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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014
or

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

For the transition period from to
Commission File Number: 001-35628

PERFORMANT FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**20-0484934**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
333 North Canyons Parkway, Livermore, CA	**94551**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (925) 960-4800
Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $.0001 per share	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.0001 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

As of June 30, 2014 (the last business day of the registrant’s most recently completed second quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was $297,012,377 . Shares of common stock beneficially held by each officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 12, 2015, 49,363,366 shares of the registrant’s common stock were outstanding.

Documents Incorporated By Reference

All or a portion of Items 10 through 14 in Part III of this Form 10-K are incorporated by reference to the Registrant’s definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if the Registrant’s Schedule 14A is not filed within such period, will be included in an amendment to this Report on Form 10-K which will be filed within such 120 day period.

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PART I

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "design," "intend," "expect" and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives, and financial needs. Forward-looking statements include, but are not limited to, statements about:

- our opportunities and expectations for growth in the student lending, healthcare and other markets;
- anticipated trends and challenges in our business and competition in the markets in which we operate;
- our client relationships and future growth opportunities;
- the adaptability of our technology platform to new markets and processes;
- our ability to invest in and utilize our data and analytics capabilities to expand our capabilities;
- our growth strategy of expanding in our existing markets and considering strategic alliances or acquisitions;
- our ability to meet our liquidity and working capital needs;
- maintaining, protecting and enhancing our intellectual property;
- our expectations regarding future expenses;
- expected future financial performance; and
- our ability to comply with and adapt to industry regulations and compliance demands.

These statements reflect current views with respect to future events and are based on assumptions and subject to risks and uncertainties. There are a variety of factors could cause actual results to differ materially from the anticipated results or expectations expressed in our forward-looking statements. These risks and uncertainties include, but are not limited to, those risks discussed in Item 1A of this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

Forward-looking statements contained in this report present management's views only as of the date of this report. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our quarterly reports on Form 10-Q and current reports on Form 8-K filed with the Securities and Exchange Commission.

ITEM 1. Business

Overview

We provide technology-enabled recovery and related analytics services in the United States. Our services help identify and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Our clients typically operate in complex and regulated environments and outsource their recovery needs in order to reduce losses on billions of dollars of defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. We generally provide our services on an outsourced basis, where we handle many or all aspects of our clients' recovery processes.

We believe we have a leading position in our markets based on our proprietary technology-enabled services platform, long-standing client relationships and the large volume of funds we have recovered for our clients. In 2014, we provided recovery services on approximately $9.9 billion of combined student loans and other delinquent federal and state receivables and recovered approximately $244 million in improper Medicare payments. Our clients include 13 of the 30 public sector participants in the student loan industry and these relationships average more than 10 years in length, including a 25-year relationship with the Department of Education. We are currently subject to a competitive rebidding process for the next contract with the Department of Education. As of September 30, 2014, approximately $100.5 billion of government-supported student loans were in default. In the healthcare market, we are currently one of four prime Medicare Recovery Audit Contractors, or RACs, in the United States for the Centers for Medicare and Medicaid Services, or CMS, and are currently

involved in a competitive re−bidding process for the award of the next RAC contract with CMS. According to the Government Accountability Office, Medicare paid $591.2 billion of claims in 2013, of which approximately $44 billion were estimated to be improper payments.

We utilize our technology platform to efficiently provide recovery and analytics services in the markets we serve. We have continuously developed and refined our technology platform for almost two decades by using our extensive domain and data processing expertise. Our technology platform allows us to disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent component steps, which we refer to as workflows, for our recovery and healthcare claims review specialists. This approach enables us to continuously refine our recovery processes to achieve higher rates of recovery with greater efficiency. By optimizing what traditionally have been manually-intensive processes, we believe we achieve higher workforce productivity versus more traditional labor-intensive outsourcing business models. For example, we generated in excess of $130,000 of revenues per employee during 2014, based on the average number of employees during the year.

We believe that our platform is easily adaptable to new markets and processes. Over the past several years, we have successfully extended our platform into additional markets with significant recovery opportunities. For example, we utilized the same basic platform previously used primarily for student loan recovery activities to enter the healthcare market. We have enhanced our platform through investment in new data and analytics capabilities, which we believe will enable us to provide additional services such as services relating to the detection of fraud, waste and abuse.

Our revenue model is generally success-based as we earn fees based on a percentage of the aggregate amount of funds that we enable our clients to recover. Our services do not require any significant upfront investments by our clients and we offer our clients the opportunity to recover significant funds otherwise lost. Because our model is based upon the success of our efforts and the dollars we enable our clients to recover, our business objectives are aligned with those of our clients and we are generally not reliant on their spending budgets. Further, our business model does not require significant capital expenditures and we do not purchase loans or obligations.

For the year ended December 31, 2014, we generated approximately $195.4 million in revenues, $9.4 million in net income, $44.7 million in adjusted EBITDA and $15.3 million in adjusted net income. See “Managements Discussion and Analysis of Financial Condition and Results of Operations - Adjusted EBITDA and Adjusted Net Income” in Item 7 below for a definition of adjusted EBITDA and adjusted net income and reconciliations of adjusted EBITDA and adjusted net income to net income determined in accordance with generally accepted accounting principles.

We commenced our operations in 1976 under the corporate name Diversified Collection Services, Inc., or DCS. We were incorporated in Delaware on October 8, 2003 under the name DCS Holdings, Inc. and subsequently changed our name to Performant Financial Corporation. Our website address is www.performantcorp.com.

Our Markets

We operate in markets characterized by strong growth, a complex regulatory environment and a significant amount of delinquent, defaulted or improperly paid assets.

Student Lending

Government-supported student loans are authorized under Title IV of the Higher Education Act of 1965. Historically, there have been two distribution channels for student loans: (i) the Federal Direct Student Loan Program, or FDSLP, which represents loans made and managed directly by the Department of Education; and (ii) the Federal Family Education Loan Program, or FFELP, which represents loans made by private institutions and currently backed by any of the 29 Guaranty Agencies, or "GAs".

In July 2010, the government-supported student loan sector underwent a structural change with the passage of the Student Aid and Fiscal Responsibility Act, or SAFRA. This legislation transitioned all new government-supported student loan originations to the FDSLP, and away from originations made by private institutions within the FFELP that had previously utilized the GAs to guarantee, manage and service loans. The GAs are non-profit 501(c)(3) public benefit corporations operating under contract with the U.S. Secretary of Education, pursuant to the Higher Education Act of 1965, as amended, solely for the purpose of guaranteeing and managing student loans originated by lenders participating in the FFELP. Consequently, while the original distribution channels for student loans have been consolidated into one channel, the Department of Education, this does not impact the volume of government-supported student loan origination, which is a key driver of the volume of defaulted student loan inventory. In addition, despite this transition of all new loan originations to the FDSLP, GAs will continue to manage a significant amount of defaulted student loans for some period of time, due to their large

outstanding portfolios of loans originated prior to July 2010. The outstanding portfolios of defaulted FFELP loans will, therefore, require recovery for the foreseeable future.

The Department of Education estimates that the balance of defaulted loans was approximately $66.0 billion in the FDSLP and approximately $34.5 billion in the FFELP as of September 30, 2014. These programs collectively guaranteed approximately $977 billion of federal government-supported student loans according to the Congressional Budget Office as of September 30, 2013. Given the operational and logistical complexity involved in managing the recovery of defaulted student loans, the Department of Education and the GAs generally choose to outsource these services to third parties.

Healthcare

The healthcare industry represents a significant portion of the U.S. GDP. According to CMS, U.S. healthcare spending reached $2.9 trillion in 2013 and is forecast to grow at a 5.7% compound annual growth rate through 2023. In particular, CMS indicates that federal government-related healthcare spending for 2013 totaled approximately $1.0 trillion. This federal government-related spending included approximately $591.2 billion for Medicare, which provides a range of healthcare coverage primarily to elderly and disabled Americans, and $431.1 billion for Medicaid, which provides federal matching funds for states to finance healthcare for individuals at or below the public assistance level.

Medicare was initially established as part of the Social Security Act of 1965 and consists of four parts: Part A covers hospital and other inpatient stays; Part B covers hospital outpatient, physician and other services; Part C is known as Medicare Advantage, under which beneficiaries receive benefits through private health plans; and Part D is the Medicare outpatient prescription drug benefit.

Of the $591.2 billion of Medicare spending in 2013, the Department of Health and Human Services estimated that approximately $48 billion, or approximately 8.6%, was improper, and that Medicare is the federal program with the largest amount of improper payments. Medicare improper payments generally involve incorrect coding, procedures performed which were not medically necessary, and incomplete documentation or claims submitted based on outdated fee schedules, among other issues.

In accordance with the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, a demonstration program was conducted from March 2005 to March 2008 in six states to determine if the RAC program could be effectively used to identify improper payments for claims paid under Medicare Part A and Part B. Due to the success of this demonstration, under The Tax Relief and Health Care Act of 2006, the U.S. Congress authorized the expansion of the RAC program nationwide. CMS relies on third-party contractors to execute the RAC program to analyze millions of Medicare claims annually for improper payments to healthcare providers. The program was implemented by designating one prime contractor in each of the four major regions in the United States: West, Midwest, South, and Northeast.

In addition to government-related healthcare spending, significant growth in spending is expected in the private healthcare market. According to CMS' National Health Expenditures Projections, the private healthcare market accounted for approximately $961 billion in spending in 2013 and private expenditures are projected to grow more than 5.7% annually through 2023.

Other Markets

State Tax Market

As state governments struggle with revenue generation and face significant budget deficits, many states have focused on recovery of delinquent state taxes. According to the Center on Budget and Policy Priorities, an independent think tank, 31 U.S. states faced projected budget shortfalls totaling $55 billion in the year ended September 30, 2013. The economic recession beginning in 2008 led to lower income and sales taxes from both individuals and corporations, reducing overall tax revenues and leading to large budget deficits at the state government level. While many states have received federal aid, most have cut services and increased taxes to help close the budget shortfall and have evaluated outsourcing at least some aspect of delinquent tax recovery.

Federal Agency Market

The federal agency market consists of government debt subrogated to the Department of the Treasury by numerous different federal agencies, comprising a mix of commercial and individual obligations and a diverse range of receivables. These debts are managed by the Bureau of the Fiscal Service (formerly the Department of Financial Management Service), or FS, a bureau of the Department of the Treasury. Since 1996, the FS has recovered more than $63 billion in delinquent federal and state debt. For the fiscal year ended September 30, 2013, federal agency recoveries in this market totaled more than $7 billion,

an increase of more than $13 million over 2012. A significant portion of these collections are processed by private collection firms on behalf of the FS.

Our Competitive Strengths

We believe that our business is difficult to replicate, as it incorporates a combination of several important and differentiated elements, including:

- ***Scalable and flexible technology-enabled services platform.*** We have built a proprietary technology platform that is highly flexible, intuitive and easy to use for our recovery and claims specialists. Our platform is easily configurable and deployable across multiple markets and processes. For example, we have successfully extended our platform from the student loan market to the state tax, federal treasury receivables and the healthcare recovery markets, each having its own industry complexities and specific regulations.

- ***Advanced, technology-enabled workflow processes.*** Our technology-enabled workflow processes, developed over many years of operational experience in recovery services, disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent steps that are easily configurable and applicable to different types of recovery-related applications. We believe our workflow software is highly intuitive and helps our recovery and claims specialists manage each step of the recovery process, while automating a series of otherwise manually-intensive and document-intensive steps in the recovery process. We believe our streamlined workflow technology drives higher efficiencies in our operations, as illustrated by our ability to generate in excess of $130,000 of revenues per employee during 2014, based on the average number of employees during the year. We believe our streamlined workflow technology also improves recovery results relative to more labor-intensive outsourcing models.

- ***Strong data and analytics capabilities.*** Our data and analytics capabilities allow us to achieve strong recovery rates for our clients. We have collected recovery-related data for over two decades, which we combine with large volumes of client and third-party data to effectively analyze our clients' delinquent or defaulted assets and improper payments. We have also developed a number of analytics tools that we use to score our clients' recovery inventory, determine the optimal recovery process and allocation of resources, and achieve higher levels of recovery results for our clients. In addition, we utilize analytics tools to continuously measure and test our recovery workflow processes to drive refinements and further enhance the quality and effectiveness of our capabilities.

- ***Long-standing client relationships.*** We believe our long-standing focus on achieving superior recovery performance for our clients and the significant value our clients derive from this focus have helped us achieve long-tenured client relationships, strong contract retention and better access to new clients and future growth opportunities. We have business relationships with 13 of the 30 public sector participants in the student loan market and these relationships average more than 11 years in length, including an approximate 24-year relationship with the Department of Education. In the healthcare market, we have an eight-year relationship with CMS and are currently one of four prime Medicare RAC contractors.

- ***Extensive domain expertise in complex and regulated markets.*** We have extensive experience and domain expertise in providing recovery services for government and private institutions that generally operate in complex and regulated markets. We have demonstrated our ability to develop domain expertise in new markets such as healthcare and state tax and federal Treasury receivables. We believe we have the necessary organizational experience to understand and adapt to evolving public policy and how it shapes the regulatory environment and objectives of our clients. We believe this helps us identify and anticipate growth opportunities. For example, we successfully identified government healthcare as a potential growth opportunity that has thus far led to the award of three contracts to us by CMS. Together with our flexible technology platform, we have the ability to adapt our business strategy, to allocate resources and to respond to changes in our regulatory environment to capitalize on new growth opportunities.

- ***Proven and experienced management team.*** Our management team has significant industry experience and has demonstrated strong execution capabilities. Our senior management team, led by Lisa Im, has been with us for an average of approximately12 years. This team has successfully grown our revenue base and service offerings beyond the original student loan market into healthcare and delinquent state tax and private financial institutions receivables. Our management team's industry experience, combined with deep and specialized understanding of complex and highly regulated industries, has enabled us to maintain long-standing client relationships and strong financial results.

Our Growth Strategy

Key elements of our growth strategy include the following:

- ***Expand our student loan recovery volume.*** The balance of defaulted government-supported student loans was approximately $100.5 billion as of September 30, 2014. While we have long-standing relationships with some of the largest participants in the government-supported student loan market, we believe there are significant opportunities within this growing market to increase the volume of student loans placed with us by existing and new clients. For example, if we are able to enter into a new contract with the Department of Education, which is currently subject to a rebidding process, we believe there is an opportunity to grow our placement volume through strong performance. Further, as a result of our relationships with five of the seven largest GAs, we believe we are well-positioned to benefit as a result of any consolidation of smaller GAs over the coming years.

- ***Expand our recovery services in the healthcare market.*** According to CMS, Medicare spending totaled approximately $591.2 billion in 2013 and is expected to increase to $1.1 trillion in 2022, representing a compound annual growth rate of 7.4%. In the private healthcare market, spending totaled $961 billion in 2013 and is expected to grow more than 5.7% annually through 2023, according to CMS' National Health Expenditures Projections. As these large markets continue to grow, we expect the need for recovery services to increase in the public and private healthcare markets. In the first quarter of 2014, we submitted proposals for new RAC contracts in all four regions, although this contracting process remains delayed due to litigation related to the bidding process. We have also entered into contracts and are pursuing additional opportunities to provide audit, recovery and analytics services in the private healthcare market. In addition, we intend to pursue opportunities to find and eliminate losses prior to payment for healthcare services, including the detection of fraud, waste and abuse in the public and private healthcare markets.

- ***Pursue strategic alliances and acquisitions.*** We intend to selectively consider opportunities to grow through strategic alliances or acquisitions that are complementary to our business. These opportunities may enhance our existing capabilities, enable us to enter new markets, expand our product offerings and allow us to diversify our revenues.

Our Platform

Our technology-enabled services platform is based on over two decades of experience in recovering large amounts of funds on behalf of our clients across several markets. The components of our platform include our data management expertise, analytics capabilities and technology-based workflow processes. Our platform integrates these components to allow us to achieve optimized outcomes for our clients in the form of increased efficiency and productivity and high recovery rates. Our platform and workflow processes are also intuitive and easy to use for our recovery and claims specialists and allow us to increase our employee retention and productivity.

