos. H. Stomel & Sons, a wholesale distributor. Mr. Pound is a Certified Public Accountant and a member of the American and Pennsylvania Institutes of Certified Public Accountants. Mr. Pound was appointed to the Board of Directors in February 2007. He had previously served on the Board of Directors of NCO Group, Inc. from 2000 until the date of the Transaction in November 2006.

Effective March 12, 2008, Messrs. James S. Rubin, Daniel J. Selmonosky and Tarek N. Shoeb resigned from our Board of Directors and Messrs. Cashin, Cohen and Farmer were appointed as directors by the remaining members of our Board to fill the vacancies. The former directors were, and the new directors, are representative designees of One Equity Partners under the Stockholders' Agreement described below.

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Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders of NCO Group, Inc:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of NCO Group, Inc and its subsidiaries at December 31, 2007 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 31, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
NCO Group, Inc.:

We have audited the accompanying consolidated balance sheet of NCO Group, Inc. (formerly known as Collect Holdings, Inc.) as of December 31, 2006 and the related consolidated statements of operations, stockholders' equity, and cash flows for the period July 13, 2006 (date of inception) to December 31, 2006 (Successor Period). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NCO Group, Inc. (formerly known as Collect Holdings, Inc.) at December 31, 2006, and the consolidated results of its operations and its cash flows for the period July 13, 2006 (date of inception) to December 31, 2006 in conformity with U.S. generally accepted accounting principles.

/s/Ernst & Young LLP

Philadelphia, Pennsylvania
May 8, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
NCO Group, Inc.:

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2005 and for the period from January 1, 2006 to November 15, 2006 (collectively the Predecessor Period) of NCO Group, Inc. (as predecessor to Collect Holdings, Inc.). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of NCO Group, Inc. (as predecessor to Collect Holdings, Inc.) for the year ended December 31, 2005 and for the period from January 1, 2006 to November 15, 2006 (collectively the Predecessor Period), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*, on January 1, 2006.

/s/Ernst & Young LLP

Philadelphia, Pennsylvania
May 8, 2007

NCO GROUP, INC.
Consolidated Balance Sheets
(Amounts in thousands, except per share amounts)

ASSETS	December 31, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 27,136	\$ 13,899
Accounts receivable, trade, net of allowance for doubtful accounts of \$3,137 and \$ -, respectively	153,929	143,933
Purchased accounts receivable, current portion, net of allowance for impairment of \$24,962 and \$ -, respectively	72,617	147,303
Deferred income taxes	16,451	9,646
Prepaid expenses and other current assets	31,470	29,580
Total current assets	301,603	344,361
Funds held on behalf of clients		
Property and equipment, net	120,214	135,931
Other assets:		
Goodwill	614,744	600,546
Trade name	96,613	96,613
Customer relationships and other intangible assets, net of accumulated amortization	280,102	320,901
Purchased accounts receivable, net of current portion	172,968	96,797
Deferred income taxes	-	5,815
Other assets	42,395	43,175
Total other assets	1,206,822	1,163,847
Total assets	\$ 1,628,639	\$ 1,644,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current portion	\$ 24,644	\$ 36,692
Income taxes payable	-	6,987
Accounts payable	18,891	11,593
Accrued expenses	90,379	73,781
Accrued compensation and related expense:	32,689	34,021
Total current liabilities	166,603	163,074
Funds held on behalf of clients		
Long-term liabilities:		
Long-term debt, net of current portion	903,052	881,621
Deferred income taxes	127,044	144,743
Other long-term liabilities	17,655	10,752
Minority interest	48,948	55,628
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 6,000 shares authorized, 1,408 and 1,220 shares issued and outstanding, respectively	14	12
Class L common stock, par value \$0.01 per share, 400 shares authorized 364 shares issued and outstanding	4	4
Class A common stock, par value \$0.01 per share, 2,750 shares authorized 1,822 and 1,616 shares issued and outstanding, respectively	18	18
Additional paid-in capital	396,407	396,015
Other comprehensive income (loss)	2,835	(1,163)
Accumulated deficit	(33,941)	(6,565)
Total stockholders' equity	365,337	388,321
Total liabilities and stockholders' equity	\$ 1,628,639	\$ 1,644,139

See accompanying notes.

NCO GROUP, INC.
Consolidated Statements of Operations
(Amounts in thousands)

	<u>Successor</u>		<u>Predecessor</u>	
	<u>Year ended December 31, 2007</u>	<u>Period from July 13, 2006 (date of inception) through December 31, 2006</u>	<u>Period from January 1, through November 15, 2006</u>	<u>Year ended December 31, 2005</u>
Revenues:				
Services	\$ 1,061,941	\$ 126,739	\$ 875,338	\$ 906,258
Portfolio	132,413	13,557	151,706	133,868
Portfolio sales	21,093	-	22,757	12,157
Total revenues	<u>1,215,447</u>	<u>140,296</u>	<u>1,049,801</u>	<u>1,052,283</u>
Operating costs and expenses:				
Payroll and related expenses	645,106	76,611	553,883	528,932
Selling, general and administrative expenses	422,094	47,777	375,150	376,606
Depreciation and amortization expense	97,254	11,548	46,695	45,787
Restructuring charges	-	-	12,765	9,621
Total operating costs and expenses	<u>1,164,454</u>	<u>135,936</u>	<u>988,493</u>	<u>960,946</u>
Income from operations	<u>50,993</u>	<u>4,360</u>	<u>61,308</u>	<u>91,337</u>
Other income (expense):				
Interest and investment income	2,047	300	1,836	3,162
Interest expense	(95,034)	(14,958)	(26,643)	(22,615)
Other income, net	3,282	113	3,165	30
Total other income (expense)	<u>(89,705)</u>	<u>(14,545)</u>	<u>(21,642)</u>	<u>(19,423)</u>
(Loss) income before income taxes	<u>(38,712)</u>	<u>(10,185)</u>	<u>39,666</u>	<u>71,914</u>
Income tax (benefit) expense	<u>(14,071)</u>	<u>(3,777)</u>	<u>14,742</u>	<u>26,182</u>
(Loss) income before minority interest	<u>(24,641)</u>	<u>(6,408)</u>	<u>24,924</u>	<u>45,732</u>
Minority interest	<u>(2,735)</u>	<u>(157)</u>	<u>(3,890)</u>	<u>(1,213)</u>
Net (loss) income	<u>\$ (27,376)</u>	<u>\$ (6,565)</u>	<u>\$ 21,034</u>	<u>\$ 44,519</u>

See accompanying notes.

NCO GROUP, INC.
Consolidated Statements of Stockholders' Equity
(Amounts in thousands)

	Preferred Stock	Class L Common Stock	Class A Common Stock	Additional Paid-in Capital	Common Stock	Other Comprehensive Income (Loss)	Deferred Compensation	Retained Earnings (Accumulated Deficit)	Comprehensive Income (Loss)	Total
Predecessor										
Balance, January 1, 2005					\$ 473,410	\$ 13,526	\$ (3,458)	\$ 212,123		\$ 695,601
Issuance of common stock in connection with stock-based compensation plans					1,305	-	-	-		1,305
Issuance of restricted stock units					2,523	-	(2,523)	-		-
Amortization of deferred compensation					-	-	1,323	-		1,323
Comprehensive income, net of tax:										
Net income					-	-	-	44,519	\$ 44,519	44,519
Other comprehensive income (loss):										
Foreign currency translation adjustment					-	376	-	-	376	376
Change in fair value of foreign currency cash flow hedges, net of taxes of \$540					-	933	-	-	933	933
Net gains on foreign currency cash flow hedges reclassified into earnings, net of taxes of \$538					-	(943)	-	-	(943)	(943)
Total comprehensive income									\$ 44,885	
Balance, December 31, 2005					477,238	13,892	(4,658)	256,642		743,114
Issuance of common stock in connection with stock-based compensation plans					4,513	-	-	-		4,513
Reclassification of deferred compensation					(4,658)	-	4,658	-		-
Stock-based compensation					7,057	-	-	-		7,057
Comprehensive income, net of tax:										
Net income					-	-	-	21,034	\$ 21,034	21,034
Other comprehensive income (loss):										
Foreign currency translation adjustment					-	1,901	-	-	1,901	1,901
Change in fair value of foreign currency cash flow hedges, net of taxes of \$956					-	1,526	-	-	1,526	1,526
Net gains on foreign currency cash flow hedges reclassified into earnings, net of taxes of \$1,628					-	(2,804)	-	-	(2,804)	(2,804)
Total comprehensive income									\$ 21,657	
Balance, November 15, 2006					\$ 484,150	\$ 14,515	\$ -	\$ 277,676		\$ 776,341
Successor										
Capitalization of Company	\$ 12	\$ 4	\$ 16	\$ 395,968		\$ -	\$ -	\$ -		\$ 396,000
Stock-based compensation	-	-	2	47		-	-	-		49
Comprehensive income, net of tax:										
Net loss	-	-	-	-		-	-	(6,565)	\$ (6,565)	(6,565)
Other comprehensive income (loss):										
Foreign currency translation adjustment	-	-	-	-		244	-	-	244	244
Change in fair value of foreign currency cash flow hedges, net of taxes of \$969	-	-	-	-		(1,548)	-	-	(1,548)	(1,548)
Net losses on foreign currency cash flow hedges reclassified into earnings, net of taxes of \$88	-	-	-	-		141	-	-	141	141
Total comprehensive loss									\$ (7,728)	
Balance, December 31, 2006	12	4	18	396,015		(1,163)	-	(6,565)		388,321
Issuance of preferred stock dividends	2	-	-	(2)		-	-	-		-
Stock-based compensation	-	-	-	394		-	-	-		394
Comprehensive income, net of tax:										
Net loss	-	-	-	-		-	-	(27,376)	\$ (27,376)	(27,376)
Other comprehensive income (loss):										
Foreign currency translation adjustment	-	-	-	-		4,711	-	-	4,711	4,711
Change in fair value of cash flow hedges, net of taxes of \$1,272	-	-	-	-		2,362	-	-	2,362	2,362
Net gains on cash flow hedges reclassified into earnings, net of taxes of \$1,656	-	-	-	-		(3,075)	-	-	(3,075)	(3,075)
Total comprehensive loss									\$ (23,378)	
Balance, December 31, 2007	\$ 14	\$ 4	\$ 18	\$ 396,407		\$ 2,835	\$ -	\$ (33,941)		\$ 365,337

See accompanying notes.
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NCO GROUP, INC
Consolidated Statements of Cash Flows
(Amounts in thousands)

	<u>Successor</u>		<u>Predecessor</u>	
	<u>Year ended December 31, 2007</u>	<u>Period from July 13, 2006 (date of inception) through December 31, 2006</u>	<u>Period from January 1 through November 15, 2006</u>	<u>Year ended December 31, 2005</u>
Cash flows from operating activities:				
Net (loss) income	\$ (27,376)	\$ (6,565)	\$ 21,034	\$ 44,519
Adjustments to reconcile (loss) income from operations to net cash provided by (used in) operating activities:				
Depreciation and amortization	97,254	11,548	46,695	45,787
Stock-based compensation	394	49	6,961	1,323
Amortization of deferred training asset	2,402	-	3,375	4,167
Provision for doubtful accounts	4,806	-	3,931	3,369
Allowance for impairment of purchased accounts receivable	24,962	-	7,909	1,240
Noncash interest	8,605	3,655	5,730	7,107
Gain on sale of purchased accounts receivable	(21,093)	-	(22,757)	(12,157)
Loss on disposal of property, equipment and other net asset	256	-	1,153	888
Other	(3,494)	117	(283)	(352)
Minority interest	2,735	275	6,164	2,135
Deferred income taxes	(8,600)	(3,978)	4,483	24,917
Changes in operating assets and liabilities, net of acquisitions				
Restricted cash	-	-	-	900
Accounts receivable, trade	(13,100)	(20,736)	16,035	(18,475)
Other assets	(10,015)	10,523	(12,693)	13,550
Accounts payable and accrued expenses	351	(308)	(3,055)	(9,527)
Income taxes payable	(13,749)	(3,709)	27,217	(19,719)
Other long-term liabilities	7,208	(169)	(2,227)	(122)
Net cash provided by (used in) operating activities	<u>51,546</u>	<u>(9,298)</u>	<u>109,672</u>	<u>89,550</u>
Cash flows from investing activities:				
Purchases of accounts receivable	(125,283)	(29,709)	(81,839)	(45,743)
Collections applied to principal of purchased accounts receivable	77,228	13,577	70,974	69,565
Proceeds from sales and resales of purchased accounts receivable	44,161	2,801	30,551	15,880
Purchases of property and equipment	(25,446)	(2,246)	(40,795)	(43,499)
Net distribution from joint venture	-	-	-	4,464
Proceeds from notes receivable	1,131	82	1,033	1,147
Proceeds from sale to minority interest	-	-	12,720	-
Net cash paid for acquisitions and related costs	(8,881)	(974,612)	(8,590)	(223,808)
Net cash used in investing activities	<u>(37,090)</u>	<u>(990,107)</u>	<u>(15,946)</u>	<u>(221,994)</u>
Cash flows from financing activities:				
Repayment of notes payable	(45,701)	(4,788)	(53,677)	(46,754)
Borrowings under notes payable	41,569	5,096	17,670	36,688
Borrowings in connection with the Transaction	-	830,000	-	-
Repayment of borrowings under senior credit facility	(74,150)	(229,300)	(125,700)	(47,500)
Borrowings under senior credit facility	80,500	36,000	184,500	155,500
Repayment of convertible notes	-	-	(125,000)	-
Payment of fees to acquire debt	(1,035)	(24,055)	(12)	(1,494)
Investment in subsidiary by minority interest	2,359	2,132	4,000	32,508
Return of investment in subsidiary to minority interest	(6,934)	(241)	(1,597)	-
Issuance of stock, net of taxes	-	395,966	3,939	1,199
Net cash (used in) provided by financing activities	<u>(3,392)</u>	<u>1,010,810</u>	<u>(95,877)</u>	<u>130,147</u>
Effect of exchange rate on cash	2,173	2,494	(1,180)	(321)
Net increase (decrease) in cash and cash equivalents	13,237	13,899	(3,331)	(2,618)
Cash and cash equivalents at beginning of the period	13,899	-	23,716	26,334
Cash and cash equivalents at end of the period	<u>\$ 27,136</u>	<u>\$ 13,899</u>	<u>\$ 20,385</u>	<u>\$ 23,716</u>

See accompanying notes.

NCO GROUP, INC.
Notes to Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation:

On November 15, 2006, NCO Group, Inc. was acquired by and became a wholly owned subsidiary of Collect Holdings, Inc., an entity controlled by One Equity Partners and its affiliates (“OEP”), a private equity investment fund, with participation by Michael J. Barrist, Chairman, President and Chief Executive Officer of NCO Group, Inc., certain other members of executive management and other co-investors (the “Transaction”). Under the terms of the merger agreement, NCO Group, Inc. shareholders received \$27.50 in cash, without interest, for each share of NCO Group, Inc. common stock that they held. On February 27, 2007, NCO Group, Inc. was merged with and into Collect Holdings, Inc. and the surviving corporation was renamed NCO Group, Inc. (collectively with its subsidiaries, “the Company” or “NCO”). The accompanying consolidated statements of operations, stockholders’ equity and cash flows are presented for two periods, Predecessor and Successor, which relate to the period of operations preceding the Transaction and the period of operations succeeding the Transaction, respectively. Collect Holdings, Inc. was formed on July 13, 2006 (there were no operations from date of inception until the Transaction on November 15, 2006).