The components of our platform include the following:

Data Management Expertise

Our platform manages and stores large amounts of data throughout the workflow process. This includes both proprietary data we have compiled over two decades, as well as third-party data which we can integrate efficiently and in real-time to reduce errors, reduce cycle time processing and, ultimately, improve recovery rates. The strength of our data management expertise augments our analytics capabilities and provides our recovery and claims specialists with powerful workflow processes.

Data Analytics Capabilities

Our data analytics capabilities efficiently screen and allocate massive volumes of recovery inventory. For example, upon receipt of each placement of student loans, we utilize our proprietary algorithms to assist us in determining the most efficient recovery process and the optimal allocation of recovery specialist resources for each loan. In the healthcare market, we analyze millions of Medicare claims to find potential correlations between claims data and improper payments, which enhance our future recovery rates. Across all of our current markets, we utilize our proprietary analytics tools to continuously and rigorously test our workflow processes in real-time to drive greater process efficiency and improvement in recovery rates.

Furthermore, we believe our analytics capabilities will extend our potential markets, permitting us to pursue significant new business opportunities. For example, we have expanded the use of our data analytics capabilities in the healthcare sector to

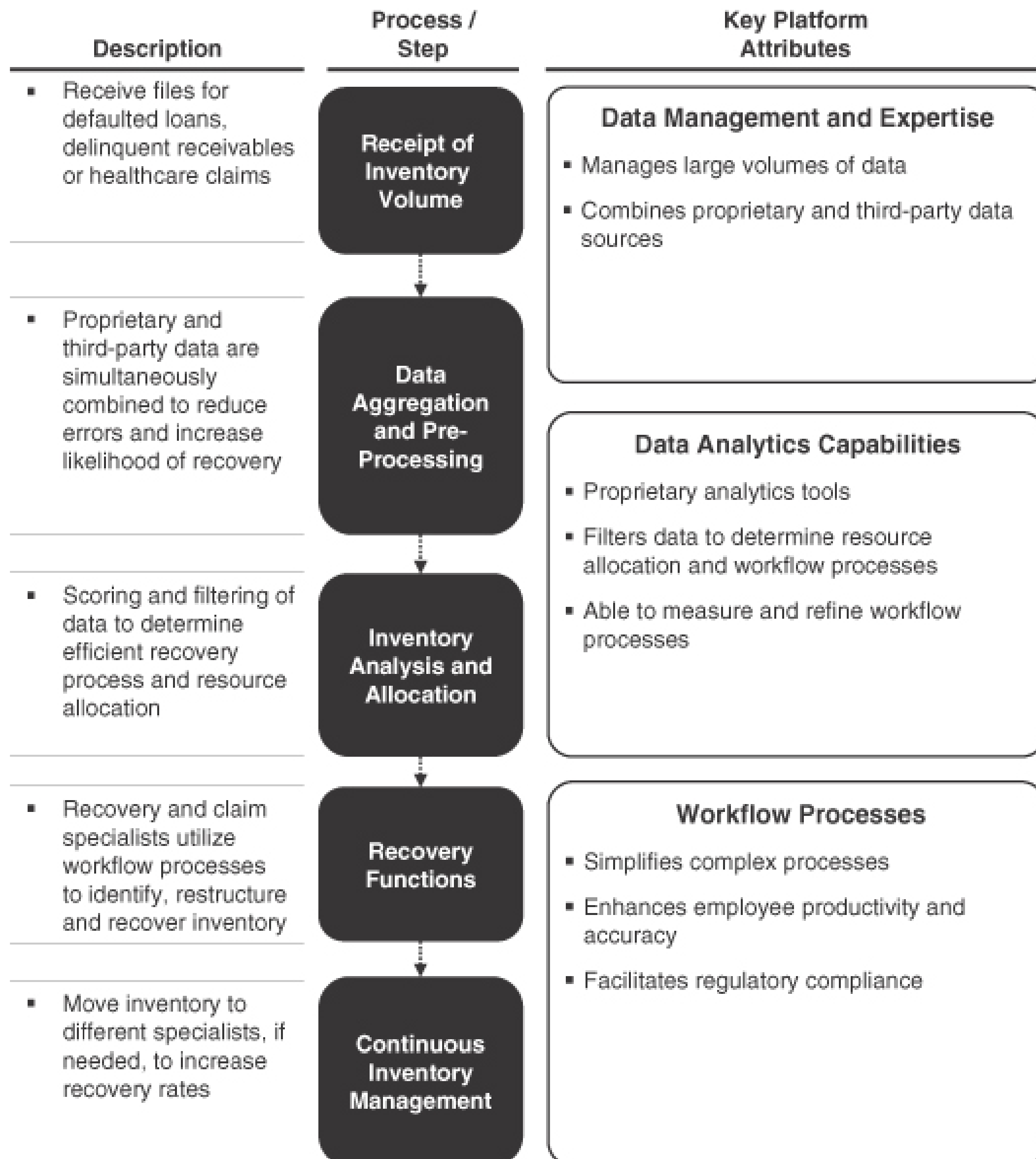
offer a variety of services from post and pre-payment audit of healthcare claims in both the public and private healthcare sector, to detection of fraud, waste and abuse of healthcare claims, to coordination of benefits and pharmacy fraud detection.

Workflow Processes

Over many years, we have developed and refined our recovery workflow processes, which we believe drive higher efficiency and productivity and reduce our reliance on labor-intensive methods relative to more traditional recovery outsourcing models. We refer to the patented technology that supports our proprietary workflows as "Smart Bins." Smart Bins disaggregate otherwise complex recovery processes into a series of simple, efficient and consistent steps that are easily configurable and applicable to different types of recovery-related applications. Our workflow processes integrate a broad range of functions that encompass each stage of a recovery process.

Smart Bins have been designed to be highly intuitive and help our recovery and claims specialists manage each step in the recovery process and enhance their productivity to high levels, regardless of skill differences among specialists. Smart Bins direct specialists toward the most efficient and effective action or step with respect to the management and recovery of a defaulted student loan, with some input by specialists. Our technology places expert system rules into the workflow engine, allowing employees at different skill levels to manage the more complex work steps that highly experienced workers would perform, while automating document management and compliance functionality as industry regulations and compliance demands change.

The following recovery diagram illustrates how the various components of our platform work together to solve a typical client workflow:



Our Services

We use our technology-enabled services platform to provide recovery and analytics services in a broad range of markets for the identification and recovery of student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. The table below summarizes our recovery services and related analytics capabilities and the markets we serve.

Recovery Services			Analytics Capabilities
Student Loans	Healthcare	Other Markets	
• Provide recovery services to the Department of Education, GAs and private institutions • Identify and track defaulted borrowers across our clients' portfolios of student loans • Utilize our proprietary technology, our history of borrower data and our analytics capabilities to rehabilitate and recover past due student loans • Earn contingent, success-based fees calculated as a percentage of funds that we enable our clients to recover	• Provide audit and recovery services to identify improper healthcare payments for public and private healthcare clients • Identify improper payments typically resulting from incorrect coding, procedures that were not medically necessary, incomplete documentation or claims submitted based on outdated fee schedules • Earn contingent, success-based fees based on a percentage of claim amounts recovered	• Provide tax recovery services to state and municipal agencies • Recover government debt for numerous different federal agencies under a contract with the Treasury • Enable financial institutions to proactively manage loan portfolios and reduce the incidence of defaulted loan assets • Earn contingent, success-based fees calculated as a percentage of the amounts recovered, fees based on dedicated headcount and hosted technology licensing fees	• We use our enhanced data analytics capabilities, which we refer to as Performant Insight, to offer a variety of services from post- and pre-payment audit of healthcare claims to detection of fraud, waste and abuse of healthcare claims, to coordination of benefits and pharmacy fraud detection

Recovery Services

Student Loans

We provide recovery services primarily to the government-supported student loan industry, and our clients include the Department of Education and several of the largest GAs, as well as private financial institutions. We use our proprietary technology to identify, track and communicate with defaulted borrowers on behalf of our clients to implement suitable recovery programs for the repayment of outstanding student loan balances.

Our clients contract with us to provide recovery services for large pools of student loans generally representing a portion of the total outstanding defaulted balances they manage, which they provide to us as "placements" on a periodic basis. Generally, the volume of placements that we receive from our clients is influenced by our performance under our contracts and our ability to recover funds from defaulted student loans, as measured against the performance of competitors who may service a similar pool of defaulted loans for the same client. To the extent we perform well under our existing contracts and differentiate our services from those of our competitors, we may receive a relatively greater number of student loan placements under these contracts and may improve our ability to obtain future contracts from these clients and other potential clients.

We use algorithms derived from over two decades of experience with defaulted student loans to make reasonably accurate estimates of the recovery outcomes likely to be derived from a placement of defaulted student loans.

Our current contract with the Department of Education will expire in April 2015, and we are currently subject to a competitive rebidding process for the next contract with the Department of Education. We understand that five other recovery service providers under the current contract have recently received notice from the Department of Education stating an intention to extend their existing contracts past April 2015. To date, we have not received notice of any such extension from the Department of Education and we are unsure whether we will be provided any such extension of our current contract or when the new contracts will be awarded. We do not believe the Department of Education has completed the current contract extension process. However, due to the timing of the rehabilitation process for loans placed with us by the Department of Education, we expect there will be a minimal impact on our revenues in 2015 if we do not receive an extension of our current contract. Despite notice of their intent to extend the current contract for five recovery service providers, we believe the Department of Education is not permitted to selectively extend the contract for individual recovery service providers.

We also restructure and recover student loans issued directly by banks to students outside of federal lending programs. These types of loans typically supplement government-supported student loans to meet any shortfall in supply of student loan needs that cannot be met by grants or federal loans. Unlike government-supported student loans, private student loans do not have capped interest rates and, accordingly, involve higher instances of default relative to federally-backed student loans.

Healthcare

We provide recovery services related to improper payments in the healthcare market. In 2009 we were awarded the role as one of four prime RAC contractors in the United States, with exclusive responsibility for the Northeast region. Under our existing RAC contract, we identify and facilitate the recovery of improper Parts A and B Medicare payments. Our relationship with CMS began in 2005 with an initial demonstration contract to recover improper payments for Medicare Secondary Payor claims.

Under our existing RAC contract with CMS, we utilize our technology-enabled services platform to screen Medicare claims against several criteria, including coding procedures and medical necessity standards, to determine whether a claim should be further investigated for recoupment or adjustment by CMS. We conduct automated and, where appropriate, detailed medical necessity reviews. If we determine that the likelihood of finding a potential improper payment warrants further investigation, we request and review healthcare provider medical records related to the claim, utilizing experts in Medicare coding and registered nurses. We interact and communicate with healthcare providers and other administrative entities, and ultimately submit the claim to CMS for correction.

We are currently involved in a competitive rebidding process for four new RAC contracts with CMS. The timing of new RAC contract awards remains uncertain. The bidding process has been delayed, at least in part, by pre−award protests and, following the denial of those protests, by ongoing litigation. The plaintiffs in the litigation are seeking the elimination of payment terms under the proposed new RAC contracts that would prohibit RACs from being compensated for improper claims until a second level of appeal has been exhausted. An initial decision in favor of CMS was subject to appeal in which the appellate court recently remanded the case back to the lower court to rule on the merits of the case. There is a related injunction barring the award of three of the four new RAC contracts pending resolution of this litigation. A fifth RAC contract, which is a new type of RAC contract covering the identification and recovery of improper claims for durable medical equipment, prosthetics, orthotics and supplies and home health and hospice claims, was not covered by the injunction and was awarded to another party in January 2015. The Company is not a party to this litigation. CMS has stated that the injunction will delay the award of the three contracts until the judge’s ruling on the injunction, which is not expected to occur until late summer 2015. It is uncertain whether CMS will award the RAC contract not covered by the injunction in the interim period or will wait to award all of the new RAC contracts at the same time. CMS also recently announced that it extended our existing RAC contract through December 31, 2015, along with a limited scope of procedures we will be allowed to conduct and a limited scope of claim types we will be permitted to pursue during this extended period. CMS has further indicated they may, at their discretion, approve additional issues that we will be permitted to review and audit during the RAC contract extension period.

In the private healthcare market, we utilize our technology-enabled services platform to provide audit, recovery and analytical services for private healthcare payors. Our experience from our existing RAC contract has helped establish our presence in the private healthcare market by providing us the opportunity to provide audit and recovery services for several national commercial health plans. Our audit and analytic capabilities have allowed us not only to expand our services with these initial private healthcare clients, but also gain entry into other related private healthcare opportunities.

Other Markets

We also provide recovery services to several state and municipal tax authorities, the Department of the Treasury, the Department of Education and a number of financial institutions.

For state and municipal tax authorities, we analyze a portfolio of delinquent tax and other receivables placed with us, develop a recovery plan and execute a recovery process designed to maximize the recovery of funds. In some instances, we have also run state tax amnesty programs, which provide one-time relief for delinquent tax obligations, and other debtor management services for our clients. We currently have relationships with numerous state and municipal governments. Delinquent obligations are placed with us by our clients and we utilize a process that is similar to the student loan recovery process for recovering these obligations.

For the Department of the Treasury, we recover government debt subrogated to it by numerous different federal agencies. The placements we are provided represent a mix of commercial and individual obligations. We are one of four contractors for the most recent Treasury contract.

We also provide risk management advisory services that enable these clients to proactively manage loan portfolios and reduce the incidence of defaulted loan assets over time. Our experience suggests that proactive default prevention practices produce significant net yield and earnings gains for our clients. We deliver these services in two forms. First, we contact and consult with borrowers to implement a repayment program, including payment through automatic debit arrangements, prior to the beginning of the repayment period in order to increase the likelihood that payments begin on time. Second, we offer a service that involves contacting delinquent borrowers in an effort to cure the delinquency prior to the loan entering default.

Analytics Capabilities

For several years, we have leveraged our data analytics tools to help filter, identify and recover delinquent and defaulted assets and improper payments as part of our core recovery services platform. Through our data analytics capabilities, which we refer to as Performant Insight, we are able to review, aggregate, and synthesize very large volumes of structured and unstructured data, at high speeds, from the initial intake of disparate data sources, to the warehousing of the data, to the analysis and reporting of the data. We believe we have built a differentiated, next-generation "end-to-end" data processing solution that will maximize value for current and future customers.

Performant Insight provides numerous benefits for our recovery services platform. Performant Insight has not only enhanced our existing recovery services under our RAC contract by analyzing significantly higher volumes of healthcare claims at faster rates and reducing our cycle time to review and assess healthcare claims, but has also enabled us to develop improved and more sophisticated business intelligence rules that can be applied to our audit processes. We believe our analytics capabilities will extend our potential markets, permitting us to pursue significant new business opportunities. We have expanded the use of our data analytics capabilities in the healthcare sector to offer a variety of services from post and pre-payment audit of healthcare claims in both the public and private healthcare sector, to detection of fraud, waste and abuse of healthcare claims, to coordination of benefits and pharmacy fraud detection.

Our Clients

We provide our services across a broad range of government and private clients in several markets.

Department of Education

We have provided student loan recovery services to the Department of Education for approximately 24 years. We restructure and recover defaulted student loans distributed directly by the Department of Education as part of the FDSLP. Due to its limited resources and recovery capabilities, the Department of Education outsources much of its defaulted student loan portfolio to third-party vendors for recovery. Recovery fees are entirely contingency-based, and our fee for a particular recovery depends on the type of recovery facilitated. We also receive incremental performance incentives based upon our performance as compared to other contractors with the Department of Education, which are comprised of additional inventory allocation volumes and incentive fees. To participate in the Department of Education contracts, firms must follow a highly competitive selection process. For the latest Department of Education contract, the fourth major contract the Department of Education has outsourced to selected vendors, we were selected as one of 17 unrestricted vendors and initiated work on this contract in the fourth quarter of 2009. Our current contract with the Department of Education will expire in April 2015. We are currently subject to a competitive rebidding process for the next contract with the Department of Education. We understand that five other recovery service providers under the current contract have recently received notice from the Department of Education stating an intention to extend their existing contracts past April 2015. To date, we have not received notice of any such extension from the Department of Education, and we are unsure whether we will be provided any such extension of our current contract or when the new contracts will be awarded. We do not believe the Department of Education has completed the current contract extension process. However, due to the timing of the rehabilitation process for loans placed with us by the Department of Education, we expect there will be a minimal impact on our revenues in 2015 if we do not receive an extension of our current contract. Despite notice of their intent to extend the current contract for five recovery service providers, we believe the Department of Education is not permitted to selectively extend the contract for individual recovery service providers. Because all federally-supported student loans are being originated by the Department of Education as a result of SAFRA, our relationship with the Department of Education will become increasingly more important over time. The Department of Education was responsible for approximately 27.2% of our revenues for the year ended December 31, 2014.

Guaranty Agencies

We restructure and recover defaulted student loans issued by private lenders and backed by GAs under the FFELP. Despite the transition from FFELP to FDSLP, we believe GA default volumes will continue to rise for a few years as there generally is a lag between originations and defaults of at least three to four years. When a borrower stops making regular payments on a FFELP loan, the GA is obligated to reimburse the lender approximately 97% of the loan's principal and accrued interest. GAs then seek to recover and restructure these obligations. The GAs with which we contract generally structure one to

three-year initial term contracts with multiple renewal periods, and historically the fees that we receive are generally similar to the fees we receive from the Department of Education contract. For some GA clients, we provide services through MSAs, under which we manage a GA's entire portfolio of defaulted student loans and, for certain clients, engage subcontractors to provide a portion of the recovery services associated with a GA's student loan portfolio.

We have a relationship with 12 of the 29 active GAs in the U.S., including Great Lakes Higher Education Guaranty Corporation and American Student Assistance Corporation, which were responsible for 15.1% and 12.7%, respectively, of our revenues for the year ended December 31, 2014. We have had relationships with some GA clients for over 25 years.

CMS

We have a nine-year relationship with CMS. Under our RAC contract with CMS awarded in 2009, we identify and facilitate the recovery of improper Part A and Part B Medicare payments in the Northeast region of the United States. The RAC contract accounted for approximately 14.9% of our revenues for the year ended December 31, 2014. We are currently subject to a competitive rebidding process for the next RAC contract with CMS. The fees that we receive for identifying these improper payments from CMS are entirely contingency-based, and the contingency-fee percentage depends on the methods of recovery, and, in some cases, the type of improper payment that we identify.

U.S. Department of the Treasury

We have assisted the Department of the Treasury for 17 years in the recovery of delinquent receivables owed to a number of different federal agencies. The debt obligations we help to recover on behalf of the Department of the Treasury include commercial and individual debt obligations. We are one of the four firms servicing the current Department of the Treasury contract. Similar to our other recovery contracts, our fees under this contract are contingency-based. We view this as an important strategic relationship, as it provides us valuable insight into other business opportunities within the federal government.

State Tax and Municipal Agencies

We provide outsourced recovery services for individuals' delinquent state tax and other municipal obligations on a hosted model and under MSAs. We currently have relationships with ten state and municipal governments.

Private Lenders

We provide recovery services for private student loans, that supplement federally guaranteed loans, and home mortgages to private lenders.

Sales and Marketing

Our new business opportunities have historically been driven largely by referrals and natural extensions of our existing client relationships, as well as a targeted outreach by senior management. Our sales cycles are often lengthy, and demand high levels of attention from our senior management. At any point in time, we are typically focused on a limited number of potentially significant new business opportunities. As a result, to date, we have operated with a small staff of experienced individuals with responsibility for developing new sales, relying heavily upon our executive staff, including an appropriate sales and marketing team covering various markets.

Technology Operations

Our technology center is based in Livermore, California, with a redundant capacity in our Grants Pass, Oregon office. Additionally, Performant Insight, our data analytics business, is supported by staff in Miami Lakes, Florida. We have designed our infrastructure for scalability and redundancy, which allows us to continue to operate in the event of an outage at either datacenter. We maintain an information systems environment with advanced network security intrusion detection and prevention with 24x7 monitoring and security incident response capabilities. We utilize encryption technologies to protect sensitive data on our systems, all data during transmission and all data on redundancy or backup media. We also maintain a comprehensive enterprise-wide information security system based upon recognized standards, including the NIST800 53 and ISO 27002 Code of Practice for Information Security Program Management, to uphold high security standards needed for the protection of sensitive information.

Competition

We face significant competition in all aspects of our business.

In recovery services for delinquent and defaulted assets, we face competition from a number of companies. Holders of these delinquent and defaulted assets typically engage several firms simultaneously to provide recovery services on different portions of their portfolios. The number of recovery firms engaged varies by client. For example, we are one of 17 unrestricted providers of recovery services on the current Department of Education contract, while some of the GAs may only engage a few recovery vendors at any time. Initially, we compete to be one of the retained firms in a competitive bidding process and, if we are successful, we then face continuing competition from the client's other retained firms based on the client's benchmarking of the recovery performance of its several vendors. Clients such as the Department of Education typically will allocate additional placements to those recovery vendors producing the highest recovery rates. We believe that we primarily compete on the basis of recovery rate performance, as well as maintenance of high standards of recovery practices and data security capabilities. We believe that we compete favorably with respect to most of these factors as evidenced by our long-standing relationships with our clients in these markets. Pricing is not usually a major competitive factor as all recovery services vendors in these markets typically receive the same contingency-based fee rate.

In the recovery of improper healthcare payments, we faced a highly competitive process, involving a large number of bidders, to become one of the four prime RAC contractors in the United States. CMS is currently in the procurement process for the next round of RAC contracts. We expect that our competition will include the other three RAC service providers: Health Management Systems, Inc., Connolly Consulting, Inc. and CGI Group. We also may face competition from a variety of healthcare consulting and healthcare information services companies. Some of these potential competitors for the next RAC contract may have greater financial and other resources than we do. According to the request for quotes, the competitive factors for this new RAC contract are demonstrated experience in effective recovery services in the healthcare market, technical approach for identifying improper payments, key personnel and staffing, financial capability to perform under the RAC contract and recovery fee rates. We believe that our eight-year relationship with CMS and our related experience in providing recovery services to identify improper payments allows us to compete favorably with respect to many of these factors. We expect that our performance in identifying claims, managing the claims processes under the current RAC contract, and established systems integration with CMS and related Medicare administrative contractors will also be key factors in determining our continued service to CMS.

Government Regulation

The nature of our business requires that we adhere to a complex array of federal and state laws and regulations. These include the Health Insurance Portability and Accountability Act, or HIPAA, the Fair Debt Collection Practices Act, or FDCPA, the Fair Credit Reporting Act, or FCRA, the rules and regulations established by the Consumer Financial Protection Bureau, or CFPB, and related state laws. We are also governed by a variety of state laws that regulate the collection, use, disclosure and protection of personal information. We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and we have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data. Our compliance efforts include training of personnel and monitoring our systems and personnel.

HIPAA and Related State Laws

Our Medicare recovery business subjects us to compliance with HIPAA and various related state laws that contain substantial restrictions and requirements with respect to the use and disclosure of an individual's protected health information. HIPAA prohibits us from using or disclosing an individual's protected health information unless the use or disclosure is authorized by the individual or is specifically required or permitted under HIPAA. Under HIPAA, we must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic protected health information maintained or transmitted by us or by others on our behalf. We are required to notify affected individuals and government authorities of data security breaches involving unsecured protected health information. The Department of Health and Human Services Office of Civil Rights enforces HIPAA privacy violations; CMS enforces HIPAA security violations and the Department of Justice enforces criminal violations of HIPAA. We are subject to statutory penalties for violations of HIPAA.

Most states have enacted patient confidentiality laws that protect against the unauthorized disclosure of confidential medical information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards and data security breach notification requirements. These state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements, and we must comply with them even though they may be subject to different interpretations by various courts and other governmental authorities. In addition, numerous other state laws govern the collection, dissemination, use, access to and confidentiality of individually identifiable health and healthcare provider information.

Our compliance efforts include the encryption of protected health information that we hold and the development of procedures to detect, investigate and provide appropriate notification if protected health information is compromised. Our

employees and contractors receive initial and periodic supplemental training and are tested to ensure compliance. As part of our certification and accreditation process, we must undergo audits by federal agencies as noted below. CMS regularly audits us for, among other items, compliance with their security standards.

Privacy Act of 1974

The Privacy Act of 1974 governs the collection, use, storage, destruction and disclosure of personal information about individuals by a government agency and extends to government contractors who have access to agency records performing services for government agencies. The Privacy Act requires maintenance of a code of conduct for employees with access to the agency records addressing the obligations under the Privacy Act, training of employees and discipline procedures for noncompliance. The Privacy Act also requires adopting and maintaining appropriate administrative, technical and physical safeguards to insure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security or integrity.

As a contractor to federal government agencies we are required to comply with the Privacy Act of 1974. Our compliance effort includes initial and ongoing training of employees and contractors in their obligations under the Privacy Act. In addition we have implemented and maintain physical, technical and administrative safeguards and processes intended to protect all personal data consistent with or exceeding our obligations under the Privacy Act.

Certification, Accreditation and Security

Business services that collect, store, transmit or process information for United States government agencies and organizations are required to undergo a rigorous certification and accreditation process to ensure that they operate at an acceptable level of security risk. As a government contractor, we currently have Authority to Operate, or ATO, licenses from both the Department of Education and CMS.

We maintain a comprehensive enterprise-wide information security system based upon recognized standards, including the NIST800 53 and ISO 27002 Code of Practice for Information Security Program Management, to uphold high security standards needed for the protection of sensitive information. In addition, we hold SSAE – SOC 1 Type II certification, which provides assurance to auditors of third parties that we maintain the necessary controls and procedures to effectively manage third party data. We undergo an independent audit by our government agency clients on the award of the contract and periodically thereafter. We also conduct periodic self-assessments.

Our regulatory compliance group is charged with the responsibility of ensuring our regulatory compliance and security. All our facilities have security perimeter controls with segregated access by security clearance level. The information systems environment maintains advanced network security intrusion detection and prevention with 24x7 monitoring and security incident response capabilities. We utilize encryption technologies to protect sensitive data on our systems, all data during transmission and all data on redundancy or backup media. Employees undergo background and security checks appropriate to their position. This can include security clearances by the Federal Bureau of Investigation. We also maintain compliant disaster recovery and business continuity plans, annually conduct two table top disaster exercises, conduct routine security risk assessments and maintain a continuous improvement process as part of our security risk mitigation and management activity.

FDCPA and Related State Laws

The FDCPA regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. Certain of our debt recovery and loan restructuring activities may be subject to the FDCPA. The FDCPA establishes specific guidelines and procedures that debt recovery firms must follow in communicating with consumer debtors, including the time, place and manner of such communications. Further, it prohibits harassment or abuse by debt recovery firms, 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. In addition, the FDCPA contains various notice and disclosure requirements and prohibits unfair or misleading representations by debt recovery firms. Finally, the FDCPA imposes certain limitations on lawsuits to collect debts against consumers.

Prior to the adoption of amendments to the FDCPA as part of the Dodd-Frank Act, no federal agency had the authority to issue interpretative regulations for the FDCPA. As a result, judicial determinations and non-binding interpretative positions issued by the Federal Trade Commission under the FDCPA created compliance difficulties for the consumer debt collections industry. With the adoption of the amendments to the FDCPA as part of the Dodd-Frank Act in 2011, however, as well as specific statutory authority to issue implementing regulations for the FDCPA, primary jurisdiction for the FDCPA was

transferred to the Consumer Financial Protection Bureau, or CFPB. Subsequently, the CFPB has indicated that it may issue proposed regulations under the FDCPA.

Debt recovery activities are also regulated at the state level. Most states have laws regulating debt recovery activities in ways that are similar to, and in some cases more stringent than, the FDCPA. In addition, some states require debt recovery firms to be licensed.

Our compliance efforts include written procedures for compliance with the FDCPA and related state laws, employee training and monitoring, auditing client calls, periodic review, testing and retraining of employees, and procedures for responding to client complaints. In all states where we operate, we believe that we currently hold all required state licenses or are exempt from licensing. Violations of the FDCPA may be enforced by the U.S. Federal Trade Commission, or FTC, or by a private action by an individual or class. Violations of the FDCPA are deemed to be an unfair or deceptive act under the Federal Trade Commission Act, which can be punished by fines for each violation. Class action damages can total up to one percent of the net worth of the entity violating the statute. Attorney fees and costs are also recoverable. In the ordinary course of business we are sued for alleged violations of the FDCPA and comparable state laws, although the amounts involved in the disposition or settlement of any such claims have not been significant.

FCRA

We are also subject to the Fair Credit Reporting Act, or FCRA, which regulates consumer credit reporting 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. State law, to the extent it is not preempted by the FCRA, may also impose restrictions or liability on us with respect to reporting adverse credit information. Our compliance efforts include initial and ongoing training of employees working with consumer credit reports, monitoring of performance, and periodic review and risk assessments. Violations of FCRA, which are deemed to be unfair or deceptive acts under the Federal Trade Commission Act, are enforced by the FTC or by a private action by an individual or class. Civil actions by consumers may seek damages per violation, with punitive damages, attorneys fees and costs also recoverable. Under the Federal Trade Commission Act, penalties for engaging in unfair or deceptive acts can be punished by fines for each violation.

CFPB

The CFPB was created as part of the Dodd-Frank Act in 2011, with primary implementing and interpretative authority for most federal consumer protection laws, including the FDCPA, transferred to the CFPB. Among other things, the CFPB was given the authority to issue interpretive regulations for the FDCPA.

In addition to its authority in regard to federal consumer protection laws, the CFPB was also provided direct jurisdiction over certain consumer financial service providers. In October of 2012, the CFPB issued a rule asserting direct jurisdiction over large consumer debt collectors, which includes debt collectors with annual assets of more than $10 million. In accordance with the calculations included in this rule, we are subject to direct jurisdiction of the CFPB and in the future may be directly examined and supervised by the CFPB. In that regard, the CFPB has also released examination guidance that its examiners will use when reviewing compliance by debt collectors subject to its direct supervision .

Recently, the CFPB has focused on service providers involved in collecting debt related to any consumer financial product from committing unfair, deceptive, or abusive acts or practices, or UDAAPs, in violation of the Dodd-Frank Act. UDAAPs include actions that are unfair and likely to cause substantial injury to consumers, deceptive actions that mislead or likely to mislead a consumer and abusive acts that interfere with the ability of a consumer to understand a term or condition of a consumer financial product or takes unreasonable advantage of a consumer's lack of understanding of a consumer financial product. Although abusive acts or practices may also be unfair or deceptive, each of these prohibitions are separate and distinct, and are governed by separate legal standards. Original creditors and other covered persons and service providers involved in collecting debt related to any consumer financial product or service are subject to the prohibition against UDAAPs. The CFPB has indicated that it will continue to review closely the practices of those engaged in the collection of consumer debts for potential UDAAPs in violation of the Dodd-Frank Act.

On April 12, 2013, we received a Civil Investigative Demand, or a CID, from the CFPB requesting production of documents and answers to questions generally related to our debt collection practices and procedures. The CFPB has not alleged a violation by us of any law or regulation. We responded to the CID, but have not been examined by the CFPB. In light of the possibility that the CFPB may issue interpretative regulations for the FDCPA, the issuance of such regulations could adversely affect our business and results of operations if we are not able to adapt our services and client relationships to meet any new regulatory structure that might be required.

State Law Compliance and Security Breach Response

Many states impose an obligation on any entity that holds personally identifiable information or health information to adopt appropriate security to protect such data against unauthorized access, misuse, destruction, or modification. Many states have enacted laws requiring holders of personal information to take certain actions in response to data breach incidents, such as providing prompt notification of the breach to affected individuals and government authorities. In many cases, these laws are limited to electronic data, but states are increasingly enacting or considering stricter and broader requirements. Massachusetts has enacted a regulation that requires any entity that holds, transmits or collects certain personal information about its residents to adopt a written data security plan meeting the requirements set forth in the statute. We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data and properly responding to any security incidents. We have adopted a system security plan and security breach incident response plans to address our compliance with these laws.