NCO is a holding company and conducts substantially all of its business operations through its subsidiaries. NCO is a leading global provider of business process outsourcing solutions, primarily focused on accounts receivable management (“ARM”) and customer relationship management (“CRM”). NCO provides services to more than 19,000 active clients including many of the Fortune 500, supporting a broad spectrum of industries, including financial services, telecommunications, healthcare, retail and commercial, utilities, education, transportation/logistics, technology, and government sectors. These clients are primarily located throughout the United States, Canada, the United Kingdom, Europe, Australia, Puerto Rico and Latin America.

The Company also purchases and manages past due accounts receivable from consumer creditors such as banks, finance companies, retail merchants, utilities, healthcare companies, and other consumer-oriented companies.

The Company’s business consists of three operating segments: ARM, CRM and Portfolio Management.

2. Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and all affiliated subsidiaries and entities controlled by the Company. All intercompany accounts and transactions have been eliminated.

The Company also considers the applicability of Financial Accounting Standards Board (“FASB”) Financial Interpretation No. (“FIN”) 46R (as revised), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51,” which would include any variable interest entities that are required to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the variable interest entity. A variable interest entity is an entity for which the primary beneficiary’s interest in the entity can change with changes in factors other than the amount of investment in the entity.

The Company owns 50 percent of entities that purchase portfolios of purchased accounts receivable, which it consolidates in accordance with FIN 46R. Based on its evaluation of these entities, the Company is the primary beneficiary.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued):

Revenue Recognition:

ARM:

ARM contingency fee revenue is recognized upon collection of funds by NCO or its client. Fees for ARM contractual services are recognized as services are performed and earned under service arrangements with clients where fees are fixed or determinable and collectibility is reasonably assured.

CRM:

Revenue is recognized based on the billable hours of each CRM representative as defined in the client contract. The rate per billable hour charged is based on a predetermined contractual rate, as agreed in the underlying contract. The contractual rate can fluctuate based on certain pre-determined objective performance criteria related to quality and performance, reduced by any contractual performance penalties the client may be entitled to, both as measured on a monthly basis. The impact of the performance criteria and penalties on the rate per billable hour is continually updated as revenue is recognized.

Under performance-based arrangements, the Company is paid by its customers based on achievement of certain levels of sales or other client-determined criteria specified in the client contract. The Company recognizes performance-based revenue by measuring its actual results against the performance criteria specified in the contracts.

Purchased Accounts Receivable:

The Company applies American Institute of Certified Public Accountants (“AICPA”) Statement of Position 03-3, “Accounting for Loans or Certain Securities Acquired in a Transfer” (“SOP 03-3”). SOP 03-3 addresses accounting for differences between contractual versus expected cash flows over an investor’s initial investment in certain loans when such differences are attributable, at least in part, to credit quality.

The Company acquires accounts receivable in groups that are initially recorded at cost. All acquired accounts receivable have experienced deterioration of credit quality between origination and the Company’s acquisition of the accounts receivable, and the amount paid for the accounts receivable reflects the Company’s determination that it is probable the Company will be unable to collect all amounts due according to contractual terms of each receivable. The Company determines whether each purchase of accounts receivable is to be accounted for as an individual portfolio or whether multiple purchases will be combined based on common risk characteristics into an aggregated portfolio. Once the Company establishes an individual purchase or aggregated purchases as a portfolio, the receivables in the portfolio are not changed, unless replaced, returned or sold. The Company considers expected collections, and estimates the amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each portfolio of accounts receivable. The Company determines nonaccretable difference, or the excess of the portfolio’s contractual principal over all cash flows expected at acquisition as an amount that should not be accreted. The excess of the portfolio’s cash flows expected to be collected over the amount paid is accretable yield. Accretable yield is recognized into earnings, as Portfolio revenue in the statement of operations, over the remaining life of the portfolio, based on its effective interest rate.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued):

Revenue Recognition (continued):

Purchased Accounts Receivable (continued):

At acquisition, the Company derives an internal rate of return (“IRR”) based on the expected monthly collections over the estimated economic life of each portfolio of accounts receivable (typically up to seven years, based on the Company’s collection experience) compared to the original purchase price. Monthly collections on the portfolios are allocated between revenue and carrying value reduction based on applying each portfolio’s effective IRR for the quarter to its carrying value. Over the life of a portfolio, the Company continues to estimate cash flows expected to be collected. The Company evaluates at the balance sheet date whether the present value of its portfolios determined using the effective interest rates for each portfolio has decreased, and if so, records a valuation allowance to maintain the original IRR. Any increase in actual or estimated cash flows expected to be collected is first used to reverse any existing valuation allowance for that portfolio, and any remaining increases in cash flows are recognized prospectively through an increase in the IRR. The updated IRR then becomes the new benchmark for subsequent valuation allowance testing.

Portfolio Sales:

The Company accounts for gains on sales of purchased accounts receivable under SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” Gains on sales are recognized as revenue and represent the difference between the sales price and the present value of the future cash collections expected from the receivables sold at the portfolio’s IRR at the time of sale.

The Company applies a financial components approach. Generally, that approach focuses on control of each of the various retained or sold interests or liabilities in a given financial asset sale to conclude when a sale has actually occurred as compared to a mere financing, and the accounting for any related rights retained and/or duties committed to on an ongoing basis, including servicing. Under that approach, after a transfer of financial assets, an entity allocates a portion of the original cost of the assets to the assets sold in determining any gain or loss, and to any servicing assets it retains, such as servicing rights or rights to residual interests. Gain or loss is reported in the period of the transfer, net of any liabilities it has incurred or will incur in the future. Assets retained are amortized over the appropriate useful life of the asset. If control has not been adequately transferred to the other party, the proceeds received are treated as financing and no gain or loss is recorded at the time of the transfer.

Credit Policy:

Management monitors its client relationships in order to minimize the Company’s credit risk and assesses the likelihood of collection based on a number of factors including the client’s collection history and credit-worthiness. The Company maintains a reserve for potential collection losses when such losses are deemed to be probable.

The Company has two types of arrangements under which it collects its ARM contingency fee revenue. For certain clients, the Company remits funds collected on behalf of the client net of the related contingency fees while, for other clients, the Company remits gross funds collected on behalf of clients and bills the client separately for its contingency fees.

The Company generally does not require collateral and it does not charge finance fees on outstanding trade receivables. In many cases, in the event of collection delays from ARM clients, management may, at its discretion, change from the gross remittance method to the net remittance method. The Company also maintains a reserve for deposits on debtor accounts that may ultimately prove to have insufficient funds. Trade accounts receivable are written off to the allowances when collection appears highly unlikely.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued):

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. These financial instruments potentially subject the Company to concentrations of credit risk. The Company minimizes this risk by dealing with major financial institutions that have high credit ratings.

Property and Equipment:

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful life of each class of assets using the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. When property is sold or retired, the cost and related accumulated depreciation are removed from the balance sheet, and any gain or loss on the transaction is included in the statement of operations.

Long-Lived Assets:

The Company periodically evaluates the net realizable value of long-lived assets, including property and equipment, internal use software, and certain identifiable intangible assets, for impairment, based on the estimated undiscounted future cash flows, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Goodwill and Other Intangibles:

Goodwill represents the excess of purchase price over the fair market value of net assets acquired, based on their respective fair values at the date of acquisition. Goodwill is tested for impairment each year, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The goodwill impairment test is performed at the reporting unit level and involves a two-step approach, the first step identifies any potential impairment and the second step measures the amount of impairment, if applicable. The first test for potential impairment uses a fair value based approach, whereby the implied fair value of a reporting unit's goodwill is compared to its carrying amount; if the fair value is less than the carrying amount, the reporting unit's goodwill would be considered impaired. Fair value estimates are based upon the discounted value of estimated cash flows. The Company does not believe that goodwill was impaired during 2007.

Trade name, which represents the fair value of the NCO name, is an indefinite-lived intangible asset and therefore not subject to amortization. Similar to goodwill, the trade name is reviewed at least annually for impairment. The Company does not believe that the trade name was impaired during 2007.

Other intangible assets consist primarily of customer relationships and non-compete agreements, which are amortized over a range of five to seven years using the straight-line method (note 8).

Deferred Financing Fees:

Deferred financing fees relate to debt issuance costs incurred, which are capitalized and amortized to interest expense over the term of the related debt using the effective interest method.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued):

Stock Options:

Effective January 1, 2006, the Company adopted FASB Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," and supercedes APB Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123R requires that the cost of all share-based payments to employees, including stock option grants, be recognized in the financial statements over the vesting period based on their fair values. The standard applies to newly granted awards and previously granted awards that are not fully vested on the date of adoption. The Company adopted SFAS 123R using the modified prospective method, which requires that compensation expense be recorded for all unvested stock options at the beginning of the first quarter of adoption of SFAS 123R. Accordingly, no prior periods have been restated.

As a result of adopting SFAS 123R on January 1, 2006, the Company's income before income taxes and net income for the period from January 1, 2006 through November 15, 2006 were \$2.1 million and \$1.2 million lower, respectively, than if it had continued to account for share based compensation under APB 25. Also, in connection with the adoption of SFAS 123R, the unearned stock-based compensation balance of \$4.7 million was reclassified to common stock as of January 1, 2006.

On November 15, 2006, in connection with the Transaction and in accordance with the terms of the equity awards, the vesting of all outstanding unvested options to purchase the Company's stock and restricted stock units was accelerated, and the Company recorded compensation expense of approximately \$5.1 million for the acceleration.

Income Taxes:

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109") which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries because such amounts are expected to be reinvested indefinitely.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position, be recognized in the financial statements. The adoption of FIN 48 did not have a material impact on the Company's financial position or results of operations (note 12).

Foreign Currency Translation:

The Company has foreign subsidiaries whose local currency has been determined to be the functional currency for that subsidiary. The assets and liabilities of these foreign subsidiaries have been translated using the current exchange rates, and the income and expenses have been translated using average historical exchange rates. The adjustments resulting from translation have been recorded separately in stockholders' equity as "Other comprehensive income (loss)" and are not included in determining consolidated net (loss) income. As of December 31, 2007 and 2006, "Other comprehensive income (loss)" included \$5.0 million and \$244,000, respectively, of cumulative income from foreign currency translation.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued):

Derivative Financial Instruments:

The Company selectively uses derivative financial instruments to manage interest costs and minimize currency exchange risk. The Company does not hold derivatives for trading purposes. While these derivative financial instruments are subject to fluctuations in value, these fluctuations are generally offset by the value of the underlying exposures being hedged. The Company minimizes the risk of credit loss by entering into these agreements with major financial institutions that have high credit ratings. The Company accounts for its derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which requires companies to recognize all of their derivative instruments as either assets or liabilities in the balance sheet at fair value.

The Company is exposed to foreign currency fluctuations relating to its operations in foreign countries. In order to partially hedge cash flow exposure, the Company periodically enters into forward exchange contracts in order to minimize the impact of currency fluctuations on transactions and cash flows. The Company is also exposed to interest rate fluctuations relating to its floating rate long-term debt. To manage this interest rate risk, the Company enters into interest rate swap agreements. The forward exchange contracts and the interest rate swap agreements are designated as cash flow hedges and recorded at their fair value on the accompanying balance sheets. Changes in the fair value of a cash flow hedge, to the extent that the hedge is effective, are recorded, net of tax, in "Other comprehensive income (loss)," until earnings are affected by the variability of the hedged cash flows. Cash flow hedge ineffectiveness, defined as the extent that the changes in fair value of the derivative exceed the variability of cash flows of the forecasted transaction, is recorded currently in the statement of operations (note 14).

The Company also enters into interest rate cap contracts to manage interest rate risk relating to its floating rate long-term debt. These contracts are not cash flow hedges and, accordingly, changes in their estimated fair value are reported as "Other income (expense)" in the statement of operations.

The Company has certain nonrecourse debt relating to its purchased accounts receivable operations that contain embedded derivative instruments. The embedded derivatives are not cash flow hedges and, accordingly, changes in their estimated fair value are reported as "Interest expense" in the statement of operations. The embedded derivatives are included in "Long-term debt" on the balance sheet because they are not separable from the notes payable and they have the same counterparty (note 10).

Allowance for Doubtful Accounts:

Allowances for doubtful accounts are determined based on estimates of losses related to customer receivable balances. In establishing the appropriate provision for customer receivables balances, we make assumptions with respect to their future collectibility. Our assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivable balances. Generally, these individual credit assessments occur at regular reviews during the life of the exposure and consider factors such as a customer's ability to meet and sustain their financial commitments, a customer's current financial condition and historical payment patterns. Once the appropriate considerations referred to above have been taken into account, a determination is made as to the probability of default. An appropriate provision is made, which takes into account the severity of the likely loss on the outstanding receivable balance. Our level of reserves for our customer accounts receivable fluctuates depending upon all of the factors mentioned above, in addition to any contractual rights that allow us to reduce outstanding receivable balances through the application of future collections. If our estimate is not sufficient to cover actual losses, we would be required to take additional charges to our earnings.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued):

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The application of SFAS No. 141, "Business Combinations" requires the measurement of fair values of purchased assets and liabilities of an acquired entity. In connection with the Transaction, and other business combinations accounted for as a purchase, management makes additional estimates and assumptions in determining fair value that affect amounts reported in the financial statements and accompanying notes. The more significant financial statement items for which estimates and assumptions may be made include intangible assets, purchased accounts receivable, and nonrecourse debt.

In the ordinary course of accounting for purchased accounts receivable, estimates are made by management as to the amount and timing of future cash flows expected from each portfolio. The estimated future cash flow of each portfolio is used to compute the IRR for the portfolio, both in the case of any increases in expected cash flows, or to compute impairment or allowances in the case of decreases in expected cash flows. The IRR is used to allocate collections between revenue and principal reduction of the carrying values of the purchased accounts receivable.

On an ongoing basis, the Company compares the historical trends of each portfolio, or aggregated portfolios, to projected collections. Future projected collections are then increased or decreased based on the actual cumulative performance of each portfolio. Management reviews each portfolio's adjusted projected collections to determine if further upward or downward adjustment is warranted. Management regularly reviews the trends in collection patterns and uses its reasonable best efforts to improve the collections of under-performing portfolios. However, actual results will differ from these estimates and a material change in these estimates could occur within one reporting period (note 5).

3. Predecessor Restructuring Charges:

In conjunction with the acquisition of Risk Management Alternatives Parent Corp. ("RMA") and streamlining the cost structure of the Company's legacy operations, the Company recorded total restructuring charges of \$22.4 million during the end of 2005 through November 15, 2006. These charges primarily related to the elimination of certain redundant facilities and severance costs. The balance of liabilities outstanding at November 15, 2006 and December 31, 2006 was \$8.2 million. During the year ended December 31, 2007, the Company made payments of \$4.9 million, and the balance of liabilities outstanding was \$3.3 million at December 31, 2007, which all related to lease costs. The Company expects to pay the remaining balance through 2011.

4. Business Combinations:

Successor:

As discussed in note 1, the Transaction was completed on November 15, 2006. The Transaction was financed by a combination of borrowings of \$465.0 million under the Company's new senior credit facility ("Credit Facility"), the issuance of \$165.0 million of senior notes and \$200.0 million of senior subordinated notes, and the equity investment of \$396.0 million by OEP, Michael Barrist, other members of senior management and other co-investors. In accordance with Emerging Issues Task Force Issue No. 88-16, "Basis in Leveraged Transactions" ("EITF 88-16"), the continuing stockholders' residual interest in the Company of 5.56 percent was carried over at the continuing stockholders' predecessor basis.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

4. Business Combinations (continued):

Successor (continued):

The purchase price, including transaction costs, was approximately \$1.2 billion. Transaction costs included approximately \$22.8 million of debt issuance costs. The Company allocated \$312.9 million of the purchase price to the customer relationship, \$96.6 million to the trade name, \$2.2 million to the non-compete agreements and recorded goodwill of \$585.8 million, which is non-deductible for tax purposes. As a result of the Transaction, the Company expects to gain greater operating flexibility in order to focus on long-term growth. Therefore the Company believes the allocation of a portion of the purchase price to goodwill is appropriate.