Intellectual Property

Our intellectual property is a significant component of our business, including, most notably, the intellectual property underlying our proprietary technology-enabled services platform through which we provide our defaulted asset recovery and other services. To protect our intellectual property, we rely on a combination of intellectual property rights, including patents, trade secrets, trademarks and copyrights. We also utilize customary confidentiality and other contractual protections, including employee and third-party confidentiality and invention assignment agreements.

As of December 31, 2014, we had two U.S. patents, both covering aspects of the workflow management systems and methods incorporated into our technology-enabled services platform. These patents will expire in September 2024. We routinely assess appropriate occasions for seeking additional patent protection for those aspects of our platform and other technologies that we believe may provide competitive advantages to our business. We also rely on certain unpatented proprietary expertise and other know-how, licensed and acquired third-party technologies, and continuous improvements and other developments of our various technologies, all intended to maintain our leadership position in the industry.

As of December 31, 2014, we had five trademarks registered with the U.S. Patent and Trademark office: DCS, Performant Recovery, Performant Technologies, Discovery Analytics, and Performant Insight.

We have registered copyrights covering various copyrighted material relevant to our business. We also have unregistered copyrights in many components of our software systems. We may not be able to use these unregistered copyrights to prevent misappropriation of such content by unauthorized parties in the future; however, we rely on our extensive information technology security measures and contractual arrangements with employees and third-party contractors to minimize the opportunities for any such misuse of this content.

We are not subject to any material intellectual property claims alleging that we infringe, misappropriate or otherwise violate the intellectual property rights of any third party, nor have we asserted any material intellectual property infringement claim against any third party.

Employees

As of December 31, 2014, we had approximately 1,484 full-time employees. None of our employees is a member of a labor union and we consider our employee relations to be good.

Recent Developments

On January 28, 2015, we entered into an Agreement and Plan of Merger (“Merger Agreement”) with Premier Healthcare Exchange, Inc., a Delaware corporation (“PHX”), pursuant to which, PHX would become our wholly-owned indirect subsidiary. The Merger Agreement contains customary closing conditions, including completion of a financing by us to fund the consideration payable under the terms of the Merger Agreement. The purchase price under the Merger Agreement is approximately $108 million in cash, subject to certain adjustments, and certain PHX stockholders will also exchange shares for $22 million of our common stock. We also could be obligated to pay up to an additional $19.1 million in cash pursuant to an earnout arrangement based on PHX in revenues in 2015. On January 28, 2015 we announced proposed concurrent public offerings of $80 million aggregate principal amount of convertible senior notes due 2020 and $50 million of shares of our common stock to finance the cash portion of the consideration payable under the Merger Agreement. On January 30, 2015, we announced our decision to withdraw the proposed public offerings of convertible senior notes and common stock. The Merger Agreement is currently terminable by either us or PHX without penalty, except that we are obligated to pay an expense

termination fee of $750,000 in the event the merger is not completed due to our failure to complete the required financing of the consideration payable under the Merger Agreement.

Available Information

The SEC maintains an Internet site at http://www.sec.gov that contains our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, if any, or other filings filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, proxy and information statements. All reports that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1A. Risk Factors

Our business, financial condition, results of operations and liquidity are subject to various risks and uncertainties, including those described below, and as a result, the trading price of our common stock could decline.

Risks Related to Our Business

Our agreements with the Department of Education and CMS, two of our largest customers, are currently subject to rebidding processes, and our failure to renew these agreements or a renewal on less favorable terms would have a significant negative impact on our revenues and results of operations.

Our existing contracts with the Department of Education and CMS are currently subject to rebidding processes. The Department of Education and CMS were responsible for approximately 27.2% and 14.9% of our revenue for the year ended December 31, 2014, respectively and 20.2% and 26.2% of our revenue for the year ended December 31, 2013, respectively. We understand that five other recovery service providers under the current contract have recently received notice from the Department of Education stating an intention to extend their existing contracts past April 2015, which is the expiration date for the current contract. To date, we have not received notice of any such extension from the Department of Education, and we are unsure whether we will be provided any such extension of our current contract or when the new contracts will be awarded. We do not believe the Department of Education has completed the current contract extension process. However, due to the timing of the rehabilitation process for loans placed with us by the Department of Education, we expect there will be a minimal impact on our revenues in 2015 if we do not receive an extension of our current contract. Despite notice of their intent to extend the current contract for five recovery service providers, we believe the Department of Education is not permitted to selectively extend the contract for individual recovery service providers. We are also currently participating in a competitive bidding process for the next RAC contract, but this process has been and may continue to be delayed, including by ongoing litigation related to the bidding process, protests following the award of contracts or other factors. While we believe our performance under existing contracts with the Department of Education and CMS and the experience we have gained in performing under these contracts position us well to renew both of these agreements, continued delays in the award of the new contracts, failure to retain either of these agreements or a significant adverse change in the terms of either of these agreements upon any renewal would seriously harm our revenues and our operating results.

The transition rules implemented by CMS in connection with the award of the new RAC contract and the delays associated with the award of the new RAC contract will have an adverse impact on our revenues.

Our ability to make claims under our existing RAC contract continues to be limited by contract transition rules announced by CMS. In this regard, CMS suspended our ability to request medical records for audit during a significant portion of the fourth quarter of 2013 and all of 2014 other than a brief period in January and February 2014, beginning again in August 2014 through year end. Recently, CMS announced that it extended our existing RAC contract through December 31, 2015, but has not indicated the type of audit activities and the scope of procedures we will be allowed to conduct during this extended period. In addition, even during periods of permitted audit activity, CMS has placed restrictions on the types of claims and the amount of certain medical records requests that we may make during the transition period, and CMS has generally maintained a long-running prohibition on requesting medical records from PIP providers. These transition rules have had a material adverse effect on our revenues during the year ended December 31, 2014. Our revenues from CMS during the year ended December 31, 2014 were $29.2 million, compared to $66.8 million during the year ended December 31, 2013. Our revenues under this contract will be further diminished during the 2015 calendar year. In addition, a litigation regarding a protest involving three of the four new RAC contracts is ongoing, which has resulted in an injunction barring the award of three of the four new RAC contracts. A fifth RAC contract, which is a new type of RAC contract covering the identification and recovery of improper claims for durable medical equipment, prosthetics, orthotics and supplies and home health and hospice claims, was not covered by the injunction and was awarded to another party in January 2015. We are not a party to this litigation. CMS has stated that

the injunction will delay the award of the three RAC contracts that are subject to the injunction until the judge's ruling on the injunction, which is not expected to occur until summer 2015. It is uncertain whether CMS will award the RAC contract not covered by the injunction in the interim period or wait to award all of the new RAC contracts at the same time. As a result of the delays in the award of the new RAC contract and the restrictions on our audit activities under the existing contract, we expect the reduction in healthcare revenues will have a material adverse effect on our revenues for 2014 and 2015. In addition, if we are successful in obtaining a new RAC contract with CMS, we expect there will be an approximate four to six month period until we start to recognize revenue after the award is made.

Our current or future indebtedness could adversely affect our business and financial condition and reduce the funds available to us for other purposes, and our failure to comply with the covenants contained in our senior secured credit facility could result in an event of default that could adversely affect our results of operations.

As of December 31, 2014, our estimated total debt was $111.8 million. For the year ended December 31, 2014 our consolidated interest expense was $10.2 million. Our ability to make scheduled payments or to refinance our debt obligations and to fund our other liquidity needs depends on our financial and operating performance, which is subject to factors specific to our business, such as maintaining our agreements with our key clients, as well as prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot make assurances that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness and to fund our other liquidity needs. If our cash flows and capital resources are insufficient to fund our debt service obligations and allow us to maintain compliance with the financial covenants and other covenants under our senior secured credit facility or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot ensure that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including our senior secured credit facility. If we cannot make scheduled payments on our debt, we will be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable, our lenders could foreclose against the assets securing our borrowings and we could be forced into bankruptcy or liquidation.

Our debt agreements contain, and any agreements to refinance our debt likely will contain, financial and restrictive covenants that limit our ability to incur additional debt, including to finance future operations or other capital needs, and to engage in other activities that we may believe are in our long−term best interests, including to dispose of or acquire assets or make capital expenditures. These covenants also require us to maintain certain financial ratios, including a fixed charge coverage ratio, total debt to EBITDA ratio and an interest coverage ratio, as well as minimum EBITDA and adjusted cash amounts. While our current projections for 2015 show that we will remain in compliance with these financial covenants throughout 2015, given the reduction in our revenues as a result of the ongoing delays in the award of new contracts by the Department of Education and the new RAC contracts from CMS, and the uncertainty as to when these contracts will be awarded, there can be no assurance that we can maintain compliance with these financial covenants. In particular, our current projections, assuming we do not make any other adjustments to reduce our expenses, show that we will be narrowly in compliance with several of our covenants during the second half of 2015. Our failure to comply with these covenants may result in an event of default, which, if not cured or waived, could accelerate the maturity of our indebtedness or result in modifications to our credit terms. If our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations, our lenders could foreclose against the assets securing our borrowings and we could be forced into bankruptcy or liquidation.

Revenues generated from our four largest clients represented 70% of our revenues for the year ended December 31, 2014, and 75% of our revenues for the year ended December 31, 2013, and any termination of or deterioration in our relationship with any of these clients would result in a decline in our revenues.

We derive a substantial majority of our revenues from a limited number of clients, including the Department of Education, CMS and two GAs. Revenues from our four largest clients represented 70% of our revenues for the year ended December 31, 2014 and 75% of our revenues for the year ended December 31, 2013. All of our contracts with these clients are subject to periodic renewal and re-bidding processes and if we lose one of these clients or if the terms of our relationships with any of these clients become less favorable to us, our revenues would decline, which would harm our business, financial condition and results of operations.

Many of our contracts with our clients for the recovery of student loans and other receivables are not exclusive and do not commit our clients to provide specified volumes of business. In addition, the terms of these contracts may be changed unilaterally and on short notice by our clients. As a consequence, there is no assurance that we will be able to maintain our revenues and operating results.

Substantially all of our existing contracts for the recovery of student loans and other receivables, which represented approximately 83% of our revenues in 2014 and 74% of our revenues in the year ended December 31, 2013, enable our clients to unilaterally terminate their contractual relationship with us at any time without penalty, potentially leading to loss of business or renegotiation of terms. Further, most of our contracts in these markets allow our clients to unilaterally change the volume of loans and other receivables that are placed with us or the payment terms at any given time. In addition, most of our contracts are not exclusive, with our clients retaining multiple service providers with whom we must compete for placements of loans or other obligations. Therefore, despite our contractual relationships with our clients, our contracts do not provide assurance that we will generate a minimum amount of revenues or that we will receive a specific volume of placements.

Our revenues and operating results would be negatively affected if our student loan and receivables clients, which include four of our five largest clients in 2014 and 2013, reduce the volume of student loan placements provided to us, modify the terms of service, including the success fees we are able to earn upon recovery of defaulted student loans, or any of these clients establish more favorable relationships with our competitors. For example, in 2013 in connection with the Department of Education's decision to have its recovery vendors promote income-based repayment, or IBR, to defaulted student loans, the Department of Education unilaterally reduced the contingency fee rate that we receive for rehabilitating student loans by approximately 13%. Further, in October 2014, the Department of Education announced a change to a fixed fee of $1,710 payable for each loan that is rehabilitated in place of a recovery fee that historically had been based on a percentage of the balance of the rehabilitated loan.

Over the course of our existing RAC contract, there has been an increase in the number of appeals by healthcare providers to the third, or ALJ, level of appeal relating to claims we have audited, and there can be no assurance that our estimated liability for such appeals will be adequate.

Under our RAC contract with CMS, we recognize revenues when the healthcare provider has paid CMS for a claim or has agreed to an offset against other claims by the provider. Healthcare providers have the right to appeal a claim and may pursue additional levels of appeal if the initial appeal is found in favor of CMS. We accrue an estimated liability for appeals at the time revenue is recognized based on our estimate of the amount of revenue probable of being refunded to CMS following successful appeal based on historical data and other trends relating to such appeals. In addition, if our estimate of liability for appeals with respect to revenues recognized during a prior period changes, we increase or decrease the estimated liability reserve in the current period. Over the course of our existing RAC contract, healthcare providers have increased their pursuit of appeals beyond the first and second levels of appeal to the third level of appeal, where cases are heard by administrative law judges, or ALJs. In our experience, decisions at the third level of appeal are the least favorable as ALJs exercise greater discretion and there is less predictability in the ALJ decisions as compared to appeals at the first or second levels. The pursuit of third level appeals by healthcare providers has also resulted in a backlog of claims at that level of appeal. This increase of ALJ appeals and backlog of claims at the third level of appeal is the primary reason our total estimated liability for appeals (consisting of the estimated liability for appeals plus the contra-accounts-receivable estimated allowance for appeals) has grown from a balance of $5.6 million at December 31, 2012, to $16.4 million at December 31, 2013 to $18.6 million as of December 31, 2014. Our estimates for our appeal reserve are subject to uncertainties, and accordingly we may underestimate the number of successful appeals or the financial impact of successful appeals in a given year or period. To the extent that the amount of commissions that we are required to return to CMS as a result of successful appeals exceeds our estimated appeals reserve, our revenues in the applicable period will be reduced by the amount of such excess. If we underestimate the amount of commissions that are subject to successful appeal, our revenues in future periods could be adversely affected.

Further, CMS recently offered to pay hospitals 68% of what they have billed Medicare to settle a backlog of pending appeals challenging Medicare's denials of reimbursement for certain types of short-term care. The implication of this settlement offer related to claims for which recovery auditors have already been paid under existing RAC contracts is uncertain at this time. Any payments we are required to make to CMS under our existing RAC contract in connection with such settlement offer may be significant and in excess of the amount we have reserved for appeals, which could have a material negative impact our financial position and liquidity.

Our ability to derive revenues under our RAC contract will depend in part on the number and types of potentially improper claims that we are allowed to pursue by CMS, and our results of operations may be harmed if the scope of claims that we are allowed to pursue and be compensated for is limited.

Under our existing RAC contract with CMS and any new RAC contract that we enter into upon completion of the current rebidding process with CMS, we are not permitted to and may not seek the recovery of an improper claim unless that particular type of claim has been pre-approved by CMS to ensure compliance with applicable Medicare payment policies, as well as national and local coverage determinations. Accordingly, the long-term growth of the revenues we derive under a RAC contract will also depend in part on CMS expanding the scope of potentially improper claims that we are allowed to pursue. If we are unable to continue to identify improper claims within the types of claims that we are permitted to pursue from time to

time or if CMS does not expand the scope of potentially improper claims that we are allowed to pursue, our results of operations could be adversely affected.

In addition, CMS has implemented rules that prevent RAC contractors from being able to review and audit (i) whether inpatient care delivered to patients with hospital stays lasting less than two midnights was medically necessary and therefore deserving of the higher reimbursement levels under Medicare Part A or (ii) whether inpatient treatment was medically necessary for admissions spanning more than two midnights. In connection with these restrictions, hospitals cannot bill CMS for outpatient services on hospital stays lasting less than two midnights during such period. Fees associated with recoveries initiated by us based upon improper claims for inpatient reimbursement of these short stays have represented a substantial portion of the revenues we have earned under our existing RAC contract. The continued suspension of this type of review activity could have a material adverse effect on our future healthcare revenues and operating results in the event we are successful in obtaining a second RAC contract, depending on a variety of factors including, among other things, CMS's evaluation of provider compliance with the new rules, the rules ultimately adopted by CMS with respect to medical necessity reviews of Medicare reimbursement claims associated with short stay inpatient admissions and, more generally, the scope of improper claims that CMS allows us to pursue and our ability to successfully identify improper claims within the permitted scope. In connection with the award of the new RAC contract, CMS has indicated that it is reviewing certain aspects of the RAC contract including the amount of medical records that RAC vendors may request and the timeframes for review and communications between RAC vendors and providers.

We face significant competition in connection with obtaining, retaining and performing under our existing client contracts, including our contracts with the Department of Education and CMS, and an inability to compete effectively in the future could harm our relationships with our clients, which would impact our ability to maintain our revenues and operating results.