The following is an allocation of the purchase price to the assets acquired and liabilities assumed (amounts in thousands):

Purchase price	\$ 1,153,648
Transaction costs	68,498
Accounts receivable	(123,170)
Purchased accounts receivable	(230,399)
Customer relationships	(312,885)
Trade name	(96,613)
Non-compete agreements	(2,172)
Property and equipment	(133,527)
Deferred tax asset	(28,451)
Other assets	(104,664)
Long-term debt	48,350
Deferred tax liability	152,485
Accrued expenses and other liabilities	186,055
Accrued acquisition costs	8,607
Goodwill	<u>\$ 585,762</u>

In connection with the Transaction, the Company recorded restructuring liabilities of \$8.6 million under an exit plan the Company began to formulate prior to the Transaction date. These liabilities principally relate to facilities leases, severance and other costs. The following presents the activity in the accruals recorded for restructuring related expenses (amounts in thousands); the Company expects to pay the remaining balance through 2011:

	<u>Leases</u>	<u>Severance</u>	<u>Other</u>	<u>Total</u>
Beginning Balance	\$ 5,025	\$ 2,374	\$ 328	\$ 7,727
Cash payments	-	(79)	(328)	(407)
Balance at December 31, 2006	5,025	2,295	-	7,320
Accruals	396	343	141	880
Cash payments	(1,007)	(1,667)	(141)	(2,815)
Leasehold improvement write-off	(38)	-	-	(38)
Balance at December 31, 2007	<u>\$ 4,376</u>	<u>\$ 971</u>	<u>\$ -</u>	<u>\$ 5,347</u>

Assuming the Transaction described above occurred as of the beginning of January 1, 2006, the Company's unaudited pro forma revenue and net loss would have been \$1,169.8 million and \$57.4 million, respectively, for the year ended December 31, 2006. This pro forma information does not include the acquisitions described below because they were not considered significant business combinations. The unaudited pro forma information is provided for informational purposes only. It is based on historical information, and does not necessarily reflect the actual results that would have occurred, nor is it indicative of future results of operations of the consolidated entities.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

4. Business Combinations (continued):

Successor (continued):

On December 18, 2006, the Company acquired the assets of Star Contact (BVI) Ltd. and Call Center-Telemarketing Pro-Panama, S.A. (together "Star Contact"), a provider of outsourced, multi-lingual contact center and customer care services based in Panama City, Panama, for \$36.2 million. The acquisition agreement contains a provision for annual earnout payments to be made to the seller, for each of the two years following the acquisition, provided that certain performance measures are met as of the end of each of the two years. During the year ended December 31, 2007, the Company recorded \$14.8 million of additional purchase price, which is included in accrued expenses, for an estimate of the first annual earnout payment. The Company allocated \$19.4 million of the purchase price to the customer relationships, \$1.2 million to the non-compete agreement and recorded goodwill of \$23.7 million, which is non-deductible for tax purposes, in the CRM segment. As a result of the acquisition, the Company expects to penetrate new markets, expand its current customer base, and reduce the cost of operations. The following is an allocation of the purchase price to the assets acquired and liabilities assumed (amounts in thousands):

Purchase price	\$ 36,166
Estimated earnout	14,775
Customer relationships	(19,390)
Non-compete agreements	(1,200)
Property and equipment	(5,485)
Other assets	(4,826)
Accrued expenses	<u>3,690</u>
Goodwill	<u>\$ 23,730</u>

In January 2007, the Company acquired Statewide Mercantile Services ("SMS"), a provider of ARM services in Australia, for approximately \$2.0 million, and recorded goodwill of \$1.5 million.

Predecessor:

The following Predecessor acquisitions have been accounted for under the purchase method of accounting. As part of the purchase accounting, the Company recorded accruals for acquisition-related expenses. These accruals included professional fees related to the acquisition, severance costs, lease costs and other acquisition-related expenses.

On May 25, 2005, the Company acquired Creative Marketing Strategies ("CMS"), a provider of CRM services, for \$5.9 million. The purchase price included the contribution of a note receivable for \$5.2 million that the Company received in 2000 in consideration for assets sold to a management-led group as part of a divestiture.

On September 1, 2005, the Company acquired the stock of seven wholly owned subsidiaries of Marlin Integrated Capital Holding Corporation ("Marlin"), a company that specializes in purchasing accounts receivable in the healthcare and utility sectors, for \$89.9 million in two transactions. The first transaction included the acquisition of a portfolio of purchased accounts receivable for \$66.3 million. The second transaction included the acquisition of certain portfolio related assets for approximately \$22.1 million. A \$3.0 million payment was deferred pending the renewal of certain forward-flow agreements. One renewal occurred in December 2005, resulting in an additional payment of \$1.5 million. The second renewal was completed in the first quarter of 2006, resulting in a final payment of \$1.5 million.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

4. Business Combinations (continued):

Predecessor (continued):

The acquisition of the purchased accounts receivable portfolio was structured as an equity sharing arrangement with the Company's nonrecourse lender under the Company's nonrecourse credit facility. The lender originally invested \$32.0 million in the acquisition, representing a 50 percent interest in the purchased accounts receivable portfolio assets. The Company granted an option to the lender to purchase up to 50 percent of the other non-portfolio assets and liabilities acquired from Marlin. The option was exercised and the transaction was completed in the first quarter of 2006. The Company received \$12.7 million for the 50 percent interest in the non-portfolio assets and liabilities. The Company funded its 50 percent portion of the acquisition of the portfolio assets and the acquisition of all of the operating assets with financing from its senior credit facility. By design, the Company controls the primary activities of the entity and as such has recorded a minority interest on its balance sheet for the lender's equity interest. The Company has consolidated the results of operations and recorded the portion of the results of the Marlin acquisition it does not own as a minority interest, net of tax, on the statement of operations.

Prior to the acquisition, Portfolio Management had a 50 percent ownership interest in a joint venture, InoVision-MEDCLR NCOP Ventures, LLC ("the Joint Venture") with IMNV Holdings, LLC ("IMNV"), one of the acquired subsidiaries of Marlin. The Joint Venture was established in 2001 to purchase utility, medical and various other small balance accounts receivable. In connection with the acquisition, the Joint Venture was terminated and the Company's interest was included in the purchase accounting for the entity.

On September 12, 2005, the Company acquired substantially all of the operating assets, including purchased portfolio assets, of RMA, a provider of accounts receivable management services and purchaser of accounts receivable, for \$116.1 million in cash and the assumption of certain liabilities. The Company funded the purchase principally with financing from its senior credit facility. The purchase price included approximately \$51.0 million for RMA's purchased portfolio assets, which was funded with \$35.7 million of nonrecourse financing. In conjunction with the acquisition, on July 7, 2005, RMA and all of its domestic subsidiaries filed for protection under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court for the Northern District of Ohio Eastern Division. The transaction was consummated under Sections 363 and 365 of the bankruptcy code. In connection with the acquisition, the Company recorded restructuring liabilities of \$8.7 million under an exit plan the Company began to formulate prior to the acquisition date. These liabilities principally relate to severance costs related to certain redundant personnel that were scheduled to be eliminated upon completion of the acquisition.

On July 1, 2006, the Company acquired a seventy-five percent controlling interest in Australian Receivables Limited ("ARL"), a provider of ARM services in Australia, for \$3.3 million.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

5. Purchased Accounts Receivable:

Portfolio Management and the U.K., Canadian and Australian divisions of ARM purchase defaulted consumer accounts receivable at a discount from the contractual principal balance. As of December 31, 2007, the carrying value of Portfolio Management's and ARM's purchased accounts receivable were \$238.9 million and \$6.7 million, respectively. The total outstanding balance due, representing the original undiscounted contractual amount less collections since acquisition, was \$47.2 billion and \$41.8 billion at December 31, 2007 and 2006, respectively.

The following summarizes the change in purchased accounts receivable (amounts in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2007	Period from July 13 through December 31, 2006	Period from January 1 through November 15, 2006	For the Year Ended December 31, 2005
Balance at beginning of period	\$ 244,100	\$ -	\$ 237,807	\$ 138,857
Purchases:				
Portfolios acquired in business combinations	-	230,399	-	117,230
Cash purchases	125,283	29,709	81,839	45,743
Noncash purchases (note 16)	-	-	1,025	17,213
Collections	(232,316)	(26,850)	(220,586)	(200,703)
Revenue recognized	155,088	13,273	149,612	131,138
Proceeds from portfolio sales and resales applied to carrying value	(23,068)	(2,801)	(7,794)	(3,723)
Allowance for impairment	(24,962)	-	(7,909)	(1,240)
Dissolution of securitization	-	-	-	(6,399)
Other	872	-	-	-
Foreign currency translation adjustment	588	370	413	(309)
Balance at end of period	\$ 245,585	\$ 244,100	\$ 234,407	\$ 237,807

In the ordinary course of purchasing portfolios of accounts receivable, Portfolio Management may sell accounts from an acquired portfolio shortly after they were purchased. The proceeds from these resales are essentially equal to, and applied against, the carrying value of the accounts. Therefore, there is no gain recorded on these resales. For the year ended December 31, 2007, proceeds from portfolio resales were \$7.3 million. Proceeds from portfolio resales were \$6.7 million for the period from January 1, 2006 through November 15, 2006, and \$1.4 million for the period from July 13, 2006 through December 31, 2006. For the year ended December 31, 2005, proceeds from portfolio resales were \$2.4 million.

Portfolio Management sells portfolios of accounts receivable based on a low probability of payment under the Company's collection platform and other criteria. Proceeds from sales above the remaining carrying value are recorded as revenue. During the year ended December 31, 2007, Portfolio Management sold portfolios of accounts receivable for \$36.9 million with a carrying value of \$15.8 million, and recorded revenue of \$21.1 million. Portfolio Management sold portfolios of accounts receivable for \$25.6 million with a carrying value of \$2.8 million, and recorded revenue of \$22.8 million for the period from January 1, 2006 through November 15, 2006. For the period from July 13, 2006 through December 31, 2006, sales of accounts receivable resulted in proceeds of \$1.4 million with no associated revenue recorded since these assets were carried at their fair market value as of the date of the Transaction. During the year ended December 31, 2005, Portfolio Management sold portfolios of accounts receivable for \$13.4 million with a carrying value of \$1.3 million, and recorded revenue of \$12.2 million.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

5. Purchased Accounts Receivable (continued):

In 2005, the Company received \$1.9 million of proceeds from the dissolution, winding up and sale of a securitization established in August 1998. The finance subsidiary holding the receivables adopted a plan of liquidation and proceeded to liquidate the receivables on behalf of and in cooperation with the securitized note insurer. The notes matured in March 2005, at which time the notes were paid off by the note insurer and the insurer became the holder of the obligations. The securitized notes and note insurer obligations were nonrecourse to the Company. The proceeds of the sale were used to reduce the carrying value of the accounts receivable and pay down the related insurer obligations. The net effect on earnings of the winding up of the dissolution of the finance subsidiary was immaterial.

The following presents the change in the allowance for impairment of purchased accounts receivable accounted for under SOP 03-3 (amounts in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2007	Period from July 13 through December 31, 2006	Period from January 1 through November 15, 2006	For the Year Ended December 31, 2005
Balance at beginning of period	\$ -	\$ -	\$ 1,192	\$ -
Additions	25,422	-	8,492	1,598
Recoveries	(460)	-	(598)	(406)
Foreign currency translation adjustment	-	-	15	-
Balance at end of period	\$ 24,962	\$ -	\$ 9,101	\$ 1,192

Accretable yield represents the excess of the cash flows expected to be collected during the life of the portfolio over the initial investment in the portfolio. The following presents the change in accretable yield (amounts in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2007	Period from July 13 through December 31, 2006	Period from January 1 through November 15, 2006	For the Year Ended December 31, 2005
Balance at beginning of period	\$ 465,451	\$ -	\$ 288,935	\$ 160,083
Additions	106,362	478,724	106,145	216,201
Other	(872)	-	-	-
Accretion/revenue recognized	(155,088)	(13,273)	(149,612)	(131,138)
Reclassifications (to) from nonaccretable difference	(49,109)	-	16,953	44,058
Foreign currency translation adjustment	(160)	-	261	(269)
Balance at end of period	\$ 366,584	\$ 465,451	\$ 262,682	\$ 288,935

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

5. Purchased Accounts Receivable (continued):

During the year ended December 31, 2007, the Company purchased accounts receivable for a cost of \$125.3 million that had contractually required payments receivable at the date of acquisition of \$5.9 billion, and expected cash flows at the date of acquisition of \$229.7 million. The Company purchased accounts receivable for a cost of \$81.8 million and \$260.1 million, that had contractually required payments receivable at the date of acquisition of \$3.1 billion and \$41.8 billion, and expected cash flows at the date of acquisition of \$187.6 million and \$736.4 million, for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively. During the year ended December 31, 2005, the Company purchased accounts receivable for a cost of \$180.2 million, including portfolios acquired through business combinations, that had contractually required payments receivable at the date of acquisition of \$22.6 billion, and expected cash flows at the date of acquisition of \$396.4 million.

6. Funds Held on Behalf of Clients:

In the course of the Company's subsidiaries' regular business activities as a provider of accounts receivable management services, the Company receives clients' funds arising from the collection of accounts placed with the Company. These funds are placed in segregated cash accounts and are generally remitted to clients within 30 days. Funds held on behalf of clients of \$50.2 million and \$60.2 million at December 31, 2007 and 2006, respectively, have been shown net of their offsetting liability for financial statement presentation.

7. Property and Equipment:

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

	Estimated Useful Life	December 31, 2007	December 31, 2006
Computer equipment	5 years	\$ 78,448	\$ 58,660
Computer software developed for internal use	5 years	47,034	38,284
Leasehold improvements	5 to 15 years	33,532	28,608
Furniture and fixtures	5 to 10 years	19,187	15,510
		<u>178,201</u>	<u>141,062</u>
Less accumulated depreciation		<u>(57,987)</u>	<u>(5,131)</u>
		<u>\$ 120,214</u>	<u>\$ 135,931</u>

During the year ended December 31, 2007, the Company recorded depreciation expense of \$46.9 million. The Company recorded depreciation expense of \$36.4 million and \$5.7 million during the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively, and \$36.4 million during the year ended December 31, 2005.

8. Goodwill and Other Intangible Assets:

SFAS 142 requires goodwill to be allocated and tested at the reporting unit level. The Company's reporting units are ARM, CRM and Portfolio Management. In connection with the Transaction, the Company allocated \$585.8 million of the purchase price to goodwill. CRM's goodwill balance includes \$23.7 million from the December 2006 acquisition of Star Contact (note 4). The Company's reporting units had the following goodwill (amounts in thousands):

	December 31, 2007	December 31, 2006
ARM	\$ 330,933	\$ 323,533
Portfolio Management	155,693	155,377
CRM	128,118	121,636
	<u>\$ 614,744</u>	<u>\$ 600,546</u>

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

8. Goodwill and Other Intangible Assets (continued):

The increase in ARM's goodwill balance from December 31, 2006 to December 31, 2007, was primarily due to changes in the allocation of the fair market value of the acquired assets and liabilities related to the Transaction of approximately \$2.4 million, \$1.5 million of goodwill from the acquisition of Statewide Mercantile Services in January 2007, and changes in the exchange rates used for foreign currency translation. The increase in CRM's goodwill balance from December 31, 2006 to December 31, 2007, was primarily due to the \$14.8 million estimated earnout related to the Star Contact acquisition, offset in part by a decrease of \$8.3 million due to changes in the allocation of the fair market value of the acquired assets and liabilities, also related to the Star Contact acquisition.