We operate in very competitive markets. In providing our services to the student loan and other receivables markets, we face competition from many other companies. Initially, we compete with these companies to be one of typically several firms engaged to provide recovery services to a particular client and, if we are successful in being engaged, we then face continuing competition from the client's other retained firms based on the client's benchmarking of the recovery rates of its several vendors. In addition, those recovery vendors who produce the highest recovery rates from a client often will be allocated additional placements and in some cases additional success fees. Accordingly, maintaining high levels of recovery performance, and doing so in a cost-effective manner, are important factors in our ability to maintain and grow our revenues and net income and the failure to achieve these objectives could harm our business, financial condition and results of operations. Some of our current and potential competitors in the markets in which we operate may have greater financial, marketing, technological or other resources than we do. The ability of any of our competitors and potential competitors to adopt new and effective technology to better serve our markets may allow them to gain market strength. Increasing levels of competition in the future may result in lower recovery fees, lower volumes of contracted recovery services or higher costs for resources. Any inability to compete effectively in the markets that we serve could adversely affect our business, financial condition and results of operations.

The U.S. federal government accounts for a significant portion of our revenues, and any loss of business from, or change in our relationship with, the U.S. federal government would result in a significant decrease in our revenues and operating results.

We have historically derived and are likely to continue to derive a significant portion of our revenues from the U.S. federal government. For the year ended December 31, 2014, revenues under contracts with the U.S. federal government accounted for approximately 46% of our total revenues, compared to 48% for the year ended December 31, 2013. In addition, fees payable by the U.S. federal government are expected to become a larger percentage of our total revenues over the next several years as a result of legislation that has transferred responsibility for all new student loan origination to the Department of Education. The continuation and exercise of renewal options on existing government contracts and any new government contracts are, among other things, contingent upon the availability of adequate funding for the applicable federal government agency. Changes in federal government spending could directly affect our financial performance.

For example, the Bipartisan Budget Act of 2013, which was signed into law by President Obama on December 26, 2013, reduced the compensation paid to GAs for the rehabilitation of student loans, effective July 1, 2014. This "revenue enhancement" measure reduced from 18.5% to 16.0% of the outstanding loan balance, the amount that GAs can charge borrowers when a rehabilitated loan is sold by the GA and eliminated entirely the GAs retention of 18.5% of the outstanding loan balance as a fee for rehabilitation services. The reduction in compensation the GAs receive resulted in a decrease of approximately 25.0% in the contingency fee percentage that we receive from the GAs for assisting in the rehabilitation of defaulted student loans. Further, in October 2014, the Department of Education announced a new fee structure with respect to payment for rehabilitated loans to provide a fixed fee of $1,710 payable for each loan that is rehabilitated in place of a recovery fee that historically had been based as a percentage of the balance of the rehabilitated loan. Any additional decrease in the

student loan contingency fees would result in a further decrease of our revenues. Further, any amounts that we may be obligated to pay CMS under existing RAC contract as a result of CMS's recent offer to pay hospitals 68% of what they have billed Medicare to settle a backlog of pending appeals challenging Medicare's denials of reimbursement for certain types of short−term care could have a material negative impact our financial position and liquidity. The loss of business from the U.S. federal government, or significant policy changes or financial pressures within the agencies of the U.S. federal government that we serve would result in a significant decrease in our revenues, which would adversely affect our business, financial condition and results of operations.

Future legislative or regulatory changes affecting the markets in which we operate could impair our business and operations.

The two principal markets in which we provide our recovery services, government-supported student loans and the Medicare program, are a subject of significant legislative and regulatory focus and we cannot anticipate how future changes in government policy may affect our business and operations. For example, SAFRA significantly changed the structure of the government-supported student loan market by assigning responsibility for all new government-supported student loan originations to the Department of Education, rather than originations by private institutions and backed by one of 30 government-supported GAs. This legislation, and any future changes in the legislation and regulations that govern these markets, may require us to adapt our business to the new circumstances and we may be unable to do so in a manner that does not adversely affect our business and operations.

Our business relationship with the Department of Education has accounted for a significant portion of our revenues and will take on increasing importance to our business as a result of SAFRA. Our failure to maintain this relationship would significantly decrease our revenues.

While the majority of our historical revenues from the student loan market have come from our relationships with the GAs, as a result of SAFRA, the Department of Education will ultimately become the sole source of revenues in this market, although the GAs will continue to service their existing student loan portfolios for many years to come. As a result, over time, and assuming we are successful in entering into a new contract with the Department of Education under the current rebidding process, defaults on student loans originated by the Department of Education will predominate and our ability to maintain the revenues we had previously received from a number of GA clients will depend on our relationship with a single client, the Department of Education. While we have 24 years of experience in performing student loan recovery services for the Department of Education, we are one of 17 unrestricted recovery service providers on the current Department of Education contract. We understand that five other recovery service providers under the current contract have recently received notice from the Department of Education stating an intention to extend their existing contracts past April 2015, which is the expiration date for the current contract. To date, we have not received notice of any such extension from the Department of Education, and we are unsure whether we will be provided any such extension of our current contract or when the new contracts will be awarded. If our relationship with the Department of Education terminates or deteriorates or if the Department of Education, ultimately as the sole holder of defaulted student loans, requires its contractors to agree to less favorable terms, our revenues would significantly decrease, and our business, financial condition and results of operations would be harmed.

We could lose clients as a result of consolidation among the GAs, which would decrease our revenues.

As a result of SAFRA, which terminated the ability of the GAs to originate government-supported student loans, some have speculated that there may be consolidation among the 29 GAs. This speculation has heightened as a result of the reduction of fees that the GAs will receive for rehabilitating student loans as a result of the Bipartisan Budget Act of 2013. If GAs that are our clients are combined with GAs with whom we do not have a relationship, we could suffer a loss of business. We currently have relationships with 12 of the 29 GAs and two of our GA clients were each responsible for more than 10% of our total revenues in the year ended December 31, 2014 and 2013. The consolidation of our GA clients with others and the failure to provide recovery services to the consolidated entity could decrease our revenues, which could negatively impact our business, financial condition and results of operations.

Our results of operations may fluctuate on a quarterly or annual basis and cause volatility in the price of our stock.

Our revenues and operating results could vary significantly from period-to-period and may fail to match our past performance because of a variety of factors, some of which are outside of our control. Any of these factors could cause the price of our common stock to fluctuate. Factors that could contribute to the variability of our operating results include:

- the amount of defaulted student loans and other receivables that our clients place with us for recovery;
- the timing of placements of student loans and other receivables which are entirely in the discretion of our clients;

- the schedules of government agencies for awarding contracts including the impact of any protests filed in connection with the award of any such contracts;
- our ability to successfully identify improper Medicare claims and the number and type of potentially improper claims that CMS authorizes us to pursue under our RAC contact;
- the loss or gain of significant clients or changes in the contingency fee rates or other significant terms of our business arrangements with our significant clients;
- technological and operational issues that may affect our clients and regulatory changes in the markets we service; and
- general industry and macroeconomic conditions.

Downturns in domestic or global economic conditions and other macroeconomic factors could harm our business and results of operations.

Various macroeconomic factors influence our business and results of operations. These include the volume of student loan originations in the United States, together with tuition costs and student enrollment rates, the default rate of student loan borrowers, which is impacted by domestic and global economic conditions, rates of unemployment and similar factors, and the growth in Medicare expenditures resulting from changes in healthcare costs. For example, during the global financial crisis beginning in 2008, the market for securitized student loan portfolios was disrupted, resulting in delays in the ability of some GA clients to resell rehabilitated student loans and, as a result, delays our ability to recognize revenues from these rehabilitated loans. Changes in the overall economy could lead to a reduction in overall recovery rates by our clients, which in turn could adversely affect our business, financial condition and results of operations.

We may not be able to manage our growth effectively and our results of operations could be negatively affected.

Our business has expanded significantly, especially in recent years with the expansion of our services in the healthcare market, and we intend to maintain our focus on growth. However, our continued focus on growth and the expansion of our business may place additional demands on our management, operations and financial resources and will require us to incur additional expenses. We cannot be sure that we will be able to manage our growth effectively. In order to successfully manage our growth, our expenses will increase to recruit, train and manage additional qualified employees and subcontractors and to expand and enhance our administrative infrastructure and continue to improve our management, financial and information systems and controls. If we cannot manage our growth effectively, our expenses may increase and our results of operations could be negatively affected.

A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt the operation of our business.

A failure of our operating systems or technology infrastructure, or those of our third-party vendors and subcontractors, could disrupt our operations. Our operating systems and technology infrastructure are susceptible to damage or interruption from various causes, including acts of God and other natural disasters, power losses, computer systems failures, Internet and telecommunications or data network failures, operator error, computer viruses, losses of and corruption of data and similar events. The occurrence of any of these events could result in interruptions, delays or cessations in service to our clients, reduce the attractiveness of our recovery services to current or potential clients and adversely impact our financial condition and results of operations. While we have backup systems in many of our operating facilities, an extended outage of utility or network services may harm our ability to operate our business. Further, the situations we plan for and the amount of insurance coverage we maintain for losses as result of failures of our operating systems and infrastructure may not be adequate in any particular case.

If our security measures are breached or fail and unauthorized access is obtained to our clients' confidential data, our services may be perceived as insecure, the attractiveness of our recovery services to current or potential clients may be reduced, and we may incur significant liabilities.

Our recovery services involve the storage and transmission of confidential information relating to our clients and their customers, including health, financial, credit, payment and other personal or confidential information. Although our data security procedures are designed to protect against unauthorized access to confidential information, our computer systems, software and networks may be vulnerable to unauthorized access and disclosure of our clients' confidential information. Further, we may not effectively adapt our security measures to evolving security risks, address the security and privacy concerns of existing or potential clients as they change over time, or be compliant with federal, state, and local laws and

regulations with respect to securing confidential information. Unauthorized access to confidential information relating to our clients and their customers could lead to reputational damage which could deter our clients and potential clients from selecting our recovery services, or result in termination of contracts with those clients affected by any such breach, regulatory action, and claims against us.

In the event of any unauthorized access to personal or other confidential information, we may be required to expend significant resources to investigate and remediate vulnerabilities in our security procedures, and we may be subject to fines, penalties, litigation costs, and financial losses that are either not insured against or not fully covered through any insurance maintained by us. If one or more of such failures in our security and privacy measures were to occur, our business, financial condition and results of operations could suffer.

Our business may be harmed if we lose members of our management team or other key employees.

We are highly dependent on members of our management team and other key employees and our future success depends in part on our ability to retain these people. Our inability to continue to attract and retain members of our management team and other key employees could adversely affect our business, financial condition and results of operations.

The growth of our healthcare business will require us to hire and retain employees with specialized skills and failure to do so could harm our ability to grow our business.

The growth of our healthcare business will depend in part on our ability to recruit, train and manage additional qualified employees. Our healthcare-related operations require us to hire registered nurses and experts in Medicare coding. Finding, attracting and retaining employees with these skills is a critical component of providing our healthcare-related recovery and audit services, and our inability to staff these operations appropriately represents a risk to our healthcare service offering and associated revenues. An inability to hire qualified personnel, particularly to serve our healthcare clients, may restrain the growth of our business.

We rely on subcontractors to provide services to our clients and the failure of subcontractors to perform as expected could harm our business operations and our relationships with our clients.

We engage subcontractors to provide certain services to our clients. These subcontractors participate to varying degrees in our recovery activities with regards to all of the services we provide. While most of our subcontractors provide specific services to us, we engage one subcontractor to provide all of the audit and recovery services under our contract with CMS within a portion of our region. While we believe that we perform appropriate due diligence before we hire subcontractors, our subcontractors may not provide adequate service or otherwise comply with the terms set forth in their agreements. In the event a subcontractor provides deficient performance to one or more of our clients, any such client may reduce the volume of services we are providing under an existing contract or may terminate the relevant contract entirely and we may face claims for breach of contract. Any such disruption in our relations with our clients as a result of services provided by any of our subcontractors could adversely affect our revenues and operating results.

If our software vendors or utility and network providers fail to deliver or perform as expected our business operations could be adversely affected.

Our recovery services depend in part on third-party providers, including software vendors and utility and network providers. Our ability to service our clients depends on these third-party providers meeting our expectations and contractual obligations in a timely and effective manner. Our business could be materially and adversely affected, and we might incur significant additional liabilities, if the services provided by these third-party providers do not meet our expectations or if they terminate or refuse to renew their relationships with us on similar contractual terms.

We are subject to extensive regulations regarding the use and disclosure of confidential personal information and failure to comply with these regulations could cause us to incur liabilities and expenses.

We are subject to a wide array of federal and state laws and regulations regarding the use and disclosure of confidential personal information and security. For example, the federal Health Insurance Portability and Accountability Act of 1996, as amended, or HIPAA, and related state laws subject us to substantial restrictions and requirements with respect to the use and disclosure of the personal health information that we obtain in connection with our audit and recovery services under our contract with CMS and we must establish administrative, physical and technical safeguards to protect the confidentiality of this information. Similar protections extend to the type of personal financial and other information we acquire from our student loan, state tax and federal receivables clients. We are required to notify affected individuals and government agencies of data security breaches involving protected health and certain personally identifiable information. These laws and regulations also require that we develop, implement and maintain written, comprehensive information security programs containing safeguards

that are appropriate to protect personally identifiable information or health information against unauthorized access, misuse, destruction or modification. Federal law generally does not preempt state law in the area of protection of personal information, and as a result we must also comply with state laws and regulations. Regulation of privacy, data use and security requires that we incur significant expenses, which could increase in the future as a result of additional regulations, all of which adversely affects our results of operations. Failure to comply with these laws and regulations can result in penalties and in some cases expose us to civil lawsuits.

Our student loan recovery business is subject to extensive regulation and consumer protection laws and our failure to comply with these regulations and laws may subject us to liability and result in significant costs.

Our student loan recovery business is subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection. The Fair Debt Collection Practices Act, or FDCPA, and related state laws provide specific guidelines that we must follow in communicating with holders of student loans and regulates the manner in which we can recover defaulted student loans. Some state attorney generals have been active in this area of consumer protection regulation. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators, as well as frequent litigation from private plaintiffs regarding compliance under the FDCPA and related state regulations. We are also subject to the Fair Credit Reporting Act, or FCRA, which regulates consumer credit reporting and may impose liability on us to the extent adverse credit information reported to a credit bureau is false or inaccurate. Our compliance with the FDCPA, FCRA and other federal and state regulations that affect our student loan recovery business may result in significant costs, including litigation costs. We may also become subject to regulations promulgated by the United States Consumer Financial Protection Bureau, or CFPB, which was established in July 2011 as part of the Dodd-Frank Act to, among other things, establish regulations regarding consumer financial protection laws. In addition, the CFPB has investigatory and enforcement authority with respect to whether persons are engaged in unlawful acts or practices in connection with the collection of consumer debts. On April 12, 2013, we received a Civil Investigative Demand, or a CID, from the CFPB requesting production of documents and answers to questions generally related to the Company's debt collection practices and procedures. The CFPB has not alleged a violation by us of any law or regulation. We responded to the CID, but have not been examined by the CFPB. In light of the possibility that the CFPB may issue interpretative regulations for the FDCPA, the issuance of such regulations could adversely affect our business and results of operations if we are not able to adapt our services and client relationships to meet any new regulatory structure that might be required.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We will continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

However, for as long as we remain an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We may take advantage of these reporting exemptions until we are no longer an "emerging growth company."

We will remain an "emerging growth company" for up to five years following our initial public offering in August 2012, although if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any June 30 before that time, our revenues exceed $1 billion, or we issue more than $1 billion in non-convertible debt in a three-year period, we would cease to be an "emerging growth company" as of the following December 31.

As a result of disclosure of information as a public company, our business and financial condition have become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business operations and financial results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert

the resources of our management and adversely affect our business operations and financial results. These factors could also make it more difficult for us to attract and retain qualified employees, executive officers and members of our board of directors.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley would impair our ability to produce accurate and reliable financial statements, which would harm our stock price.

We are subject to reporting obligations under Section 404 of the Sarbanes-Oxley Act that require us to include a management report on our internal control over financial reporting in our annual report, which contains management's assessment of the effectiveness of our internal control over financial reporting. These requirements first applied to our annual report on Form 10-K for the year ended December 31, 2013 and complying with these requirements can be difficult. For example, in June 2012, we determined that we had incorrectly accounted for our mandatorily redeemable preferred stock, which required audit adjusting entries for the three-year period ended December 31, 2011. Our failure to detect this error was deemed to be a deficiency in internal control and this deficiency was considered to be a material weakness. To address this situation, our independent registered public accounting firm recommended that the Company emphasize the importance of thoroughly researching all new accounting policies and revisiting accounting policies set for existing transactions when changes in the business or reporting requirements occur or are expected to occur. To prevent issues like these in the future, we have bolstered our technical accounting expertise and, where appropriate, engaged outside consultants with specialized knowledge.

Our management may conclude that our internal control over our financial reporting is not effective. We have limited accounting personnel and other resources with which to address our internal controls and procedures. If we fail to timely achieve and maintain the adequacy of our internal control over financial reporting, we may not be able to produce reliable financial reports or help prevent fraud. Our failure to achieve and maintain effective internal control over financial reporting could prevent us from filing our periodic reports on a timely basis, which could result in the loss of investor confidence in the reliability of our financial statements, harm our business and negatively impact the trading price of our common stock.

We are required to disclose changes made in our internal controls and procedures on a quarterly basis. However, our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until such time that we are no longer an "emerging growth company" as defined in the JOBS Act, if we continue to take advantage of the exemptions contained in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future.

Litigation may result in substantial costs of defense, damages or settlement, any of which could subject us to significant costs and expenses.

We are party to lawsuits in the normal course of business, particularly in connection with our student loan recovery services. For example, we are regularly subject to claims that we have violated the guidelines and procedures that must be followed under federal and state laws in communicating with consumer debtors. We may not ultimately prevail or otherwise be able to satisfactorily resolve any pending or future litigation, which may result in substantial costs of defense, damages or settlement. In the future, we may be required to alter our business practices or pay substantial damages or settlement costs as a result of litigation proceedings, which could adversely affect our business operations and results of operations.

We typically face a long period to implement a new contract which may cause us to incur expenses before we receive revenues from new client relationships.

If we are successful in obtaining an engagement with a new client or a new contract with an existing client, we typically have a subsequent long implementation period in which the services are planned in detail and we integrate our technology, processes and resources with the client's operations. If we enter into a contract with a new client, we typically will not receive revenues until implementation is completed and work under the contract actually begins. Our clients may also experience delays in obtaining approvals or delays associated with technology or system implementations, such as the delays experienced with the implementation of our RAC contract with CMS due to an appeal by competitors who were unsuccessful in bidding on the contract. Because we generally begin to hire new employees to provide services to a new client once a contract is signed, we may incur significant expenses associated with these additional hires before we receive corresponding revenues under any such new contract. If we are not successful in maintaining contractual commitments after the expenses we incur during our typically long implementation cycle, our results of operations could be adversely affected.

If we are unable to adequately protect our proprietary technology, our competitive position could be harmed or we could be required to incur significant costs to enforce our rights.

The success of our business depends in part upon our proprietary technology platform. We rely on a combination of copyright, patent, trademark, and trade secret laws, as well as on confidentiality procedures and non-compete agreements, to establish and protect our proprietary technology rights. The steps we have taken to deter misappropriation of our proprietary technology may be insufficient to protect our proprietary information. In particular, we may not be able to protect our trade secrets, know−how and other proprietary information adequately. Although we use reasonable efforts to protect this proprietary information and technology, our employees, consultants and other parties may unintentionally or willfully disclose our information or technology to competitors. Enforcing a claim that a third party illegally obtained and is using any of our proprietary information or technology is expensive and time consuming, and the outcome is unpredictable. We rely, in part, on non−disclosure, confidentiality and invention assignment agreements with our employees, consultants and other parties to protect our trade secrets, know−how and other intellectual property and proprietary information. These agreements may not be self−executing, or they may be breached and we may not have adequate remedies for such breach. Moreover, third parties may independently develop similar or equivalent proprietary information or otherwise gain access to our trade secrets, know−how and other proprietary information. Any infringement, misappropriation or other violation of our patents, trademarks, copyrights, trade secrets, or other intellectual property rights could adversely affect any competitive advantage we currently derive or may derive from our proprietary technology platform and we may incur significant costs associated with litigation that may be necessary to enforce our intellectual property rights.

Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.

Our competitors protect their proprietary rights by means of patents, trade secrets, copyrights, trademarks and other intellectual property. Any party asserting that we infringe, misappropriate or violate their intellectual property rights may force us to defend ourselves, and potentially our clients, against the alleged claim. These claims and any resulting lawsuit, if successful, could be time-consuming and expensive to defend, subject us to significant liability for damages or invalidation of our proprietary rights, prevent us from operating all or a portion of our business or force us to redesign our services or technology platform or cause an interruption or cessation of our business operations, any of which could adversely affect our business and operating results. In addition, any litigation relating to the infringement of intellectual property rights could harm our relationships with current and prospective clients. The risk of such claims and lawsuits could increase if we increase the size and scope of our services in our existing markets or expand into new markets.

We may make acquisitions that prove unsuccessful, strain or divert our resources and harm our results of operations and stock price.

We may consider acquisitions of other companies in our industry or in new markets. We may not be able to successfully complete any such acquisition and, if completed, any such acquisition may fail to achieve the intended financial results. We may not be able to successfully integrate any acquired businesses with our own and we may be unable to maintain our standards, controls and policies. Further, acquisitions may place additional constraints on our resources by diverting the attention of our management from other business concerns. Moreover, any acquisition may result in a potentially dilutive issuance of equity securities, the incurrence of additional debt and amortization of expenses related to intangible assets, all of which could adversely affect our results of operations and stock price.

The price of our common stock could be volatile, and you may not be able to sell your shares at or above the public offering price.

Since our initial public offering in August 2012, the price of our common stock, as reported by NASDAQ Global Select Market, has ranged from a low sales price of $3.65 on January 29, 2015 to a high sales price of $14.09 on March 4, 2013. The trading price of our common stock may be significantly affected by various factors, including: quarterly fluctuations in our operating results; the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections; changes in investors' and analysts' perception of the business risks and conditions of our business; our ability to meet the earnings estimates and other performance expectations of financial analysts or investors; unfavorable commentary or downgrades of our stock by equity research analysts; changes in our capital structure, such as future issuances of debt or equity securities; lawsuits threatened or filed against us; strategic actions by us or our competitors, such as acquisitions or restructurings; new legislation or regulatory actions; changes in our relationship with any of our significant clients; fluctuations in the stock prices of our peer companies or in stock markets in general; and general economic conditions.

Our significant stockholders have the ability to influence significant corporate activities and our significant stockholders' interests may not coincide with yours.

Parthenon Capital Partners and Invesco Ltd. beneficially owned approximately 27.4% and 19.9% of our common stock, respectively, as of December 31, 2014. As a result of their ownership, Parthenon Capital Partners and Invesco Ltd. have

the ability to influence the outcome of matters submitted to a vote of stockholders and, through our board of directors, the ability to influence decision−making with respect to our business direction and policies. Parthenon Capital Partners and Invesco Ltd. may have interests different from our other stockholders' interests, and may vote in a manner adverse to those interests. Matters over which Parthenon Capital Partners and Invesco Ltd. can, directly or indirectly, exercise influence include:

- mergers and other business combination transactions, including proposed transactions that would result in our stockholders receiving a premium price for their shares;
- other acquisitions or dispositions of businesses or assets;
- incurrence of indebtedness and the issuance of equity securities;
- repurchase of stock and payment of dividends; and
- the issuance of shares to management under our equity incentive plans.

In addition, Parthenon Capital Partners has a contractual right to designate a number of directors proportionate to its stock ownership. Further, under our amended and restated certificate of incorporation, Parthenon Capital Partners does not have any obligation to present to us, and Parthenon Capital Partners may separately pursue, corporate opportunities of which it becomes aware, even if those opportunities are ones that we would have pursued if granted the opportunity.

Anti-takeover provisions contained in our certificate of incorporation and bylaws could impair a takeover attempt that our stockholders may find beneficial.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include the following provisions: establishing a classified board of directors so that not all members of our board are elected at one time; providing that directors may be removed by stockholders only for cause; authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock; limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting; limiting our ability to engage in certain business combinations with any "interested stockholder," other than Parthenon Capital Partners, for a three-year period following the time that the stockholder became an interested stockholder; requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; requiring a super majority vote for certain amendments to our amended and restated certificate of incorporation and amended and restated bylaws; and limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board, to our board of directors then in office. These provisions, alone or together, could have the effect of delaying or deterring a change in control, could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Facilities

As of December 31, 2014, we operated six separate office locations throughout the United States. The largest of these facilities is in Livermore, California and serves as our corporate headquarters, as well as a data center and production location. Our Livermore facility is comprised of approximately 50,291 square feet of space and has a lease expiration of October 2021. We also lease production centers in California, Oregon, Florida and Texas and own a production/data center in Oregon.

We believe that our facilities are adequate for current operations and that additional space will be available as required. See note (6) to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for information regarding our lease obligations.

ITEM 3. Legal Proceedings

We are involved in various legal proceedings that arise from our normal business operations. These actions generally derive from our student loan recovery services, and generally assert claims for violations of the Fair Debt Collection Practices Act or similar federal and state consumer credit laws. While litigation is inherently unpredictable, we believe that none of these legal proceedings, individually or collectively, will have a material adverse effect on our financial condition or our results of operations.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market For Our Common Equity

Our common stock began trading on the NASDAQ Global Select Market under the symbol "PFMT" on August 10, 2012. Prior to that, there was no public market for our common stock. The table sets forth, for the periods indicated below, the high and low sales prices per share of our common stock as reported by NASDAQ since August 10, 2012.

2012	**High**	**Low**
Third Quarter (beginning August 10, 2012)	12.18	9.20
Fourth Quarter	11.84	7.55
2013		
First Quarter	14.09	10.06
Second Quarter	13.26	9.25
Third Quarter	12.01	10.27
Fourth Quarter	11.02	9.26
2014		
First Quarter	11.56	7.11
Second Quarter	10.32	8.10
Third Quarter	10.97	8.04
Fourth Quarter	9.02	5.95

On March 12, 2015, the closing price as reported by NASDAQ of our common stock was $3.90 per share.

Stockholders

As of December 31, 2014 , we had approximately 10 holders of record of our common stock.

Dividends

Our board of directors does not currently intend to pay regular dividends on our common stock. Our credit agreement contains a covenant prohibiting the payment of cash dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding the securities authorized for issuance under our equity compensation plans can be found under Item 12 of this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

None.

ITEM 6. Selected Financial Data

The selected consolidated balance sheet data as of December 31, 2014 and 2013 , and the selected consolidated statements of operations data for each year ended December 31, 2014 , 2013 and 2012 , have been derived from our audited consolidated financial statements which are included elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 2011 and 2010, and the selected consolidated statements of operations data for the years ended December 31, 2011 and 2010 have been derived from our audited consolidated financial statements not included in this annual

report. Historical results are not necessarily indicative of future results. You should read the following selected consolidated historical financial data below in conjunction with the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements, related notes, and other financial information included in this Annual Report on Form 10-K. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements and is qualified in its entirety by the consolidated financial statements and related notes and schedule included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
			(in thousands)		
Consolidated Statement of Operations Data:					
Revenues	$ 195,378	$ 255,302	$ 210,073	$ 162,974	$ 123,519
Operating expenses:					
Salaries and benefits	93,676	96,762	83,002	67,082	58,113
Other operating expense	74,433	85,671	71,305	49,199	33,655
Impairment of trade name	—	—	—	13,400	—
Total operating expenses	168,109	182,433	154,307	129,681	91,768
Income from operations	27,269	72,869	55,766	33,293	31,751
Debt extinguishment costs [(1)]	—	—	(3,679)	—	—
Interest expense	(10,171)	(11,564)	(12,414)	(13,530)	(15,230)
Interest income	1	1	64	125	118
Income before provision for income taxes	17,099	61,306	39,737	19,888	16,639
Provision for income taxes	7,699	24,967	16,786	7,516	6,664
Net income	9,400	36,339	22,951	12,372	9,975
Accrual for preferred stock dividends	—	—	2,038	6,495	5,771
Net income available to common shareholders	$ 9,400	$ 36,339	$ 20,913	$ 5,877	$ 4,204
Net income per share attributable to common shareholders [(2)]					
Basic	$ 0.19	$ 0.77	$ 0.48	$ 0.14	$ 0.10
Diluted	$ 0.19	$ 0.74	$ 0.44	$ 0.13	$ 0.09
Weighted average shares (in thousands)					
Basic	48,816	47,492	43,985	42,962	42,962
Diluted	49,834	49,386	47,599	45,742	45,019

(1) Represents debt extinguishment costs comprised of approximately $3.3 million of fees paid to lenders in connection with our new credit facility and approximately $0.3 million of unamortized debt issuance costs in connection with our old credit facility.

(2) Please see Note 1 to our consolidated financial statements for an explanation of the calculations of our basic and diluted net income per share of common stock.

	As of December 31,				
	2014	2013	2012	2011	2010
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 80,298	$ 81,909	$ 37,843	$ 20,004	$ 11,078
Total assets	262,829	257,260	211,745	182,299	181,390
Total debt	111,795	133,304	147,769	103,383	117,331
Total liabilities	171,657	183,026	187,672	139,756	151,231
Redeemable preferred stock	—	—	—	58,248	51,753
Total stockholders’ (deficit) equity	91,172	74,234	24,073	(15,705)	(21,594)

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We provide technology-enabled recovery and related analytics services in the United States. Our services help identify and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Our clients typically operate in complex and regulated environments and outsource their recovery needs in order to reduce losses on billions of dollars of defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury and other receivables. We generally provide our services on an outsourced basis, where we handle many or all aspects of our clients' recovery processes.

Our revenue model is generally success-based as we earn fees on the aggregate amount of funds that we enable our clients to recover. Our services do not require any significant upfront investments by our clients and offer our clients the opportunity to recover significant funds otherwise lost. Because our model is based upon the success of our efforts and the dollars we enable our clients to recover, our business objectives are aligned with those of our clients and we are generally not reliant on their spending budgets. Furthermore, our business model does not require significant capital expenditures and we do not purchase loans or obligations.

Recent Developments

On January 28, 2015, we entered into an Agreement and Plan of Merger ("Merger Agreement") with Premier Healthcare Exchange, Inc., a Delaware corporation ("PHX"), pursuant to which, PHX would become our wholly-owned indirect subsidiary. The Merger Agreement contains customary closing conditions, including completion of a financing by us to fund the consideration payable under the terms of the Merger Agreement. The purchase price under the Merger Agreement is approximately $108 million in cash, subject to certain adjustments, and certain PHX stockholders will also exchange shares for $22 million of our common stock. We also could be obligated to pay up to an additional $19.1 million in cash pursuant to an earnout arrangement based on PHX in revenues in 2015. On January 28, 2015 we announced proposed concurrent public offerings of $80 million aggregate principal amount of convertible senior notes due 2020 and $50 million of shares of our common stock to finance the cash portion of the consideration payable under the Merger Agreement. On January 30, 2015, we announced our decision to withdraw the proposed public offerings of convertible senior notes and common stock. The Merger Agreement is currently terminable by either us or PHX without penalty, except that we are obligated to pay an expense termination fee of $750,000 in the event the merger is not completed due to our failure to complete the required financing of the consideration payable under the Merger Agreement.

Sources of Revenues

We derive our revenues from services for clients in a variety of different markets. These markets include our two largest markets, student lending and healthcare, as well as our other markets which include but are not limited to delinquent state taxes and federal Treasury and other receivables.