In connection with the Transaction, the Company allocated \$96.6 million of the purchase price to the fair value of the NCO name. The trade name is an indefinite-lived intangible asset and therefore is not subject to amortization.

Other intangible assets subject to amortization consist of customer relationships and non-compete agreements. The following represents the other intangible assets subject to amortization (amounts in thousands):

	December 31, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$ 332,902	\$ 55,547	\$ 324,579	\$ 5,808
Non-compete agreements	3,372	625	2,172	42
Total	<u>\$ 336,274</u>	<u>\$ 56,172</u>	<u>\$ 326,751</u>	<u>\$ 5,850</u>

During the year ended December 31, 2007, the Company recorded amortization expense for these other intangible assets of \$50.3 million. The Company recorded amortization expense for other intangible assets of \$10.3 million and \$5.9 million during the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively. The Company recorded amortization expense for other intangible assets of \$9.4 million during the year ended December 31, 2005. The following represents the Company's expected amortization expense for each of the next five years from these other intangible assets (amounts in thousands):

2008	\$ 50,068
2009	49,611
2010	48,736
2011	48,607
2012	44,329

9. Accrued Expenses:

Accrued expenses consisted of the following (amounts in thousands):

	December 31, 2007	December 31, 2006
Accrued earnout payment (note 4)	\$ 14,775	\$ -
Accrued rent and other related expense associated with the flood of the Fort Washington locations	11,111	11,152
Accrued interest	10,510	12,424
Restructuring costs	7,213	12,964
Cash overdrafts	4,408	-
Accrued contract labor expenses	3,797	3,246
Accrued acquisition costs	3,108	1,623
Other accrued expenses	35,457	32,372
	<u>\$ 90,379</u>	<u>\$ 73,781</u>

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

10. Long-Term Debt:

Long-term debt consisted of the following (amounts in thousands):

	December 31, 2007	December 31, 2006
Senior term loan	\$ 460,350	\$ 465,000
Senior revolving credit facility	47,000	36,000
Senior subordinated notes	200,000	200,000
Senior notes	165,000	165,000
Nonrecourse credit facility	53,742	50,952
Other	1,604	1,361
Less current portion	<u>(24,644)</u>	<u>(36,692)</u>
	<u>\$ 903,052</u>	<u>\$ 881,621</u>

The following summarizes the Company's required debt payments (amounts in thousands):

2008	\$ 24,644
2009	25,272
2010	12,298
2011	59,109
2012	4,902
Thereafter	<u>801,471</u>
	<u>\$ 927,696</u>

Senior Credit Facility:

In connection with the Transaction, on November 15, 2006 the Company repaid the Predecessor senior credit facility and entered into a new senior credit facility ("Credit Facility") with a syndicate of financial institutions. The Credit Facility consists of a \$465.0 million term loan and a \$100.0 million revolving credit facility, with an option to allow the Company to increase its borrowing capacity under the revolving credit facility in an aggregate amount not to exceed \$100.0 million, subject to satisfaction of certain conditions. The Company is required to make quarterly repayments of \$1.2 million on the term loan until its maturity in May 2013, at which its remaining balance outstanding is due. The Company is also required to make annual prepayments, beginning with 2007, of 50 percent, 25 percent or zero percent of its excess annual cash flow, based on its leverage ratio. The revolving credit facility requires no minimum principal payments until its maturity in November 2011. At December 31, 2007, the balance outstanding on the revolving credit facility was \$47.0 million. The availability of the revolving credit facility is reduced by any unused letters of credit (\$8.8 million at December 31, 2007). As of December 31, 2007, the Company had \$44.2 million of remaining availability under the revolving credit facility.

All borrowings bear interest at a rate equal to either, at the option of the Company, (i) the higher of the prime rate (7.25 percent at December 31, 2007) or the federal funds rate (3.06 percent at December 31, 2007) plus 0.50 percent, plus a margin of 2.00 percent for the first six months following the date of the Transaction and thereafter plus a margin of 1.50 percent to 2.00 percent in the case of the revolving credit facility and 1.75 percent to 2.00 percent in the case of the term loan, based on the Company's funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined in the agreement; or (ii) LIBOR (4.60 percent at December 31, 2007) plus a margin of 3.00 percent for the first six months following the date of the Transaction and thereafter plus a margin of 2.50 percent to 3.00 percent in the case of the revolving credit facility, and 2.75 percent to 3.00 percent in the case of the term loan, based on the Company's funded debt to EBITDA ratio. The Company is charged a quarterly commitment fee on the unused portion of the revolving credit facility at an annual rate of 0.50 percent. The effective interest rate on the Credit Facility was approximately 8.17 percent for the year ended December 31, 2007. The effective interest rate on the Credit Facility was approximately 8.38 percent for the period from July 13, 2006 through December 31, 2006. The Credit Facility also provides that the Company obtain interest rate protection for a period of three years in a notional amount not to be less than 50 percent of the aggregate principal amount of the term loan facility.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

10. Long-Term Debt (continued):

Senior Credit Facility (continued):

Borrowings under the Credit Facility are collateralized by substantially all of the Company's assets. The Credit Facility contains certain financial and other covenants such as maintaining a maximum leverage ratio and a minimum interest coverage ratio, and includes restrictions on, among other things, acquisitions, the incurrence of additional debt, investments, disposition of assets, liens and dividends and other distributions. If an event of default, such as failure to comply with covenants or change of control, were to occur under the Credit Facility, the lenders would be entitled to declare all amounts outstanding under it immediately due and payable and foreclose on the pledged assets. The Company was in compliance with all required financial covenants and was not aware of any events of default as of December 31, 2007.

Senior Notes and Senior Subordinated Notes:

In connection with the Transaction, on November 15, 2006 the Company issued \$165.0 million of floating rate senior notes due 2013 ("Senior Notes") and \$200.0 million of 11.875 percent senior subordinated notes due 2014 ("Senior Subordinated Notes") (collectively, "the Notes"). The Notes are guaranteed, jointly and severally, on a senior basis with respect to the Senior Notes and on a senior subordinated basis with respect to the Senior Subordinated Notes, in each case by all of the Company's existing and future domestic restricted subsidiaries (other than certain subsidiaries and joint ventures engaged in financing the purchase of delinquent accounts receivable portfolios and certain immaterial subsidiaries).

The Senior Notes are senior unsecured obligations and are senior in right of payment to all existing and future senior subordinated indebtedness, including the Senior Subordinated Notes, and all future subordinated indebtedness. The Senior Notes bear interest at an annual rate equal to LIBOR plus 4.875 percent, reset quarterly. The effective interest rate on the Senior Notes was approximately 10.31 percent for the year ended December 31, 2007. The effective interest rate on the Senior Notes was approximately 10.25 percent for the period from July 13, 2006 through December 31, 2006. The Company may redeem the Senior Notes, in whole or in part, at any time on or after November 15, 2008 at varying redemption prices depending on the redemption date, plus accrued and unpaid interest.

The Senior Subordinated Notes are unsecured senior subordinated obligations and are subordinated in right of payment to all existing and future senior indebtedness, including the Senior Notes and borrowings under the Credit Facility. The Company may redeem the Senior Subordinated Notes, in whole or in part, at any time on or after November 15, 2010 at varying redemption prices depending on the redemption date, plus accrued and unpaid interest. The Company also may redeem some or all of the Senior Notes at any time prior to November 15, 2008 and some or all of the Senior Subordinated Notes at any time prior to November 15, 2010, at a redemption price equal to 100 percent of the principal amount of the respective Notes to be redeemed, plus accrued and unpaid interest and an additional premium. Finally, subject to certain conditions, the Company may redeem up to 35 percent of the aggregate principal amount of the Senior Notes at any time prior to November 15, 2008 and up to 35 percent of the aggregate principal amount of the Senior Subordinated Notes at any time prior to November 15, 2009 with the net proceeds of a sale of its capital stock at a redemption price equal to 100 percent of the principal amount of the respective Notes to be redeemed, plus accrued and unpaid interest and an additional premium.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

10. Long-Term Debt (continued):

Senior Notes and Senior Subordinated Notes (continued):

The indentures governing the Notes contain a number of covenants that limit the Company's and its restricted subsidiaries' ability, among other things, to: incur additional indebtedness and issue certain preferred stock, pay certain dividends, acquire shares of capital stock, make payments on subordinated debt or make investments, place limitations on distributions from restricted subsidiaries, issue or sell capital stock of restricted subsidiaries, guarantee indebtedness, sell or exchange assets, enter into transactions with affiliates, create certain liens, engage in unrelated businesses, and consolidate, merge or transfer all or substantially all of the Company's assets and the assets of its subsidiaries on a consolidated basis. In addition, upon a change of control, the Company is required to offer to repurchase all of the Notes then outstanding, at a purchase price equal to 101 percent of their principal amount, plus any accrued interest to the date of repurchase.

Nonrecourse Credit Facility:

In August 2007, the Company amended its nonrecourse credit facility and exclusivity agreements with a lender due to the lender's spin off of its unit to an investment fund. Under the new agreements, all financings from September 1, 2006 are with the investment fund. The amended agreement provides that all purchases of accounts receivable by the Company with a purchase price in excess of \$1.0 million are first offered to the lender for financing at its discretion. If the lender chooses to participate in the financing of a portfolio of accounts receivable, the financing may be structured, depending on the size and nature of the portfolio to be purchased, either as a borrowing arrangement or under various equity sharing arrangements. The lender will finance non-equity borrowings with floating interest at an annual rate equal to LIBOR plus 2.50 percent. These borrowings are nonrecourse to the Company and are due two years from the date of each respective loan, unless otherwise negotiated. As additional return on the debt financed portfolios the lender receives residual cash flows, as negotiated, which is defined as all cash collections after servicing fees, floating rate interest, repayment of the borrowing, and the initial investment by the Company, including interest. The Company may terminate the agreement for a cost of \$250,000 for each month remaining under the agreement from the date of termination until June 30, 2009, when the agreement expires. All financings entered into prior to September 1, 2006 remain under the prior agreement.

Borrowings under the amended credit facility are nonrecourse to the Company, except for the assets within the entities established in connection with the financing agreement. This loan agreement contains a collections performance requirement, among other covenants, that, if not met, provides for cross-collateralization with any other portfolios financed through the agreement, in addition to other remedies.

Total debt outstanding under this facility was \$53.7 million and \$51.0 million as of December 31, 2007 and December 31, 2006, respectively, which included \$9.6 million and \$10.8 million, respectively, of accrued residual interest. The effective interest rate on these loans, including the residual interest component, was approximately 17.4 percent for the year ended December 31, 2007 and approximately 19.7 percent and 12.6 percent for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively. As of December 31, 2007, the Company was in compliance with all required covenants.

As noted above, upon full satisfaction of the notes payable and the return of the initial investment to the Company, including interest, the Company is obligated to pay the lender a contingent payment, as negotiated, net of servicing fees and other related charges. The contingent payment has been accounted for as an embedded derivative in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." At December 31, 2007 and 2006, the estimated fair value of the embedded derivative was \$9.6 million and \$10.8 million, respectively. Changes in the fair market value of the embedded derivatives are recorded in "Interest expense" on the statement of operations. During the year ended December 31, 2007 a decrease of \$2,000 was recorded to reflect the revaluation of the embedded derivatives. During the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, an increase of \$162,000 and a decrease of \$5,000, respectively, was recorded to reflect the revaluation of the embedded derivatives.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

11. Operating Leases:

The Company leases certain equipment and real estate facilities under noncancelable operating leases. These leases expire between 2008 and 2022, and most contain renewal options. The following represents the future minimum payments, by year and in the aggregate, under noncancelable operating leases with initial or remaining terms of one year or more. The following future minimum payments have been reduced by minimum sublease rentals of \$1.4 million, due in the future under noncancelable subleases, and do not include the leases from the Company's former Fort Washington locations (note 18) (amounts in thousands).

2008	\$ 42,809
2009	36,747
2010	29,551
2011	23,952
2012	17,376
Thereafter	<u>28,266</u>
	<u>\$ 178,701</u>

For the year ended December 31, 2007, rent expense was \$38.6 million. Rent expense was \$34.0 million and \$5.2 million for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively, and \$35.0 million for the year ended December 31, 2005. The total amount of base rent payments is being charged to expense on the straight-line method over the term of the lease.

12. Income Taxes:

Income tax (benefit) expense consisted of the following components (amounts in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2007	Period from July 13 through December 31, 2006	Period from January 1 through November 15, 2006	For the Year Ended December 31, 2005
Currently payable:				
Federal	\$ 350	\$ -	\$ (228)	\$ (69)
State	1,082	18	55	331
Foreign	1,678	65	1,385	1,003
Deferred:				
Federal	(19,309)	(3,602)	11,553	22,801
State	1,807	(254)	858	1,417
Foreign	<u>321</u>	<u>(4)</u>	<u>1,119</u>	<u>699</u>
Income tax (benefit) expense	<u>\$ (14,071)</u>	<u>\$ (3,777)</u>	<u>\$ 14,742</u>	<u>\$ 26,182</u>

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

12. Income Taxes (continued):

Deferred tax assets (liabilities) consisted of the following (amounts in thousands):

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Net operating loss carryforwards	\$ 70,285	\$ 73,557
Deferred contractual revenue	750	811
Accrued acquisition costs	965	1,661
Tax credits	2,451	-
Accrued expenses	14,340	11,120
Total deferred tax assets	88,791	87,149
Valuation allowance	24,037	18,425
Net deferred tax assets	64,754	68,724
Deferred tax liabilities:		
Intangible assets	124,752	134,504
Prepaid expenses	1,088	2,837
Depreciation	10,548	8,126
Purchased accounts receivable	38,959	52,539
Total deferred tax liabilities	175,347	198,006
Net deferred tax liabilities	\$ (110,593)	\$ (129,282)

The Company had a \$43.4 million deferred tax asset for federal net operating loss carryforwards of \$124.0 million, subject to certain limitations, at December 31, 2007, which are expiring through 2027.

The Company had a \$1.6 million deferred tax asset for Canadian net operating loss carryforwards of \$4.4 million at December 31, 2007, which will expire in 2012. The Company had \$9.5 million of Canadian net operating loss carryforwards at December 31, 2006.

The Company had deferred tax assets for state net operating loss carryforwards of \$24.6 million at December 31, 2007. The deferred tax assets created by the state net operating loss carryforwards have been reduced by a \$24.0 million valuation allowance based on the Company's assessment that it is more likely than not that such amounts will not be realized. This represents an increase of \$5.6 million from December 31, 2006, due to additional state net operating loss carryforwards generated in 2007 and a change in the valuation allowance for net operating losses generated prior to the Transaction which was recorded as an adjustment to goodwill.

The deferred tax liability related to intangible assets arose primarily from the Transaction on November 15, 2006, as well as other acquisitions completed after that. This deferred tax liability will reverse should the company sell any of its subsidiaries.