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Student Lending	$ 138,275	$ 163,708	$ 132,445
Healthcare	32,526	67,531	54,747
Other	24,577	24,063	22,881
Total Revenues	$ 195,378	$ 255,302	$ 210,073

Student Lending

We derive the majority of our revenues from the recovery of student loans. These revenues are contract-based and consist primarily of contingency fees based on a specified percentage of the amount we enable our clients to recover. Our contingency fee percentage for a particular recovery depends on the type of recovery facilitated. We also receive incremental performance incentives based upon our performance as compared to other contractors with the Department of Education, which are comprised of additional inventory allocation volumes and incentive fees. We are currently subject to a competitive rebidding process for the next contract with the Department of Education. We understand that five other recovery service providers under the current contract have recently received notice from the Department of Education stating an intention to extend their existing contracts past April 2015, which is the expiration date for the current contract. To date, we have not received notice of any such extension from the Department of Education and we are unsure whether we will be provided any such extension of our current contract or when the new contracts will be awarded. We do not believe the Department of Education has completed the current contract extension process. However, due to the timing of the rehabilitation process for loans placed with us by the Department of Education, we expect there will be a minimal impact on our revenues in 2015 if we

do not receive an extension of our current contract. Despite notice of their intent to extend the current contract for five recovery service providers, we believe the Department of Education is not permitted to selectively extend the contract for individual recovery service providers.

We believe the size and the composition of our student loan inventory at any point provides us with a significant degree of revenue visibility for our student loan revenues. Based on data compiled from over two decades of experience with the recovery of defaulted student loans, at the time we receive a placement of student loans, we are able to make a reasonably accurate estimate of the recovery outcomes likely to be derived from such placement and the revenues we are likely able to generate based on the anticipated recovery outcomes.

There are five potential outcomes to the student loan recovery process from which we generate revenues. These outcomes include: full repayment, recurring payments, rehabilitation, loan restructuring and wage garnishment. Of these five potential outcomes, our ability to rehabilitate defaulted student loans is the most significant component of our revenues in this market. Generally, a loan is considered successfully rehabilitated after the student loan borrower has made nine consecutive qualifying monthly payments and our client has notified us that it is recalling the loan. Once we have structured and implemented a repayment program for a defaulted borrower, we (i) earn a percentage of each periodic payment collected up to and including the final periodic payment prior to the loan being considered “rehabilitated” by our clients, and (ii) if the loan is “rehabilitated,” then we are paid a one-time percentage of the total amount of the remaining unpaid balance. As stated above, effective July 2015, our contract with the Department of Education will provide for a fixed fee of $1,710 for each rehabilitated loan. The fees we are paid vary by recovery outcome as well as by contract. For non-government-supported student loans we are generally only paid contingency fees on two outcomes: full repayment or recurring repayments. The table below describes our typical fee structure for each of these five outcomes.

Student Loan Recovery Outcomes

Full Repayment	Recurring Payments	Rehabilitation	Loan Restructuring	Wage Garnishment
• Repayment in full of the loan	• Regular structured payments, typically according to a renegotiated payment plan	• After a defaulted borrower has made nine consecutive recurring payments, the loan is eligible for rehabilitation	• Restructure and consolidate a number of outstanding loans into a single loan, typically with one monthly payment and an extended maturity	• If we are unable to obtain voluntary repayment, payments may be obtained through wage garnishment after certain administrative requirements are met
• We are paid a percentage of the full payment that is made	• We are paid a percentage of each payment	• We are paid based on a percentage of the overall value of the rehabilitated loan or for the Department of Education, a fixed fee	• We are paid based on a percentage of overall value of the restructured loan	• We are paid a percentage of each payment

For certain guaranty agency, or GA, clients, we have entered into Master Service Agreements, or MSAs. Under these agreements, clients provide their entire inventory of outsourced loans or receivables to us for recovery on an exclusive basis, rather than just a portion, as with traditional contracts that are split among various service providers. In certain circumstances, we engage subcontractors to assist in the recovery of a portion of the client’s portfolio. We also receive success fees for the recovery of loans under MSAs and our revenues under MSA arrangements include fees earned by the activities of our subcontractors. As of December 31, 2014, we had three MSA clients in the student loan market.

In October 2014, the Department of Education announced a change in the structure for the payment of fees to recovery contractors upon rehabilitation of student loans under the existing recovery contract. The new fee structure provides for a fixed fee of $1,710 for each loan that is rehabilitated. Previously, the fee had been based on a percentage of the principal amount of the rehabilitated loan. The change to the fee structure will be effective for student loans that are rehabilitated on or following July 1, 2015.

Further, the Bipartisan Budget Act of 2013, which was signed into law by President Obama on December 26, 2013, reduced the compensation paid to GAs for the rehabilitation of student loans, effective July 1, 2014. This “revenue enhancement” measure reduced from 18.5% to 16.0% of the outstanding loan balance, the amount that GAs can charge borrowers when a rehabilitated loan is sold by the GA and eliminated entirely the GAs retention of 18.5% of the outstanding loan balance as a fee for rehabilitation services. The reduction in compensation the GAs receive resulted in a decrease in the contingency fee percentage that we receive from the GAs for assisting in the rehabilitation of defaulted student loans.

We expect that our revenues from student lending in 2015 will be approximately 20% lower than in 2014. The fee reductions from the Department of Education and the GAs discussed above contribute to this expected decrease. Other contributing factors include an increase in the number of student loans eligible for rehabilitation due to income based repayment, which has the effect of reducing the number of loan consolidations which have a shorter payment cycle, and continuing delays in the recognition of some revenues due to additional documentation requirements for income based repayment first imposed during the third quarter of 2014.

Healthcare

We derive revenues from the healthcare market primarily from our RAC contract, under which we are the prime contractor responsible for detecting improperly paid Part A and Part B Medicare claims in 12 states in the Northeastern United States. Revenues earned under the RAC contract are driven by the identification of improperly paid Medicare claims through both automated and manual review of such claims. We are paid contingency fees by CMS based on a percentage of the dollar amount of claims recovered by CMS as a result of our efforts. We recognize revenue when the provider pays CMS or incurs an offset against future Medicare claims. The revenues we recognize are net of our estimate of claims that will be overturned by appeal following payment by the provider.

We are currently involved in a competitive rebidding process for four new RAC contracts with CMS. The timing of new RAC contract awards remains uncertain. The bidding process has been delayed, at least in part, by pre−award protests and, following the denial of those protests, by ongoing litigation. The plaintiffs in the litigation are seeking the elimination of payment terms under the proposed new RAC contracts that would prohibit RACs from being compensated for improper claims until a second level of appeal has been exhausted. A decision in favor of CMS was subject to appeal in which the appellate court recently remanded the case back to lower court to rule on the merits of the case. There is a related injunction barring the award of three of the four new RAC contracts pending resolution of this litigation. A fifth RAC contract, which is a new type of RAC contract covering the identification and recovery of improper claims for durable medical equipment, prosthetics, orthotics and supplies and home health and hospice claims, was not covered by the injunction and was awarded to another party in January 2015. The Company is not a party to this litigation. CMS has stated that the injunction will delay the award of the three contracts until the judge’s ruling on the injunction, which is not expected to occur until late summer 2015. It is uncertain whether CMS will award the RAC contract not covered by the injunction in the interim period or will wait to award all of the new RAC contracts at the same time.

In anticipation of the award of new RAC contracts, beginning in 2013 CMS has adopted a series of contract transition procedures that have restricted our ability to request medical records for audit, thus adversely affected our revenues under this contract. No records requests were permitted in July 2013 and then from November 15, 2013 through year end. In January 2014, records requests were again permitted through February 21, 2014 and claim activity was permitted through June 1, 2014, when work under the contract stopped. In addition to these periods of suspended activity, the contract transition rules have limited scope of our permitted audit activities as CMS has generally not permitted audits of PIP providers and has also placed additional restrictions on the types of claims we are permitted to audit and number of medical records we are permitted to request. CMS began to permit claim reviews again in August 2014 for an unspecified period, but has restricted the type of reviews and the types of claims subject to audit. CMS also recently announced that it extended our existing RAC contract through December 31, 2015, with the same audit limitations continuing during this extended period. CMS has further indicated they may, at their discretion, approve additional issues that we will be permitted to review and audit during the RAC contract extension period. Absent a significant change in the scope of the permitted audit activities, we expect that our revenues from the RAC contract will be significantly lower in 2015 as compared to 2014.

In connection with our RAC contract, CMS has announced a settlement offer to pay hospitals 68% of what they have billed Medicare to settle a backlog of pending appeals challenging Medicare's denials of reimbursement for certain types of short-term care. The implication of this settlement offer related to claims for which fees have already been paid to recovery auditors under existing RAC contracts is unclear at this time, but we may be obligated to repay certain amounts that we previously received from CMS depending on the final terms of any such settlement. We accrue an estimated liability for appeals based on the amount of commissions received which are subject to appeal and which we estimate are probable of being returned to providers following successful appeal. The $18.6 million balance as of December 31, 2014, represents our best estimate of the probable amount of we may be required to refund related to appeals of claims for which commissions were previously collected. We estimate that it is reasonably possible that we could be required to pay an additional amount up to approximately $5.4 million as a result of potentially successful appeals in excess of the amount we accrued as of December 31, 2014.

To accelerate our ability to provide Medicare audit and recovery services across our region following our award of our initial RAC contract, we outsourced certain aspects of our healthcare recovery process to three different subcontractors. Two of these subcontractors provide a specific service to us in connection with our claims recovery process, and one subcontractor is engaged to provide all of the audit and recovery services for claims within a portion of our region. We recognize all of the

revenues generated by the claims recovered through these subcontractor relationships, and we recognize the fees that we pay to these subcontractors in our expenses.

Our business strategy is focused on utilizing our technology-enabled services platform to provide audit, recovery and analytical services for private healthcare payors. We have entered into contracts with several private payors, although these contracts are in the early stage of implementation.

Other

We also derive revenues from the recovery of delinquent state taxes, and federal Treasury and other receivables, default aversion services for certain clients including financial institutions and the licensing of hosted technology solutions to certain clients. For our hosted technology services, we license our system and integrate our technology into our clients' operations, for which we are paid a licensing fee. Our revenues for these services include contingency fees, fees based on dedicated headcount to our clients and hosted technology licensing fees.

Operating Metrics

We monitor a number of operating metrics in order to evaluate our business and make decisions regarding our corporate strategy. These key metrics include Placement Volume, Placement Revenue as a Percentage of Placement Volume, Net Claim Recovery Volume and Claim Recovery Fee Rate.

	Year Ended December 31,		
	2014	2013	2012
		(dollars in thousands)	
Student Lending:			
Placement Volume	$ 6,679,403	$ 6,607,485	$ 5,768,945
Placement Revenue as a percentage of Placement Volume	2.07%	2.48%	2.30%
Healthcare:			
Net Claim Recovery Volume	$ 287,829	$ 598,071	$ 482,202
Claim Recovery Fee Rate	11.30%	11.29%	11.35%

Placement Volume. Our Placement Volume represents the dollar volume of defaulted student loans first placed with us during the specified period by public and private clients for recovery. Placement Volume allows us to measure and track trends in the amount of inventory our clients in the student lending market are placing with us during any period. The revenues associated with the recovery of a portion of these loans may be recognized in subsequent accounting periods, which assists management in estimating future revenues and in allocating resources necessary to address current Placement Volumes.

Placement Revenue as a Percentage of Placement Volume. Placement Revenue as a Percentage of Placement Volume is calculated by dividing revenues recognized during the specified period by Placement Volume first placed with us during that same period. This metric is subject to some level of variation from period to period based upon certain timing differences including, but not limited to, the timing of placements received by us within a period and the fact that a significant portion of revenues recognized in a current period is often generated from the Placement Volume received in prior periods. However, we believe that this metric provides a useful indication of the revenues we are generating from Placement Volumes on an ongoing basis and provides management with an indication of the relative efficiency of our recovery operations from period to period.

Net Claim Recovery Volume. Our Net Claim Recovery Volume measures the dollar volume of improper Medicare claims that we have recovered for CMS during the applicable period net of any amount that we have reserved to cover appeals by healthcare providers. We are paid recovery fees as a percentage of this recovered claim volume. We calculate this metric by dividing our claim recovery revenues by our Claim Recovery Fee Rate. This metric shows trends in the volume of improper payments within our region and allows management to measure our success in finding these improper payments, over time.

Claim Recovery Fee Rate. Our Claim Recovery Fee Rate represents the weighted-average percentage of our fees compared to amounts recovered by CMS. This percentage primarily depends on the method of recovery and, in some cases, the type of improper payment that we identify. This metric helps management measure the amount of revenues we generate from Net Claim Recovery Volume.

Costs and Expenses

We generally report two categories of operating expenses: salaries and benefits and other operating expense. Salaries and benefits expenses consist primarily of salaries and performance incentives paid and benefits provided to our employees. Other operating expense includes expenses related to our use of subcontractors, other production related expenses, including costs associated with data processing, retrieval of medical records, printing and mailing services, amortization and other outside services, as well as general corporate and administrative expenses. We expect a significant portion of our expenses to increase as we grow our business. However, we expect certain expenses, including our corporate and general administrative expenses, to grow at a slower rate than our revenues. As a result, and over the long term, we expect our overall expenses to modestly decline as a percentage of revenues.

Factors Affecting Our Operating Results

Our results of operations are influenced by a number of factors, including allocation of placement volume, claim recovery volume, contingency fees, regulatory matters, client retention and macroeconomic factors.

Allocation of Placement Volume

Our clients have the right to unilaterally set and increase or reduce the volume of defaulted student loans or other receivables that we service at any given time. In addition, many of our recovery contracts for student loans and other receivables are not exclusive, with our clients retaining multiple service providers to service portions of their portfolios. Accordingly, the number of delinquent student loans or other receivables that are placed with us may vary from time to time, which may have a significant effect on the amount and timing of our revenues. We believe the major factors that influence the number of placements we receive from our clients in the student loan market include our performance under our existing contracts and our ability to perform well against competitors for a particular client. To the extent that we perform well under our existing contracts and differentiate our services from those of our competitors, we may receive a relatively greater number of placements under these existing contracts and may improve our ability to obtain future contracts from these clients and other potential clients. Further, delays in placement volume, as well as acceleration of placement volume, from any of our large clients may cause our revenues and operating results to vary from quarter to quarter.

Typically we are able to anticipate with reasonable accuracy the timing and volume of placements of defaulted student loans and other receivables based on historical patterns and regular communication with our clients. Occasionally, however, placements are delayed due to factors outside of our control. For example, a technology system upgrade at the Department of Education significantly decreased the volume of student loan placements by the Department of Education to all recovery vendors, including us. While we and the other recovery vendors received substantially larger placement volume in the fourth quarter of 2012 as a result of the completion of this technology system upgrade, the majority of the revenues from these placements were not recognized until the third quarter of 2013 because we do not begin to earn rehabilitation revenues from a given placement until at least nine months after receipt of a placement. In addition, for approximately twelve months beginning in September 2011, the Department of Education was not able to process a portion of rehabilitated student loans and accordingly we were not able to recognize certain revenues associated with rehabilitation of loans for this client. However, the Department of Education continued to pay us based on invoices submitted and we recorded these cash receipts as deferred revenues on our balance sheet.

Claim Recovery Volume

While we are entitled to review Medicare records for all Part A and Part B claims in our region, we are not permitted to identify an improper claim unless that particular type of claim has been pre-approved by CMS to ensure compliance with applicable Medicare payment policies, as well as national and local coverage determinations. The growth of our revenues is determined primarily by the aggregate volume of Medicare claims in our region and our ability to identify improper payments within these claims. However, the long-term growth of these revenues will also be affected by the scope of the issues pre-approved by CMS.

CMS has made changes to the permitted audit scope during the course of the RAC contract that have had a significant effect on our revenues. For example, in September 2013, CMS announced that beginning October 1, 2013, we and the other RAC contractors would not be able to review and audit (i) whether inpatient care delivered to patients with hospital stays lasting less than two midnights was medically necessary and therefore deserving of the higher reimbursement levels under Medicare Part A or (ii) whether inpatient treatment was medically necessary for admissions spanning more than two midnights. In connection with these restrictions, hospitals cannot bill CMS for inpatient services on hospital stays lasting less than two midnights. Fees associated with recoveries initiated by us based upon improper claims for inpatient reimbursement of these short stays had represented a substantial portion of the revenues we have earned under our existing RAC contract. The continued suspension of this type of review activity or restrictions on other types of review activities could have a material adverse effect on our healthcare revenues and operating results.