The portfolios of purchased accounts receivable are composed of distressed debt. Collection results are not guaranteed until received; accordingly, for tax purposes, any gain on a particular portfolio is deferred until the full cost of its acquisition is recovered. Revenue for financial reporting purposes is recognized ratably over the life of the portfolio. Deferred tax liabilities arise from deferrals created during the early stages of the portfolio. These deferrals reverse after the cost basis of the portfolio is recovered.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

12. Income Taxes (continued):

A reconciliation of the U.S. statutory income tax rate to the effective rate was as follows:

	Successor		Predecessor	
	For the Year Ended December 31, 2007	Period from July 13 through December 31, 2006	Period from January 1 through November 15, 2006	For the Year Ended December 31, 2005
U.S. statutory income tax rate	35.0%	35.0%	35.0%	35.0%
State taxes, net of federal	(0.8)	1.5	1.6	1.3
Impact of change in state laws, net of federal	(4.1)	-	-	-
Permanent items	1.5	0.3	0.5	-
Minority interest	4.3	-	-	-
Foreign	0.5	0.3	(0.4)	0.1
Other, net	(0.1)	-	0.5	-
Effective tax rate	<u>36.3%</u>	<u>37.1%</u>	<u>37.2%</u>	<u>36.4%</u>

Pre-tax income from operations included foreign subsidiary income of \$9.3 million for the year ended December 31, 2007. Pre-tax income from operations included foreign subsidiary income of \$7.6 million and \$254,000 for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively. Pre-tax income from operations for the years ended December 31, 2005 included foreign subsidiary income of \$4.7 million. The Company's cumulative undistributed earnings of foreign subsidiaries of \$27.8 million for the year ended December 31, 2007 are expected to be reinvested indefinitely, and accordingly no incremental U.S. or foreign withholding taxes have been recorded.

In July 2006, the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes, and Related Implementation Issues," which provides guidance on the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, financial statements should reflect expected future tax consequences of such positions presuming the taxing authorities have full knowledge of the position and all relevant facts. FIN 48 requires application of a more likely than not threshold to the recognition of uncertain tax positions. FIN 48 permits the Company to recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change. The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to FIN 48 represents an unrecognized tax benefit. An unrecognized tax benefit is a liability that represents a potential future obligation to the taxing authorities. This interpretation also revises the disclosure requirements and was effective for the Company as of January 1, 2007.

On January 1, 2007, the Company adopted FIN 48, which did not have a material impact on the Company's financial position or results of operations. As of January 1, 2007 the Company had \$8.5 million in reserves for uncertain tax positions, including penalties, that, if recognized, would affect the effective tax rate. As of December 31, 2007, the Company had \$9.1 million in reserves for uncertain tax positions, including penalties, that, if recognized, would affect the effective tax rate. Currently, the Company does not estimate a cash settlement with the applicable taxing authority will occur within 12 months for the majority of these unrecognized tax benefits.

The Company recognizes interest related to uncertain tax positions in "Interest expense". As of January 1, 2007, the date of adoption, and December 31, 2007, the Company had \$4.2 million and \$4.1 million, respectively, of accrued interest related to uncertain tax positions. The Company recognizes penalties related to uncertain tax positions in the provision for income taxes.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

12. Income Taxes (continued):

The following is a roll forward of our gross unrecognized tax benefits under FIN 48 for the year ended December 31, 2007 (amounts in thousands):

Balance as of January 1, 2007	\$ 9,752
Prior year positions:	
Additions	1,572
Reductions	-
Current year positions:	
Additions	28
Reductions	-
Settlements with tax authorities	(105)
Reductions due to statute lapse	<u>(1,630)</u>
Balance as of December 31, 2007	<u>\$ 9,617</u>

The Company is subject to federal, state and foreign income tax audits from time to time that could result in proposed assessments. The Company cannot predict with certainty how these audits will be resolved and whether the Company will be required to make additional tax payments, which may or may not include penalties and interest. As of December 31, 2007, the Company is subject to audit by the Internal Revenue Service for the tax year of 2006. For most states and foreign countries where the Company conducts business, the Company is subject to examination for the preceding three to six years. In certain states and foreign countries, the period could be longer.

Management believes that the Company has provided sufficient tax provisions for tax periods within the statutory period of limitations not previously audited and that are potentially open for examination by the taxing authorities. Potential liabilities associated with these years will be resolved when an event occurs to warrant closure, primarily through the completion of audits by taxing jurisdictions. To the extent audits or other events result in a material adjustment to the accrued estimates, the effect would be recognized during the period of the event. There can be no assurance, however, that the ultimate outcome of audits will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

13. Stockholders' Equity:

The following summarizes the Company's share activity (shares in thousands):

	<u>Preferred</u>	<u>Successor Class L Common</u>	<u>Class A Common</u>	<u>Predecessor Common</u>
<i>Predecessor:</i>				
Balance, January 1, 2005				32,078
Stock-based compensation plans				<u>98</u>
Balance, December 31, 2005				32,176
Stock-based compensation plans				<u>240</u>
Balance, November 15, 2006				<u>32,416</u>
<i>Successor:</i>				
Capitalization of Company	<u>1,220</u>	<u>364</u>	<u>1,616</u>	
Balance, December 31, 2006	1,220	364	1,616	
Issuance of preferred stock dividends	188	-	-	
Issuance of Class A common, net of cancelations	-	-	135	
Issuance of restricted stock	-	-	71	
Balance, December 31, 2007	<u>1,408</u>	<u>364</u>	<u>1,822</u>	

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

13. Stockholders' Equity (continued):

Capital Stock:

The Company is authorized to issue three classes of capital stock: Preferred Stock, par value \$0.01 per share, Class L Common Stock, par value \$0.01 per share ("Class L") and Class A common stock, par value \$0.01 per share ("Class A"). Shares of Class L, Class A and one series of Preferred Stock, Series A 14 percent PIK Preferred Stock ("Series A"), are issued and outstanding.

Series A is entitled to a dividend at an annual rate of 14 percent, and Class L is entitled to a yield at an annual rate of 14 percent. The dividends and yields are calculated on February 28, May 31, August 31 and November 30 of each year, beginning February 28, 2007. For the year ended December 31, 2007, 188,290 shares of Series A were issued for the Series A "paid-in-kind" dividends. The yields for Class L are compounding and accumulate on the unreturned initial investment but are not declared until payment. As of November 30, 2007, the accumulated yield for shares of Class L was \$13.9 million.

Series A and Class L, in the aggregate, have a preference on distributions (excluding paid-in-kind dividends) allocated as follows: first to unpaid yield accruing on Class L or Series A and the unreturned value of Series A issued in a paid-in-kind dividend, and second to the unreturned initial investment in Class L, excluding the portion of such investment that is attributable to the right of Class L to share generally in distributions, and the unreturned initial investments in Series A. Once this preference has been paid in full, all remaining distributions are payable to Class L and Class A on a pro-rata basis.

Series A is not entitled to vote, and Class L and Class A vote together as a single class, with each share entitled to one vote. In addition, the Company may not enter into an agreement or consummate a transaction that would result in a change of control or an initial public offering without the consent of the holders of a majority of the then outstanding shares of Series A and Class L voting as a single class.

Stock-based Compensation:

Successor:

On November 15, 2006, the Company adopted the Collect Holdings, Inc. Restricted Share Plan (the "Restricted Share Plan") and authorized grants of restricted shares of the Company to management. The Restricted Share Plan is administered by the Compensation Committee of the Board of Directors, which approved the grants to employees recommended by the Company's chief executive officer. A total of 220,055 restricted shares are authorized under the Restricted Share Plan. Shares of restricted stock granted under the Restricted Share Plan vest in 25 percent increments over a period of four years, provided that the recipient remains employed by the Company. At December 31, 2007, an aggregate of 206,019 restricted shares of Class A common stock were awarded under the Restricted Share Plan. Compensation expense recognized related to Restricted Share Plan awards for the year ended December 31, 2007 was \$394,000 and for the period from July 13, 2006 through December 31, 2006 was \$49,000. At December 31, 2007, there was \$1.6 million of unrecognized pre-tax compensation cost related to the non-vested restricted shares. The Company measures compensation expense based on the grant date fair value, and has elected to recognize this compensation expense on a straight-line basis over the weighted-average service period, which is expected to be four years.

Predecessor:

On November 15, 2006, in connection with the Transaction and in accordance with the terms of the equity awards, the vesting of all outstanding unvested options to purchase the Company's stock and restricted stock units was accelerated, and the Company recorded compensation expense of approximately \$5.1 million for the acceleration.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

13. Stockholders' Equity (continued):

Stock-based Compensation (continued):

Predecessor (continued):

The Company maintained stock option plans and an equity incentive plan for certain employees under which fixed price stock options were granted and the option price was generally not less than the fair value of a share of the underlying stock at the date of grant (collectively, the "NCO Option Plans"). Option terms were generally 10 years, with options generally becoming exercisable ratably over three years, or one year for outside directors, from the date of grant.

The fair value of each stock option was estimated on the date of grant using the Black-Scholes option-pricing model that used the assumptions noted in the following table. Expected volatility was based on a blend of implied and historical volatility of the Company's predecessor common stock. The Company used historical data on exercises of stock options and other factors to estimate the expected term of the share-based payments granted. The risk free rate was based on the U.S. Treasury yield curve in effect at the date of grant. The fair value of each predecessor common stock option granted was estimated using the following weighted-average assumptions:

	Period from January 1 through November 15, 2006	For the Year Ended December 31, 2005
Risk-free interest rate	4.5%	3.8%
Expected life in years	5.4	5.4
Volatility factor	37.4%	37.0%
Dividend yield	None	None

The following summarizes the activity of the NCO Option Plans (amounts in thousands, except per share amounts):

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding at January 1, 2005	4,059	23.94
Granted	661	21.10
Exercised	(82)	17.31
Forfeited	(251)	24.05
Outstanding at December 31, 2005	4,387	23.65
Granted	294	17.27
Exercised	(3,617)	20.87
Forfeited	(904)	30.25
Expired	(37)	19.87
Outstanding at November 15, 2006	123	43.68
Forfeited	(116)	44.44
Outstanding at December 31, 2006	7	\$ 30.05

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

13. Stockholders' Equity (continued):

Stock-based Compensation (continued):

Predecessor (continued):

As a result of the Transaction, effective as of November 16, 2006 all remaining outstanding stock options are only exercisable for \$27.50 per share in cash (the Transaction purchase price per share). All of the stock options outstanding as of December 31, 2006, had an exercise price in excess of \$27.50. Because these stock options were granted under the NCO Group, Inc. 1996 Stock Option Plan, the Company does not have the authority under that plan to cancel the remaining options. These options will expire according to their original terms unless previously exercised for \$27.50 per share in cash.

The weighted-average fair value at date of grant of a common stock option during the period from January 1, 2006 through November 15, 2006 was \$7.20. The total intrinsic value (market value on date of exercise less exercise price) of options exercised during the period from January 1, 2006 through November 15, 2006 was \$23.3 million. For the period from January 1, 2006 through November 15, 2006, the Company had \$20.0 million of excess cash tax benefit that was not recorded as a financing cash inflow due to the existence of net operating loss carryforwards.

Cash received from option exercises under all share-based payment arrangements for the period from January 1, 2006 through November 15, 2006 was \$3.9 million. The actual tax benefit recognized for the tax deductions from predecessor option exercises under all share-based payment arrangements for the period from January 1, 2006 through November 15, 2006 was \$496,000.

The Company recognizes the cost of stock option grants to employees over the vesting period based on their fair values. Compensation expense recognized related to stock option awards for the period from January 1, 2006 through November 15, 2006 was \$2.1 million, including \$1.5 million for the acceleration of vesting in connection with the Transaction.

The Company maintained an equity incentive plan under which certain employees and directors ("Participant") were granted restricted share unit awards in the Company's common stock (the "Restricted Stock Plan"). Awards of restricted share units were valued by reference to shares of common stock that entitled a Participant to receive, upon the settlement of the unit, one share of common stock for each unit. The awards vested over multiple cliff vesting periods and/or based on meeting performance-based targets, and did not have voting rights. The following summarizes the activity of the Restricted Stock Plan for the period from January 1, 2006 through November 15, 2006 (amounts in thousands, except per share amounts):

	Number of Non-vested Share Unit Awards	Weighted Average Grant Date Fair Value
Unvested awards at January 1, 2006	278	\$ 21.34
Granted	17	25.69
Awards vested	(295)	21.59
Unvested awards at November 15, 2006	-	\$ -

Compensation expense recognized related to restricted share unit awards for the period from January 1, 2006 through November 15, 2006 was \$5.0 million, including \$3.6 million for the acceleration of vesting in connection with the Transaction. For the year ended December 31, 2005, the Company granted 139,321 shares of restricted share units with a weighted average price of \$17.83 per share, and recorded compensation expense of \$1.3 million.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

14. Derivative Financial Instruments:

The Company enters into forward exchange contracts to minimize the impact of currency fluctuations on transactions and cash flows. These contracts are designated as cash flow hedges. The Company had forward exchange contracts for the purchase of \$24.9 million and \$114.1 million of Canadian dollars outstanding at December 31, 2007 and 2006, respectively, and 209.0 million Philippine pesos outstanding at December 31, 2007, all of which mature throughout 2008.

For the year ended December 31, 2007, the Company recorded unrealized net gains of \$6.0 million (\$3.9 million after tax) in "Other comprehensive income (loss)" for the change in fair value, and realized net gains of \$3.8 million (\$2.4 million after tax) were reclassified into earnings. For the period from January 1, 2006 through November 15, 2006, the Company recorded unrealized net gains of \$2.5 million (\$1.5 million after tax) in "Other comprehensive income (loss)" for the change in fair value, and realized net gains of \$4.4 million (\$2.8 million after tax) were reclassified into earnings. For the period from January 1, 2006 through November 15, 2006, the Company recorded net gains of \$566,000 (\$362,000 after tax) representing the ineffectiveness of certain cash flow hedges. For the period from July 13, 2006 through December 31, 2006, the Company recorded unrealized net losses of \$2.5 million (\$1.5 million after tax) in "Other comprehensive income (loss)" for the change in fair value, and realized net losses of \$229,000 (\$141,000 after tax) were reclassified into earnings. For the year ended December 31, 2005, the Company recorded unrealized net gains of \$1.5 million (\$933,000 after tax) in "Other comprehensive income (loss)" for the change in fair value, and realized net gains of \$1.5 million (\$943,000 after tax) were reclassified into earnings. The impact of the settlement of the Company's foreign exchange cash flow hedges was recorded in "Payroll and related expenses," "Selling, general and administrative expenses" and "Other income (expense)" in the statement of operations.

At December 31, 2007, the fair market value of all outstanding forward exchange contracts was a net asset of \$51,000, \$423,000 of which was included in "Other current assets" and \$372,000 of which was included in "Other liabilities." At December 31, 2006, the fair market value of all outstanding forward exchange contracts was a net liability of \$4.1 million, which was included in "Other liabilities," respectively. All of the accumulated gains and losses in "Other comprehensive income (loss)" related to foreign exchange cash flow hedges at December 31, 2007 and 2006 are expected to be reclassified into earnings within the next 12 months.

On November 30, 2006, the Company entered into interest rate swap agreements to minimize the impact of LIBOR fluctuations on interest payments on the Company's floating rate debt. The interest rate swaps are designated as cash flow hedges. The interest rate swaps cover an aggregate notional amount of \$189.0 million and were effective as of February 2007. The Company is required to pay the counterparties quarterly interest payments at a weighted average fixed rate of 4.77 percent, and receives from the counterparties variable quarterly interest payments based on LIBOR. The net interest paid or received is included in interest expense. For the year ended December 31, 2007, the Company recorded unrealized net losses of \$2.3 million (\$1.5 million after tax) in "Other comprehensive income (loss)" for the change in fair value, and realized net gains of \$969,000 (\$630,000 after tax) were reclassified into earnings. As of December 31, 2007, the fair market value of the interest rate swaps was a net liability of \$3.3 million, which was included in "Other liabilities."

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

14. Derivative Financial Instruments (continued):

The Company's nonrecourse credit facility relating to purchased accounts receivable contains contingent payments that are accounted for as embedded derivatives. The contingent payment is equal to a percentage of collections received after principal and interest, unless otherwise negotiated, net of servicing fees and other related charges. At December 31, 2007 and 2006, the estimated fair value of the embedded derivative was \$9.6 million and \$10.8 million, respectively. The embedded derivative for each portfolio purchase is subject to market rate revaluation each period. Absent a readily available market for such embedded derivatives, the Company principally bases its revaluation on similar current period portfolio purchases' underlying yields and cash flow changes. Changes in the fair market value of the embedded derivatives are recorded in "Interest expense" on the statement of operations. During the year ended December 31, 2007 a decrease of \$2,000 was recorded to reflect the revaluation of the embedded derivatives. During the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, an increase of \$162,000 and a decrease of \$5,000, respectively, was recorded to reflect the revaluation of the embedded derivatives.

The Company enters into interest rate cap contracts to minimize the impact of LIBOR fluctuations on transactions and cash flows. The Company had interest rate caps covering a notional amount of \$157.0 million at December 31, 2007, with a weighted average LIBOR cap rate of 6.00 percent, which mature on January 6, 2009. The interest rate caps are not designated as cash flow hedges, and, accordingly, changes in fair market value, if any, are recorded in "Other income (expense)" in the statement of operations. As of December 31, 2007 and 2006, the fair market value of all outstanding interest rate caps was \$13,000 and \$83,000, respectively, which was included in "Other assets."

15. Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents, Trade Accounts Receivable, and Accounts Payable:

The carrying amount reported in the balance sheets approximates fair value because of the short maturity of these instruments.

Purchased Accounts Receivable:

The Company records purchased accounts receivable at cost, which is discounted from the contractual receivable balance. The carrying value of purchased accounts receivable, which is estimated based upon future cash flows, approximates fair value at December 31, 2007 and 2006.

Notes Receivable:

The Company had notes receivable of \$8.6 million and \$8.9 million as of December 31, 2007 and 2006, respectively. The carrying amounts reported in the balance sheets, included in current and long-term other assets, approximated market rates for notes with similar terms and maturities, and, accordingly, the carrying amounts approximated fair value.

Long-Term Debt:

The stated interest rates of the Company's debt approximate market rates for debt with similar terms and maturities, and, accordingly, the carrying amounts approximate fair value. As of December 31, 2007, the Company's Senior Notes and Senior Subordinated Notes had fair values of \$158.4 million and \$186.0 million, respectively.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

16. Supplemental Cash Flow Information:

The following are supplemental disclosures of cash flow information (amounts in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2007	Period from July 13 through December 31, 2006	Period from January 1 through November 15, 2006	For the Year Ended December 31, 2005
Cash paid for interest	\$ 94,671	\$ 6,978	\$ 26,806	\$ 21,934
Cash paid for income taxes	2,872	5,816	2,209	15,539
Noncash investing and financing activities:				
Fair value of assets acquired	6,317	1,657,361	4,911	252,600
Liabilities assumed from acquisitions	966	399,630	1,615	38,790
Estimated earnout payment for acquisitions	14,775	-	-	-
Nonrecourse borrowings to purchase accounts receivable	-	-	1,025	17,213
Dissolution of securitized nonrecourse debt and other assets	-	-	-	6,399
Contribution of note receivable for acquisition	-	-	-	5,154
Elimination of equity investment in connection with acquisition	-	-	-	2,780
Adjustment to acquired assets and liabilities	(3,508)	-	7,465	3,820
Deferred compensation from restricted stock units	-	-	-	2,523
Disposal of fixed assets	916	-	1,336	1,128

Nonrecourse borrowings to purchase accounts receivable represent Portfolio Management's purchases of large accounts receivable portfolios financed through the nonrecourse credit facility prior to August 2005. These borrowings were noncash transactions since the lender sent payments directly to the seller of the accounts. After August 2005, all borrowings under the nonrecourse credit facility were sent directly to the Company.

17. Employee Benefit Plans:

The Company has a savings plan under Section 401(k) of the Internal Revenue Code, referred to as the Plan, for its U.S. employees. The Plan allows all eligible employees to defer up to 15 percent of their income on a pretax basis through contributions to the Plan, subject to limitations under Section 401(k) of the Internal Revenue Code. The Company will provide a matching contribution of 25 percent of the first six percent of an employee's contribution. The Company also has similar type plans for its international employees. The charge to operations for the matching contributions was \$1.9 million for the year ended December 31, 2007. The charges to operations for the matching contributions were \$1.1 million and \$265,000 for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively, and \$2.7 million for the year ended December 31, 2005.

The Company has a deferred compensation plan, referred to as the Deferred Compensation Plan, to permit eligible employees of the Company to defer receipt and taxation of their compensation from the Company each year up to the limit in effect under Section 402(g) of the Internal Revenue Code, less amounts contributed to the Deferred Compensation Plan. The Company, at its discretion, may make a contribution that will be allocated among participants in proportion to their deferrals for such year. All executive officers and other key employees designated by the Company are eligible to participate in the Deferred Compensation Plan.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

18. Commitments and Contingencies:

Purchase Commitments:

The Company enters into noncancelable agreements with various telecommunications companies, a foreign labor subcontractor in India, and other vendors that require minimum purchase commitments. These agreements expire between 2008 and 2010. The following represents the future minimum payments, by year and in the aggregate, under noncancelable purchase commitments (amounts in thousands):

2008	\$ 23,202
2009	10,403
2010	<u>7,936</u>
	<u>\$ 41,541</u>

The Company incurred \$60.6 million of expense in connection with these purchase commitments for the year ended December 31, 2007. The Company incurred \$52.1 million and \$6.7 million of expense in connection with these purchase commitments for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively, and \$48.4 million of expense for the year ended December 31, 2005.

Forward-Flow Agreements:

The Company has several fixed price agreements, or forward-flows, that obligate the Company to purchase, on a monthly basis, portfolios of charged-off accounts receivable meeting certain criteria. At December 31, 2007, the Company had forward-flows aggregating up to approximately \$12.0 million per month, expiring between March 2008 and December 2012. The terms of the agreements vary; some may be terminated with either 30, 60 or 90 day written notice.

Litigation and Investigations:

The Company is party, from time to time, to various legal proceedings, regulatory investigations and tax examinations incidental to its business. The Company continually monitors these legal proceedings, regulatory investigations and tax examinations to determine the impact and any required accruals.

Fort Washington Flood:

In June 2001, the first floor of the Company's Fort Washington, Pennsylvania, headquarters was severely damaged by a flood caused by remnants of Tropical Storm Allison. The Company subsequently decided to relocate its corporate headquarters to Horsham, Pennsylvania. The Company filed a lawsuit on August 14, 2001 in the Court of Common Pleas, Montgomery County, Pennsylvania (Civil Action No. 01-15576) against the current landlord and the former landlord of the Fort Washington facilities to terminate the leases and to obtain other relief. The landlord and the former landlord filed counter-claims against the Company. The Company maintains a reserve that it believes is adequate to address its exposure to this matter and plans to continue to contest this matter.

U.S. Department of Justice:

On February 24, 2006, the U.S. Department of Justice alleged certain civil damages of approximately \$5.0 million. The alleged damages relate to a matter the Company reported to federal authorities and the client in 2003 involving three employees who engaged in unauthorized student loan consolidations in connection with a client contract. The responsible employees were terminated at that time in 2003. The Company does not agree with the allegations regarding damages and has and will continue to engage in discussions with the Department of Justice in an effort to amicably resolve the matter. The Company expects that actual damages incurred as a result of this incident, if any, will be covered by insurance.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

18. Commitments and Contingencies (continued):

Litigation and Investigations (continued):

Tax Matters:

In 2004, the Company received notice of a proposed reassessment from a foreign taxing authority relating to certain matters occurring from 1998 through 2001 regarding one of the Company's subsidiaries. In September 2006, the Company received the formal notice of reassessment in the amount of \$17.2 million including interest and penalties, converted as of December 31, 2007 (\$14.6 million converted as of December 31, 2006), and in December 2006 the Company paid a deposit of \$8.5 million including interest. The Company maintains a reserve that it believes is adequate to address its exposure to this matter and has contested the reassessment.

The Company is under audit by the State of Texas for alleged improper collection of state sales tax on collection services. Under Texas law, both client and debtor need to be within the state to create a taxable transaction. The State of Texas issued an initial assessment, which was subsequently reduced to approximately \$3.5 million after working with the Company's clients. The Company's contracts with its clients generally require the clients to reimburse the Company for sales taxes.

New York and Texas Attorneys General:

In August 2006, the Company received a subpoena from the New York Attorney General and in April 2007 the Company received a subpoena from the Texas Attorney General requesting information relating to the Company's debt collection practices in such states. The Company has responded to such inquiries or investigations and provided certain information to the respective Attorneys General offices. The Company believes it is in compliance with the state laws of New York and Texas relating to debt collection practices in all material respects. However no assurance can be given that any such inquiries or investigations will not result in a formal investigation or an enforcement action. Any such enforcement actions could result in fines as well as the suspension or termination of the Company's ability to conduct business in such states.

Other:

The Company is involved in other legal proceedings, regulatory investigations and tax examinations from time to time in the ordinary course of its business. Management believes that none of these other legal proceedings, regulatory investigations or tax examinations will have a materially adverse effect on the financial condition or results of operations of the Company.

19. Segment Reporting:

As of December 31, 2007, the Company's business consisted of three operating divisions: ARM, CRM and Portfolio Management. The accounting policies of the segments are the same as those described in note 2, "Accounting Policies."

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

19. Segment Reporting (continued):

ARM provides accounts receivable management services to consumer and commercial accounts for all market sectors including financial services, healthcare, retail and commercial, telecommunications, utilities, education, and government. ARM serves clients of all sizes in local, regional and national markets in the United States, Canada, the United Kingdom and Australia. In addition to traditional accounts receivable collections, these services include developing the client relationship beyond bad debt recovery and delinquency management, and delivering cost-effective accounts receivable solutions to all market sectors. For the years ended December 31, 2007, 2006 and 2005, ARM received \$654.1 million, \$687.3 million and \$670.5 million, respectively, of revenue from U.S. customers, \$43.4 million, \$36.0 million and \$31.9 million, respectively, of revenue from Canadian customers and \$24.3 million, \$25.5 million and \$14.7 million, respectively, of revenue from U.K. customers. For the years ended December 31, 2007 and 2006, ARM received \$14.7 million and \$3.5 million, respectively, of revenue from Australian customers. ARM also provides accounts receivable management services to Portfolio Management. ARM recorded revenue of \$109.1 million from these services for the year ended December 31, 2007. ARM recorded revenue of \$101.8 million and \$12.0 million for these services for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively, and \$87.0 million for these services for the year ended December 31, 2005. Included in ARM's intercompany revenue for the years ended December 31, 2007 and 2006, was \$12.8 million and \$10.3 million, respectively, of commissions from the sale of portfolios by Portfolio Management.

The CRM division provides customer relationship management services to clients in the United States, Canada and Latin America through offices in the United States, Canada, the Philippines, Panama and Barbados. The Company's acquisition of Star Contact in December 2006 was included in the CRM segment. For the years ended December 31, 2007, 2006 and 2005, CRM received \$312.0 million, \$238.5 million and \$186.0 million, respectively, from U.S. customers and \$16.6 million, \$12.7 million and \$4.4 million, respectively, from Canadian customers. In November 2006, CRM began providing certain services to ARM. CRM recorded revenue of \$532,000 for these services for the year ended December 31, 2007, and \$9,000 and \$354,000 for these services for the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, respectively.

Portfolio Management purchases and manages defaulted consumer accounts receivable from consumer creditors such as banks, finance companies, retail merchants, utilities, healthcare companies and other consumer oriented companies.

The following tables present the revenue, payroll and related expenses, selling, general and administrative expenses, income from operations before depreciation, and amortization, total assets, net of any intercompany balances and capital expenditures for each segment.

	Successor				
	For the Year Ended December 31, 2007				
	(amounts in thousands)				
	ARM	CRM	Portfolio Management	Eliminations	Total
Revenue	\$ 845,620	\$ 328,560	\$ 150,909	\$ (109,642)	\$ 1,215,447
Payroll and related expenses	391,332	246,655	7,651	(532)	645,106
Selling, general and admin. expenses	364,173	54,323	112,708	(109,110)	422,094
Income from operations before depreciation and amortization	<u>\$ 90,115</u>	<u>\$ 27,582</u>	<u>\$ 30,550</u>	<u>\$ -</u>	<u>\$ 148,247</u>
Total assets, net of intercompany balances	\$ 864,351	\$ 340,893	\$ 423,395	\$ -	\$ 1,628,639
Capital expenditures	\$ 15,631	\$ 9,813	\$ 2	\$ -	\$ 25,446

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

19. Segment Reporting (continued):

Successor					
For the period from July 13 through December 31, 2006					
(amounts in thousands)					
	ARM	CRM	Portfolio Management	Eliminations	Total
Revenue	\$ 103,920	\$ 35,213	\$ 13,489	\$ (12,326)	\$ 140,296
Payroll and related expenses	47,797	28,167	1,001	(354)	76,611
Selling, general and admin. expenses	42,267	5,576	11,906	(11,972)	47,777
Income from operations before depreciation and amortization	<u>\$ 13,856</u>	<u>\$ 1,470</u>	<u>\$ 582</u>	<u>\$ -</u>	<u>\$ 15,908</u>
Total assets, net of intercompany balances	\$ 932,204	\$ 287,750	\$ 424,185	\$ -	\$ 1,644,139
Capital expenditures	\$ 2,044	\$ 202	\$ -	\$ -	\$ 2,246

Predecessor					
For the period from January 1 through November 15, 2006					
(amounts in thousands)					
	ARM	CRM	Portfolio Management	Eliminations	Total
Revenue	\$ 762,141	\$ 215,949	\$ 173,474	\$ (101,763)	\$ 1,049,801
Payroll and related expenses	371,384	175,401	7,107	(9)	553,883
Selling, general and admin. expenses	326,636	39,148	111,120	(101,754)	375,150
Restructuring charges	12,297	468	-	-	12,765
Income from operations before depreciation and amortization	<u>\$ 51,824</u>	<u>\$ 932</u>	<u>\$ 55,247</u>	<u>\$ -</u>	<u>\$ 108,003</u>
Capital expenditures	\$ 28,870	\$ 11,925	\$ -	\$ -	\$ 40,795

Predecessor					
For the year ended December 31, 2005					
(amounts in thousands)					
	ARM	CRM	Portfolio Management	Eliminations	Total
Revenue	\$ 804,484	\$ 190,400	\$ 144,719	\$ (87,320)	\$ 1,052,283
Payroll and related expenses	377,314	145,892	5,726	-	528,932
Selling, general and admin. expenses	336,983	35,450	91,493	(87,320)	376,606
Restructuring charges	8,775	846	-	-	9,621
Income from operations before depreciation and amortization	<u>\$ 81,412</u>	<u>\$ 8,212</u>	<u>\$ 47,500</u>	<u>\$ -</u>	<u>\$ 137,124</u>
Total assets, net of intercompany balances	\$ 842,581	\$ 201,704	\$ 283,677	\$ -	\$ 1,327,962
Capital expenditures	\$ 28,027	\$ 15,472	\$ -	\$ -	\$ 43,499

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

20. Related Party Transactions:

During 2005 and from January 1, 2006 through November 15, 2006, the compensation of Michael J. Barrist, President, and Chief Executive Officer of NCO, included the personal use by Mr. Barrist of 25 hours per year of an aircraft partly owned by the Company. Mr. Barrist reimbursed the Company for his personal use of the aircraft in excess of 25 hours. For the period from January 1, 2006 through November 15, 2006, Mr. Barrist reimbursed the Company \$203,000, and for the year ended December 31, 2005, Mr. Barrist reimbursed the Company \$100,000 for his personal use of the aircraft. Under Mr. Barrist's new employment agreement, which was effective November 15, 2006, Mr. Barrist is entitled to 150 hours per year on the aircraft for both business and personal use, as determined by Mr. Barrist in his discretion.

In connection with the Transaction, the Company paid OEP a transaction fee of \$18.8 million, which is included in the \$68.5 million total Transaction costs (note 4). Following the Transaction, the Company pays OEP a management fee of \$3.0 million per year, plus reimbursement of expenses, for management, advice and related services.

OEP is an affiliate of JP Morgan Chase & Co. ("JPM"), and JPM is a client of the Company. For the year ended December 31, 2007, the Company received fees of \$10.0 million for providing services to JPM. For the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, the Company received fees for providing services to JPM of \$5.9 million and \$965,000, respectively, and for the year ended December 31, 2005, the Company received fees \$7.9 million. At December 31, 2007 and 2006, the Company had accounts receivable of \$138,000 and \$177,000, respectively, due from JPM. Additionally, affiliates of Citigroup are co-investors of the Company, and Citigroup is a client of the Company. For the year ended December 31, 2007, the Company received fees of \$33.5 million for providing services to Citigroup. For the periods from January 1, 2006 through November 15, 2006 and July 13, 2006 through December 31, 2006, the Company received fees for providing services to Citigroup of \$28.5 million and \$3.9 million, respectively, and for the year ended December 31, 2005, the Company received fees for providing services to Citigroup of \$31.9 million. At December 31, 2007 and 2006, the Company had accounts receivable of \$1.9 million and \$2.0 million, respectively, due from Citigroup.

21. Recently Issued and Proposed Accounting Pronouncements:

FASB Statement of Financial Accounting Standards No. 157, "Fair Value Measurements":

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines fair value and provides guidance for measuring assets and liabilities at fair value. This statement also expands the disclosure requirements about the use of fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2, which defers the effective date of SFAS No. 157 for non-financial assets and liabilities until fiscal years and interim periods beginning after November 15, 2008. Accordingly, the Company adopted the standard for financial assets and liabilities on January 1, 2008, and it did not have a material impact on its financial statements.

FASB Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115":

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" ("SFAS 159"). This statement permits the choice, at specified election dates, to measure certain financial instruments and other items at fair value, which are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not believe the adoption of SFAS 159 will have a material impact on its financial statements.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

21. Recently Issued and Proposed Accounting Pronouncements (continued):

FASB Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations”:

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”), which replaces FASB Statement of Financial Accounting Standards No. 141, “Business Combinations” (“SFAS 141”). While SFAS 141(R) retains the fundamental requirements of SFAS 141 to use the purchase method for acquisitions, it broadens the scope to apply this method to all transactions in which one entity obtains control over one or more other businesses. Among other things, SFAS 141(R) requires that acquired businesses be recognized at their fair values at the date of acquisition, acquisition-related costs to be recognized separately from the acquisition, contingent assets and liabilities to be recognized at fair value at the date of acquisition and restructuring costs of the acquirer to be recognized separately from the acquisition. SFAS 141 (R) is effective for business combinations effected on or after the first annual reporting period beginning on or after December 31, 2008, with early adoption prohibited. The Company has not completed its review and assessment of the impact of the adoption of SFAS 141(R).

FASB Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51”:

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51,” (“SFAS 160”). This statement establishes accounting and reporting standards that require a noncontrolling interest, or minority interest, in a subsidiary to be presented in the equity section of the consolidated balance sheet, net income attributable to the parent and to the noncontrolling interest to be presented on the consolidated statement of income and sufficient disclosures to clearly distinguish between the interests of the parent and the noncontrolling interest, among other requirements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. The Company has not completed its review and assessment of the impact of the adoption of SFAS 160.

FASB Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.”

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133,” referred to as SFAS 161. This statement requires enhanced disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS 133 and related interpretations, and how derivative instruments and related hedged items affect the entity’s financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently reviewing the standard to assess the impact of the adoption of SFAS 161.

NCO GROUP, INC.
Notes to Consolidated Financial Statements (continued)

22. Subsequent Events:

In January 2008, the Company acquired Systems & Services Technologies, Inc. (“SST”), a leading third-party consumer receivable servicer, for \$13.4 million, plus a potential \$10 million earn-out payment, subject to certain post-closing adjustments. SST was a wholly owned subsidiary of JPM.

In February 2008, the Company acquired Outsourcing Solutions Inc. (“OSI”), a leading provider of business process outsourcing services, specializing primarily in accounts receivable management services, for \$325.0 million in cash, subject to certain post-closing adjustments.

In connection with the OSI acquisition, in February 2008 the Company amended its senior credit facility to, among other things, add \$139.0 million to the term loan. Following the amendment, term loan borrowings will bear interest at a rate equal to, at the option of the Company, (i) the higher of the prime rate or the federal funds rate plus 0.50 percent, plus a margin of 3.00 percent to 3.25 percent, based on the Company’s funded debt to EBITDA ratio; or (ii) LIBOR plus a margin of 4.00 percent to 4.25 percent, based on the Company’s funded debt to EBITDA ratio.

Also in connection with the OSI acquisition, the Company increased its authorized capital to the following amounts: 6,500,000 shares of preferred stock; 800,000 shares of Class L common stock; and 4,500,000 shares of Class A common stock. The Company privately placed 802,262 shares of preferred stock, 33,338 shares of Class L common stock and 1,011,162 shares of Class A common stock for an aggregate purchase price of \$210.0 million. The entire amount of proceeds was used to acquire OSI.

23. Allowance for Doubtful Accounts:

The following table presents the activity in the allowance for doubtful accounts (amounts in thousands):

	Balance at beginning of year	Additions		Deductions ⁽¹⁾	Balance at end of year
		Charged to costs and expenses	Charged to other accounts		
<i>Successor:</i>					
Year ended December 31, 2007:					
Allowance for doubtful accounts	\$ -	\$ 4,806	\$ -	\$ (1,669)	\$ 3,137
Period from July 13, 2006 through December 31, 2006:					
Allowance for doubtful accounts	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Predecessor:</i>					
Period from January 1, 2006 through November 15, 2006:					
Allowance for doubtful accounts	\$ 8,079	\$ 3,931	\$ -	\$ (2,555)	\$ 9,455
Year ended December 31, 2005:					
Allowance for doubtful accounts	\$ 7,878	\$ 3,369	\$ -	\$ (3,168)	\$ 8,079

⁽¹⁾ Uncollectible accounts written off, net of recoveries.

24. Subsidiary Guarantor Financial Information:

The Notes are fully and unconditionally guaranteed, jointly and severally, by certain domestic wholly owned subsidiaries of the Company (collectively, the “Guarantors”). Non-guarantors consist of all non-domestic subsidiaries, certain subsidiaries engaged in financing the purchase of delinquent accounts receivable portfolios, portfolio joint ventures (which are engaged in portfolio financing transactions) and certain immaterial subsidiaries (collectively, the “Non-Guarantors”). The following tables present the consolidating financial information for the Company (Parent), the Guarantors and the Non-Guarantors, together with eliminations, as of and for the periods indicated.

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC.
Consolidating Balance Sheet
December 31, 2007
(Amounts in thousands)

ASSETS	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ -	\$ 13,608	\$ 13,528	\$ -	\$ 27,136
Accounts receivable, trade, net of allowance for doubtful accounts	-	132,515	21,414	-	153,929
Purchased accounts receivable, current portion	-	7,899	64,718	-	72,617
Deferred income taxes	430	16,160	(139)	-	16,451
Prepaid expenses and other current assets	1,830	20,128	9,512	-	31,470
Total current assets	<u>2,260</u>	<u>190,310</u>	<u>109,033</u>	<u>-</u>	<u>301,603</u>
Property and equipment, net	-	74,334	45,880	-	120,214
Other assets:					
Goodwill	-	545,543	69,201	-	614,744
Trade name	-	93,766	2,847	-	96,613
Customer relationships and other intangible assets, net of accumulated amortization	-	250,247	29,855	-	280,102
Purchased accounts receivable, net of current portion	-	18,038	154,930	-	172,968
Deferred income taxes	-	-	-	-	-
Investment in subsidiaries	760,116	89,557	-	(849,673)	-
Other assets	17,303	23,192	1,900	-	42,395
Total other assets	<u>777,419</u>	<u>1,020,343</u>	<u>258,733</u>	<u>(849,673)</u>	<u>1,206,822</u>
Total assets	<u>\$ 779,679</u>	<u>\$ 1,284,987</u>	<u>\$ 413,646</u>	<u>\$ (849,673)</u>	<u>\$ 1,628,639</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Long-term debt, current portion	\$ 9,341	\$ 209	\$ 15,094	\$ -	\$ 24,644
Intercompany (receivable) loan	(188,345)	91,563	96,782	-	-
Income taxes payable	-	-	-	-	-
Accounts payable	750	13,783	4,358	-	18,891
Accrued expenses	9,566	59,310	21,503	-	90,379
Accrued compensation and related expenses	-	18,741	13,948	-	32,689
Total current liabilities	<u>(168,688)</u>	<u>183,606</u>	<u>151,685</u>	<u>-</u>	<u>166,603</u>
Long-term liabilities:					
Long-term debt, net of current portion	627,604	236,096	39,352	-	903,052
Deferred income taxes	(45,193)	141,819	30,418	-	127,044
Other long-term liabilities	619	4,881	12,155	-	17,655
Minority interest	-	-	48,948	-	48,948
Stockholders' equity	365,337	718,585	131,088	(849,673)	365,337
Total liabilities and stockholders' equity	<u>\$ 779,679</u>	<u>\$ 1,284,987</u>	<u>\$ 413,646</u>	<u>\$ (849,673)</u>	<u>\$ 1,628,639</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC.
Consolidating Balance Sheet
December 31, 2006
(Amounts in thousands)

ASSETS	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ 339	\$ 1,279	\$ 12,281	\$ -	\$ 13,899
Accounts receivable, trade, net of allowance for doubtful accounts	-	128,187	15,746	-	143,933
Purchased accounts receivable, current portion	-	16,122	131,181	-	147,303
Deferred income taxes	427	7,574	1,645	-	9,646
Prepaid expenses and other current assets	2,971	21,127	5,482	-	29,580
Total current assets	<u>3,737</u>	<u>174,289</u>	<u>166,335</u>	<u>-</u>	<u>344,361</u>
Property and equipment, net	-	88,652	47,279	-	135,931
Other assets:					
Goodwill	-	545,544	55,002	-	600,546
Trade name	-	93,766	2,847	-	96,613
Customer relationships and other intangible assets, net of accumulated amortization	-	292,859	28,042	-	320,901
Purchased accounts receivable, net of current portion	-	16,233	80,564	-	96,797
Deferred income taxes	-	-	5,815	-	5,815
Investment in subsidiaries	724,486	96,102	-	(820,588)	-
Other assets	17,066	25,081	1,028	-	43,175
Total other assets	<u>741,552</u>	<u>1,069,585</u>	<u>173,298</u>	<u>(820,588)</u>	<u>1,163,847</u>
Total assets	<u>\$ 745,289</u>	<u>\$ 1,332,526</u>	<u>\$ 386,912</u>	<u>\$ (820,588)</u>	<u>\$ 1,644,139</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Long-term debt, current portion	\$ 4,650	\$ 210	\$ 31,832	\$ -	\$ 36,692
Intercompany (receivable) loan	(232,277)	178,576	53,701	-	-
Income taxes payable	-	-	6,987	-	6,987
Accounts payable	-	9,383	2,210	-	11,593
Accrued expenses	12,083	50,562	11,136	-	73,781
Accrued compensation and related expenses	-	23,193	10,828	-	34,021
Total current liabilities	<u>(215,544)</u>	<u>261,924</u>	<u>116,694</u>	<u>-</u>	<u>163,074</u>
Long-term liabilities:					
Long-term debt, net of current portion	625,945	235,938	19,738	-	881,621
Deferred income taxes	(53,433)	145,495	52,681	-	144,743
Other long-term liabilities	-	7,598	3,154	-	10,752
Minority interest	-	-	55,628	-	55,628
Stockholders' equity	388,321	681,571	139,017	(820,588)	388,321
Total liabilities and stockholders' equity	<u>\$ 745,289</u>	<u>\$ 1,332,526</u>	<u>\$ 386,912</u>	<u>\$ (820,588)</u>	<u>\$ 1,644,139</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC.
Consolidating Statement of Operations
For the Twelve Months Ended December 31, 2007
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues:					
Services	\$ -	\$ 1,071,971	\$ 348,696	\$ (358,726)	\$ 1,061,941
Portfolio	-	32,804	99,609	-	132,413
Portfolio sales	-	6,474	14,619	-	21,093
Total revenues	<u>-</u>	<u>1,111,249</u>	<u>462,924</u>	<u>(358,726)</u>	<u>1,215,447</u>
Operating costs and expenses:					
Payroll and related expenses	13	659,354	234,121	(248,382)	645,106
Selling, general and administrative expenses	3,883	354,239	174,316	(110,344)	422,094
Depreciation and amortization expense	-	71,397	25,857	-	97,254
Total operating costs and expenses	<u>3,896</u>	<u>1,084,990</u>	<u>434,294</u>	<u>(358,726)</u>	<u>1,164,454</u>
(Loss) income from operations	<u>(3,896)</u>	<u>26,259</u>	<u>28,630</u>	<u>-</u>	<u>50,993</u>
Other income (expense):					
Interest and investment income	(10)	1,247	810	-	2,047
Interest expense	(65,638)	(20,838)	(8,558)	-	(95,034)
Interest (expense) income to affiliate	(5,923)	12,655	(6,732)	-	-
Subsidiary income	9,977	3,405	-	(13,382)	-
Other income	-	3,282	-	-	3,282
	<u>(61,594)</u>	<u>(249)</u>	<u>(14,480)</u>	<u>(13,382)</u>	<u>(89,705)</u>
(Loss) income before income taxes	<u>(65,490)</u>	<u>26,010</u>	<u>14,150</u>	<u>(13,382)</u>	<u>(38,712)</u>
Income tax (benefit) expense	<u>(38,114)</u>	<u>20,006</u>	<u>4,037</u>	<u>-</u>	<u>(14,071)</u>
(Loss) income before minority interest	<u>(27,376)</u>	<u>6,004</u>	<u>10,113</u>	<u>(13,382)</u>	<u>(24,641)</u>
Minority interest	<u>-</u>	<u>-</u>	<u>(2,735)</u>	<u>-</u>	<u>(2,735)</u>
Net (loss) income	<u>\$ (27,376)</u>	<u>\$ 6,004</u>	<u>\$ 7,378</u>	<u>\$ (13,382)</u>	<u>\$ (27,376)</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC.
Consolidating Statement of Operations
For the Period from July 13, 2006 (date of inception) through December 31, 2006
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues:					
Services	\$ -	\$ 131,389	\$ 37,845	\$ (42,495)	\$ 126,739
Portfolio	-	620	12,937	-	13,557
Total revenues	<u>-</u>	<u>132,009</u>	<u>50,782</u>	<u>(42,495)</u>	<u>140,296</u>
Operating costs and expenses:					
Payroll and related expenses	2	80,436	26,696	(30,523)	76,611
Selling, general and administrative expenses	458	40,933	18,358	(11,972)	47,777
Depreciation and amortization expense	-	8,974	2,574	-	11,548
Total operating costs and expenses	<u>460</u>	<u>130,343</u>	<u>47,628</u>	<u>(42,495)</u>	<u>135,936</u>
Income from operations	<u>(460)</u>	<u>1,666</u>	<u>3,154</u>	<u>-</u>	<u>4,360</u>
Other income (expense):					
Interest and investment income	17	(63)	346	-	300
Interest expense	(11,437)	(2,098)	(1,423)	-	(14,958)
Interest income (expense) to affiliate	(3,260)	3,608	(348)	-	-
Subsidiary income	3,279	770	-	(4,049)	-
Other income	-	113	-	-	113
	<u>(11,401)</u>	<u>2,330</u>	<u>(1,425)</u>	<u>(4,049)</u>	<u>(14,545)</u>
(Loss) income before income tax expense	<u>(11,861)</u>	<u>3,996</u>	<u>1,729</u>	<u>(4,049)</u>	<u>(10,185)</u>
Income tax (benefit) expense	<u>(5,296)</u>	<u>866</u>	<u>653</u>	<u>-</u>	<u>(3,777)</u>
(Loss) income before minority interest	<u>(6,565)</u>	<u>3,130</u>	<u>1,076</u>	<u>(4,049)</u>	<u>(6,408)</u>
Minority interest	<u>-</u>	<u>-</u>	<u>(157)</u>	<u>-</u>	<u>(157)</u>
Net (loss) income	<u>\$ (6,565)</u>	<u>\$ 3,130</u>	<u>\$ 919</u>	<u>\$ (4,049)</u>	<u>\$ (6,565)</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC.
Consolidating Statement of Income
For the Period from January 1, 2006 through November 15, 2006
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues:					
Services	\$ -	\$ 926,785	\$ 256,983	\$ (308,430)	\$ 875,338
Portfolio	-	38,180	113,526	-	151,706
Portfolio sales	-	10,762	11,995	-	22,757
Total revenues	<u>-</u>	<u>975,727</u>	<u>382,504</u>	<u>(308,430)</u>	<u>1,049,801</u>
Operating costs and expenses:					
Payroll and related expenses	173	581,174	179,212	(206,676)	553,883
Selling, general and administrative expenses	6,187	330,728	139,989	(101,754)	375,150
Restructuring charge	-	10,792	1,973	-	12,765
Depreciation and amortization expense	230	33,225	13,240	-	46,695
Total operating costs and expenses	<u>6,590</u>	<u>955,919</u>	<u>334,414</u>	<u>(308,430)</u>	<u>988,493</u>
Income from operations	<u>(6,590)</u>	<u>19,808</u>	<u>48,090</u>	<u>-</u>	<u>61,308</u>
Other income (expense):					
Interest and investment income	101	1,216	519	-	1,836
Interest expense	(8,639)	(5,877)	(12,127)	-	(26,643)
Interest (expense) income to affiliate	(32,064)	34,280	(2,216)	-	-
Subsidiary income	51,768	15,187	-	(66,955)	-
Other income	-	3,165	-	-	3,165
	<u>11,166</u>	<u>47,971</u>	<u>(13,824)</u>	<u>(66,955)</u>	<u>(21,642)</u>
Income before income tax expense	<u>4,576</u>	<u>67,779</u>	<u>34,266</u>	<u>(66,955)</u>	<u>39,666</u>
Income tax expense	<u>(16,458)</u>	<u>18,688</u>	<u>12,512</u>	<u>-</u>	<u>14,742</u>
Income before minority interest	21,034	49,091	21,754	(66,955)	24,924
Minority interest	<u>-</u>	<u>-</u>	<u>(3,890)</u>	<u>-</u>	<u>(3,890)</u>
Net income	<u>\$ 21,034</u>	<u>\$ 49,091</u>	<u>\$ 17,864</u>	<u>\$ (66,955)</u>	<u>\$ 21,034</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC.
Consolidating Statement of Income
For the Year Ended December 31, 2005
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues:					
Services	\$ -	\$ 946,027	\$ 232,822	\$ (272,591)	\$ 906,258
Portfolio	-	57,916	75,952	-	133,868
Portfolio sales	-	10,596	1,561	-	12,157
Total revenues	<u>-</u>	<u>1,014,539</u>	<u>310,335</u>	<u>(272,591)</u>	<u>1,052,283</u>
Operating costs and expenses:					
Payroll and related expenses	12	549,456	163,916	(184,452)	528,932
Selling, general and administrative expenses	999	359,678	104,068	(88,139)	376,606
Restructuring charge	-	7,819	1,802	-	9,621
Depreciation and amortization expense	1,506	33,443	10,838	-	45,787
Total operating costs and expenses	<u>2,517</u>	<u>950,396</u>	<u>280,624</u>	<u>(272,591)</u>	<u>960,946</u>
Income from operations	<u>(2,517)</u>	<u>64,143</u>	<u>29,711</u>	<u>-</u>	<u>91,337</u>
Other income (expense):					
Interest and investment income	(574)	3,192	544	-	3,162
Interest expense	(9,804)	(2,004)	(10,807)	-	(22,615)
Interest (expense) income to affiliate	(20,110)	22,222	(2,112)	-	-
Subsidiary income	65,973	7,764	-	(73,737)	-
Other income	-	30	-	-	30
	<u>35,485</u>	<u>31,204</u>	<u>(12,375)</u>	<u>(73,737)</u>	<u>(19,423)</u>
Income before income tax expense	<u>32,968</u>	<u>95,347</u>	<u>17,336</u>	<u>(73,737)</u>	<u>71,914</u>
Income tax expense	<u>(11,551)</u>	<u>31,697</u>	<u>6,036</u>	<u>-</u>	<u>26,182</u>
Income before minority interest	44,519	63,650	11,300	(73,737)	45,732
Minority interest	<u>-</u>	<u>-</u>	<u>(1,213)</u>	<u>-</u>	<u>(1,213)</u>
Net income	<u>\$ 44,519</u>	<u>\$ 63,650</u>	<u>\$ 10,087</u>	<u>\$ (73,737)</u>	<u>\$ 44,519</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC
Consolidating Statement of Cash Flows
For the Year Ended December 31, 2007
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidated</u>
Net cash (used in) provided by operating activities	\$ (35,328)	\$ 71,246	\$ 15,628	\$ 51,546
Cash flows from investing activities:				
Purchases of accounts receivable	-	(7,955)	(117,328)	(125,283)
Collections applied to principal of purchased accounts receivable	-	8,196	69,032	77,228
Proceeds from sales and resales of purchased accounts receivable	-	11,318	32,843	44,161
Purchases of property and equipment	-	(17,063)	(8,383)	(25,446)
Proceeds from notes receivable	-	1,131	-	1,131
Net cash paid for acquisitions and related costs	-	(4,408)	(4,473)	(8,881)
Net cash used in investing activities	<u>-</u>	<u>(8,781)</u>	<u>(28,309)</u>	<u>(37,090)</u>
Cash flows from financing activities:				
Repayment of notes payable	-	(78)	(45,623)	(45,701)
Borrowings under notes payable	-	235	41,334	41,569
Repayments under senior credit facility	(74,150)	-	-	(74,150)
Borrowings under senior credit facility	80,500	-	-	80,500
Borrowings under (repayment of) intercompany notes payable	21,684	(49,458)	27,774	-
Payment of fees to acquire debt	(200)	(835)	-	(1,035)
Investment in subsidiary by minority interest	-	-	2,359	2,359
Return of investment in subsidiary to minority interest	-	-	(6,934)	(6,934)
Net cash provided by (used in) financing activities	<u>27,834</u>	<u>(50,136)</u>	<u>18,910</u>	<u>(3,392)</u>
Effect of exchange rate on cash	<u>7,155</u>	<u>-</u>	<u>(4,982)</u>	<u>2,173</u>
Net (decrease) increase in cash and cash equivalents	(339)	12,329	1,247	13,237
Cash and cash equivalents at beginning of the period	<u>339</u>	<u>1,279</u>	<u>12,281</u>	<u>13,899</u>
Cash and cash equivalents at end of the period	<u>\$ -</u>	<u>\$ 13,608</u>	<u>\$ 13,528</u>	<u>\$ 27,136</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC
Consolidating Statement of Cash Flows
For the Period from July 13, 2006 (date of inception) through December 31, 2006
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidated</u>
Net cash (used in) provided by operating activities	\$ (9,077)	\$ (1,549)	\$ 1,328	\$ (9,298)
Cash flows from investing activities:				
Purchases of accounts receivable	-	(999)	(28,710)	(29,709)
Collections applied to principal of purchased accounts receivable	-	4,383	9,194	13,577
Proceeds from sales and resales of purchased accounts receivable	-	326	2,475	2,801
Purchases of property and equipment	-	(1,805)	(441)	(2,246)
Proceeds from notes receivable	-	82	-	82
Investment in subsidiary by minority interest	-	-	2,132	2,132
Distributions to minority interest	-	-	(241)	(241)
Net cash paid for acquisitions and related costs	<u>(338,908)</u>	<u>(617,932)</u>	<u>(17,772)</u>	<u>(974,612)</u>
Net cash used in investing activities	<u>(338,908)</u>	<u>(615,945)</u>	<u>(33,363)</u>	<u>(988,216)</u>
Cash flows from financing activities:				
Repayment of notes payable	-	(646)	(4,142)	(4,788)
Borrowings under notes payable	-	-	5,096	5,096
Borrowings in connection with the Transaction	594,595	235,405	-	830,000
Repayment of borrowings under revolving credit agreement	(229,300)	-	-	(229,300)
Borrowings under revolving credit agreement	36,000	-	-	36,000
Repayment of intercompany notes payable	(432,229)	391,361	40,868	-
Payment of fees to acquire debt	(16,708)	(7,347)	-	(24,055)
Issuance of common stock	<u>395,966</u>	<u>-</u>	<u>-</u>	<u>395,966</u>
Net cash provided by financing activities	<u>348,324</u>	<u>618,773</u>	<u>41,822</u>	<u>1,008,919</u>
Effect of exchange rate on cash	<u>-</u>	<u>-</u>	<u>2,494</u>	<u>2,494</u>
Net increase in cash and cash equivalents	339	1,279	12,281	13,899
Cash and cash equivalents at beginning of the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of the period	<u>\$ 339</u>	<u>\$ 1,279</u>	<u>\$ 12,281</u>	<u>\$ 13,899</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC
Consolidating Statement of Cash Flows
For the Period from January 1, 2006 through November 15, 2006
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidated</u>
Net cash (used in) provided by operating activities	\$ (2,710)	\$ 38,823	\$ 73,559	\$ 109,672
Cash flows from investing activities:				
Purchases of accounts receivable	-	(8,552)	(73,287)	(81,839)
Collections applied to principal of purchased accounts receivable	-	17,650	53,324	70,974
Proceeds from sales and resales of purchased accounts receivable	-	11,580	18,971	30,551
Purchases of property and equipment	-	(29,275)	(11,520)	(40,795)
Proceeds from notes receivable	-	1,033	-	1,033
Investment in subsidiary by minority interest	-	-	16,720	16,720
Distributions to minority interest	-	-	(1,597)	(1,597)
Net cash paid for acquisitions and related costs	-	(1,928)	(6,662)	(8,590)
Net cash used in investing activities	<u>-</u>	<u>(9,492)</u>	<u>(4,051)</u>	<u>(13,543)</u>
Cash flows from financing activities:				
Repayment of notes payable	-	(668)	(53,009)	(53,677)
Borrowings under notes payable	-	-	17,670	17,670
Repayment of borrowings under revolving credit agreement	(69,400)	(56,300)	-	(125,700)
Borrowings under revolving credit agreement	131,000	53,500	-	184,500
Repayment of convertible notes	(125,000)	-	-	(125,000)
Repayment of intercompany notes payable	55,830	(22,149)	(33,681)	-
Payment of fees to acquire debt	-	(12)	-	(12)
Issuance of common stock	3,939	-	-	3,939
Net cash (used in) provided by financing activities	<u>(3,631)</u>	<u>(25,629)</u>	<u>(69,020)</u>	<u>(98,280)</u>
Effect of exchange rate on cash	<u>-</u>	<u>-</u>	<u>(1,180)</u>	<u>(1,180)</u>
Net (decrease) increase in cash and cash equivalents	(6,341)	3,702	(692)	(3,331)
Cash and cash equivalents at beginning of the period	<u>100</u>	<u>5,093</u>	<u>18,523</u>	<u>23,716</u>
Cash and cash equivalents at end of the period	<u>\$ (6,241)</u>	<u>\$ 8,795</u>	<u>\$ 17,831</u>	<u>\$ 20,385</u>

24. Subsidiary Guarantor Financial Information (continued):

NCO GROUP, INC
Consolidating Statement of Cash Flows
For the Year Ended December 31, 2005
(Amounts in thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidated</u>
Net cash provided by operating activities	\$ 1,593	\$ 83,327	\$ 4,630	\$ 89,550
Cash flows from investing activities:				
Purchases of accounts receivable	-	(16,985)	(28,758)	(45,743)
Collections applied to principal of purchased accounts receivable	-	30,362	39,203	69,565
Proceeds from sales and resales of purchased accounts receivable	-	11,489	4,391	15,880
Purchases of property and equipment	-	(32,127)	(11,372)	(43,499)
Net distribution from joint venture	-	4,464	-	4,464
Proceeds from notes receivable	-	1,147	-	1,147
Investment in subsidiary by minority interest	-	-	32,508	32,508
Net cash paid for acquisitions and related costs	-	(85,864)	(137,944)	(223,808)
Net cash used in investing activities	<u>-</u>	<u>(87,514)</u>	<u>(101,972)</u>	<u>(189,486)</u>
Cash flows from financing activities:				
Repayment of notes payable	-	(19,428)	(27,326)	(46,754)
Borrowings under notes payable	-	-	36,688	36,688
Repayment of borrowings under revolving credit agreement	(32,500)	(15,000)	-	(47,500)
Borrowings under revolving credit agreement	6,900	148,600	-	155,500
Repayment of intercompany notes payable	24,928	(58,645)	33,717	-
Investment in non-guarantor subsidiaries	-	(58,243)	58,243	-
Payment of fees to acquire debt	(1,237)	(257)	-	(1,494)
Issuance of common stock	308	-	891	1,199
Net cash (used in) provided by financing activities	<u>(1,601)</u>	<u>(2,973)</u>	<u>102,213</u>	<u>97,639</u>
Effect of exchange rate on cash	<u>-</u>	<u>-</u>	<u>(321)</u>	<u>(321)</u>
Net (decrease) increase in cash and cash equivalents	(8)	(7,160)	4,550	(2,618)
Cash and cash equivalents at beginning of the period	<u>108</u>	<u>12,253</u>	<u>13,973</u>	<u>26,334</u>
Cash and cash equivalents at end of the period	<u>\$ 100</u>	<u>\$ 5,093</u>	<u>\$ 18,523</u>	<u>\$ 23,716</u>