In addition, in planning for the award of the next RAC contracts, CMS has implemented transition procedures that have significantly affected our operations during the transition period by placing restrictions on the types of claims and the amount of certain medical records requests that we may make during the transition period, and by suspending records requests during other periods.

Contingency Fees

Our revenues consist primarily of contract-based contingency fees. The contingency fee percentages that we earn are set by our clients or agreed upon during the bid process, and may change from time to time either under the terms of existing contracts or pursuant to the terms of contract renewals. For example, the fees that we earn under our contractual arrangement with the Department of Education have been subject to unilateral change by the Department of Education as a result of the Department of Education's decision to have its recovery vendors promote IBR to defaulted student loans. The IBR program provides flexibility on the required monthly payment for student loan borrowers at an amount intended to be affordable based on a borrower's income and family size. As a result of the increased application of the IBR program to defaulted student loans, we expect that there will be an increase in the number of loans that become eligible for rehabilitation because more defaulted student loan borrowers will be able to make qualifying payments. In connection with the implementation of the IBR program, the Department of Education initially reduced the contingency fee rate that we receive for rehabilitating student loans by approximately 13% effective March 1, 2013.

Further, in October 2014, the Department of Education announced a change to a fixed fee of $1,710 payable for each loan that is rehabilitated in place of a recovery fee that historically had been based on a percentage of the balance of the rehabilitated loan.

Regulatory Matters

Each of the markets which we serve is highly regulated. Accordingly, changes in regulations that affect the types of loans, receivables and claims that we are able to service or the manner in which any such delinquent loans, receivables and claims can be recovered will affect our revenues and results of operations. For example, the passage of the Student Aid and Fiscal Responsibility Act, or SAFRA, in 2010 had the effect of transferring the origination of all government-supported student loans to the Department of Education, thereby ending all student loan originations guaranteed by the GAs. Loans guaranteed by the GAs represented approximately 70% of government-supported student loans originated in 2009. While the GAs will continue to service existing outstanding student loans for years to come, this legislation will over time shift the portfolio of student loans that we manage toward the Department of Education, and further concentrate our sources of revenues and increase our reliance on our relationship with the Department of Education. In addition, our entry into the healthcare market was facilitated by passage of the Tax Relief and Health Care Act of 2006, which mandated CMS to contract with private firms to audit Medicare claims in an effort to increase the recovery of improper Medicare payments. Any changes to the regulations that affect the student loan industry or the recovery of defaulted student loans or the Medicare program generally or the audit and recovery of Medicare claims could have a significant impact on our revenues and results of operations.

Client Retention

Our revenues from the student loan market depend on our ability to maintain our contracts with some of the largest providers of student loans. In 2014 and 2013, three providers of student loans each accounted for more than 10% of our revenues and they collectively accounted for 55% and 49%, respectively of our total revenues during such periods. Our contract with the Department of Education, which generated 27.2% of our revenues in 2014, is currently the subject to a competitive bidding process. Our contracts with these clients entitle them to unilaterally terminate their contractual relationship with us at any time without penalty. If we lose one of our significant clients, including if one of our significant clients is consolidated by an entity that does not use our services, if the terms of compensation for our services change or if there is a reduction in the level of placements provided by any of these clients, our revenues could decline.

Our contract with CMS for the recovery of improper Medicare payments began generating significant revenues during 2011 and represented 14.9% and 26.2% of our total revenues for the year, ended December 31, 2014 and December 31, 2013, respectively. Our audit work under our existing RAC contract expired in June 2014, but we have been permitted to resume certain audit work with respect to a limited number of claims pursuant to a contract extension that runs through December 31, 2015. We are currently participating in a competitive bidding process for the next RAC contract. The award of the new RAC contracts has been delayed due in part to a bid protest followed by a lawsuit and a subsequent appeal process which is still underway. Pending a decision on appeal, the contract award process has been enjoined. While we believe our performance under the existing agreement and the experience we have gained in performing this contract position us well to renew the agreement, failure to renew the agreement or renewal on substantially less favorable terms could significantly harm our revenues and results of operations.

Macroeconomic Factors

Certain macroeconomic factors influence our business and results of operations. These include the increasing volume of student loan originations in the U.S. as a result of increased tuition costs and student enrollment, the default rate of student loan borrowers, the growth in Medicare expenditures resulting from increasing healthcare costs, as well as the fiscal budget tightening of federal, state and local governments as a result of general economic weakness and lower tax revenues.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Revenue Recognition

The majority of our contracts are contingency fee based. We recognize revenues on these contingency fee based contracts when third-party payors remit payments to our clients or remit payments to us on behalf of our clients, and, consequently, the contingency is deemed to have been satisfied. Under our RAC contract with CMS, we recognize revenues when the healthcare provider has paid CMS for a claim or has agreed to an offset against other claims by the provider. Healthcare providers have the right to appeal a claim and may pursue additional level of appeals if the initial appeal is found in favor of CMS. We accrue an estimated liability for appeals at the time revenue is recognized based on our estimate of the amount of revenue probable of being returned to CMS following successful appeal based on historical data and other trends relating to such appeals. In addition, if our estimate of liability for appeals with respect to revenues recognized during a prior period changes, we increase or decrease the estimated liability for appeals in the current period.

This estimated liability for appeals is an offset to revenues on our income statement. Resolution of appeals can take a very long time to resolve and there is a significant backlog in the system for resolving appeals, as over the course of our existing RAC contract, healthcare providers have increased their pursuit of appeals beyond the first and second levels of appeals to the third level of appeal, where cases are heard by administrative law judges, or ALJs. In our experience, decisions at the third level of appeal are the least favorable as ALJs exercise greater discretion and there is less predictability in the ALJ decisions as compared to appeals at the first or second levels. This increase of ALJ appeals and backlog of claims at the third level of appeal is the primary reason our total estimated liability for appeals (consisting of the estimated liability for appeals plus the contra-accounts-receivable estimated allowance for appeals) has grown from a balance of $5.6 million at December 31, 2012, to $16.4 million at December 31, 2013 to $18.6 million as of December 31, 2014. The balance of the estimated liability for appeals was also increased because during 2014 we observed an increase in the percentage of appeals that are being found in providers' favor at the ALJ level.

The $18.6 million balance as of December 31, 2014, represents our best estimate of the probable amount of losses related to appeals of claims for which commissions were previously collected. We estimate that it is reasonably possible that we could be required to pay up to an additional approximately $5.4 million as a result of potentially successful appeals. To the extent that required payments by us related to successful appeals exceed the amount accrued, revenues in the applicable period would be reduced by the amount of the excess.

Goodwill

We periodically review the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether an impairment may exist. GAAP requires that goodwill and certain intangible assets not subject to amortization be assessed annually for impairment using fair value measurement techniques.

We assess goodwill for impairment on an annual basis as of December 31 of each year or more frequently if an event occurs or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. We have the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. If we can support the conclusion that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then we would not need to perform the two-step impairment test. If we cannot support such a conclusion, or we do not elect to perform the qualitative assessment, then the first step of the goodwill impairment test is used to identify

potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company performed a qualitative assessment of whether it is more likely than not that goodwill fair value is less than its carrying amount for 2014 , 2013 and 2012 and concluded that there was no need to perform an impairment test.

Impairments of Depreciable Intangible Assets

The balance of depreciable intangible assets was $29.1 million as of December 31, 2014 . We evaluate depreciable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Depreciable intangible assets consist of client contracts and related relationships, and are being amortized over their estimated useful life, which is generally 20 years. We evaluate the client contracts intangible at the individual contract level. The recoverability of such assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There was no impairment expense for depreciable intangible assets in 2014 , 2013 or 2012 .

Results of Operations

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

The following table represents our historical operating results for the periods presented:

	Year Ended December 31,			
	2014	2013	$ Change	% Change
	(in thousands)			
Consolidated Statements of Operations Data:				
Revenues	$ 195,378	$ 255,302	$ (59,924)	(23)%
Operating expenses:				
Salaries and benefits	93,676	96,762	(3,086)	(3)%
Other operating expense	74,433	85,671	(11,238)	(13)%
Total operating expenses	168,109	182,433	(14,324)	(8)%
Income from operations	27,269	72,869	(45,600)	(63)%
Interest expense	(10,171)	(11,564)	1,393	(12)%
Interest income	1	1	—	— %
Income before provision for income taxes	17,099	61,306	(44,207)	(72)%
Provision for income taxes	7,699	24,967	(17,268)	(69)%
Net income	$ 9,400	$ 36,339	$ (26,939)	(74)%

Revenues

Total revenues were $195.4 million for the year ended December 31, 2014, a decrease of $59.9 million or 23%, compared to total revenues of $255.3 million for the year ended December 31, 2013. The decrease is due to a decline in revenues in both our student lending and healthcare markets.

Student lending revenues were $138.3 million for the year ended December 31, 2014, representing a decrease of $25.4 million, or 16%, compared to the year ended December 31, 2013. This decrease was primarily due to lower rehabilitation fees paid to us by our guaranty agency clients a result of the reduction that guaranty agencies can charge borrowers due to the Federal budget act that became effective July 1,2014, and to new documentation requirements imposed by our guaranty agency clients as they implemented income-based repayment programs. The new documentation requirements require additional time and interaction with borrowers, which delayed some loans from qualifying for rehabilitation during 2014.

Healthcare revenues were $32.5 million for the year ended December 31, 2014, representing a decrease of $35.0 million, or 52%, compared to the year ended December 31, 2013. This decrease was due primarily to reduced audit activity in 2014 as the result of the wind-down of our current RAC contract, resulting in substantially reduced levels of permitted healthcare audit and recovery activities.

Salaries and Benefits

Salaries and benefits expense was $93.7 million for the year ended December 31, 2014, a decrease of $3.1 million, or 3%, compared to salaries and benefits expense of $96.8 million for the year ended December 31, 2013. The decrease in salaries and benefits expense was primarily due to lower bonus expense.

Other Operating Expense

Other operating expense was $74.4 million for the year ended December 31, 2014, a decrease of $11.2 million, or 13%, compared to other operating expense of $85.7 million for the year ended December 31, 2013. The decrease in other operating expenses was primarily due to lower third party collection fees and lower communication and postage expense resulting from the wind-down of our current RAC contract.

Income from Operations

As a result of the factors described above, income from operations was $27.3 million for the year ended December 31, 2014, compared to $72.9 million for the year ended December 31, 2013, representing a decrease of $45.6 million, or 63%.

Interest Expense

Interest expense was $10.2 million for the year ended December 31, 2014 compared to $11.6 million for the year ended December 31, 2013, representing a decrease of 12%. Interest expense decreased due to repayments of principal under our credit agreement, resulting in a lower outstanding balance during 2014.

Income Taxes

Income tax expense was $7.7 million for the year ended December 31, 2014 compared to $25.0 million for the year ended December 31, 2013, representing a decrease of 69%, consistent with the decrease in income before provision for income taxes in 2014. Our effective income tax rate increased to 45% for the year ended December 31, 2014 from 41% for the year ended December 31, 2013. The increase in the effective tax rate is primarily the result of an approximately 5.5% increase in the state tax rate. The 2013 effective tax rate includes a one-time tax expense due to the non-deductible expenses associated with the follow on offerings of approximately 1.7%.

Net Income

As a result of the factors described above, net income was $9.4 million for the year ended December 31, 2014, which representing a decrease of $26.9 million compared to net income of $36.3 million for the year ended December 31, 2013.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The following table presents our historical operating results for the periods presented:

	Year Ended December 31,			
	2013	2012	$ Change	% Change
	(in thousands)			
Consolidated Statement of Operations Data:				
Revenues	$ 255,302	$ 210,073	$ 45,229	22 %
Operating expenses:				
Salaries and benefits	96,762	83,002	13,760	17 %
Other operating expense	85,671	71,305	14,366	20 %
Total operating expenses	182,433	154,307	28,126	18 %
Income from operations	72,869	55,766	17,103	31 %
Debt extinguishment costs	—	(3,679)	3,679	(100)%
Interest expense	(11,564)	(12,414)	850	(7)%
Interest income	1	64	(63)	(98)%
Income before provision for income taxes	61,306	39,737	21,569	54 %
Provision for income taxes	24,967	16,786	8,181	49 %
Net income	36,339	22,951	13,388	58 %
Accrual for preferred stock dividends	—	2,038	(2,038)	(100)%
Net income available to common shareholders	$ 36,339	$ 20,913	$ 15,426	74 %

Revenues

Total revenues were $255.3 million for the year ended December 31, 2013, an increase of $45.2 million or 22%, compared to total revenues of $210.1 million for the year ended December 31, 2012. This increase is due to growth in revenues in both our student lending and healthcare markets.

Student lending revenues were $163.7 million for the year ended December 31, 2013, representing an increase of $31.3 million, or 24%, compared to the year ended December 31, 2012. This increase was primarily a result of volume growth of student loan placements during the second half of 2012, which led to an increase in rehabilitation revenues for the year ended December 31, 2013, and continued execution on a contract involving a specialized portfolio of student loans with one of our leading GA clients.

Healthcare revenues were $67.5 million for the year ended December 31, 2013, representing an increase of $12.8 million, or 23%, compared to the year ended December 31, 2012. This increase was primarily a result of higher net claim recovery volume under our RAC contract.

Salaries and Benefits

Salaries and benefits expense was $96.8 million for the year ended December 31, 2013, an increase of $13.8 million, or 17%, compared to salaries and benefits expense of $83.0 million for the year ended December 31, 2012. This increase is primarily due to an increase in employee headcount to support operational growth related to the recovery of student loans.

Other Operating Expense

Other operating expense was $85.7 million for the year ended December 31, 2013, an increase of $14.4 million, or 20%, compared to other operating expense of $71.3 million for the year ended December 31, 2012. This increase is primarily due to increased costs related to our use of subcontractors and consultants, production related expenses associated with data processing, retrieval of medical records, printing and mailing services, and higher spending on professional services related to operating as a public company.

Income from Operations

As a result of the factors described above, income from operations was $72.9 million for the year ended December 31, 2013, compared to $55.8 million for the year ended December 31, 2012, representing an increase of $17.1 million, or 31%.

Debt Extinguishment Costs

We did not incur any debt extinguishment costs for the year ended December 31, 2013. In March 2012, we incurred debt extinguishment costs of $3.7 million in connection with a new credit facility.

Interest Expense

Interest expense was $11.6 million for the year ended December 31, 2013, compared to $12.4 million for the year ended December 31, 2012, representing a decrease of 7%. Interest expense decreased due to repayments of principal under our credit agreement, resulting in a lower outstanding balance during 2013.

Income Taxes

Income tax expense was $25.0 million for the year ended December 31, 2013 compared to $16.8 million for the year ended December 31, 2012, representing an increase of 48.7% consistent with the increase in income before provision for income taxes. Our effective income tax rate decreased to 40.7% for the year ended December 31, 2013 from 42.2% for the year ended December 31, 2012. The decrease in the effective tax rate is the result of approximately 0.7% decrease due to changes in the state tax rate, and approximately 1% decrease due to income tax benefits associated with increases in stock options exercises as a result of two follow on offerings during the year, and the end of the lock-up periods for certain employees. These decreases were offset by approximately a 1.7% increase as a result of the non-deductible expenses associated with the follow on offerings. The 2012 effective tax rate includes a one-time tax expense due to the non-deductible termination of an advisory services agreement of approximately 1.9%.

Net Income

As a result of the factors described above, net income was $36.3 million for the year ended December 31, 2013, which represented an increase of $13.4 million compared to net income of $23.0 million for the year ended December 31, 2012.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows from operations, term loans, and the proceeds received from our initial public offering in August 2012. Cash and cash equivalents, which totaled $80.3 million as of December 31, 2014 , consist primarily of cash on deposit with banks. We expect that operating cash flows will continue to be a primary source of liquidity for our operating needs. There are currently no borrowings outstanding under our revolving credit facility other than a $2.0 million letters of credit. Due to our operating cash flows, and our existing cash and cash equivalents, we believe that we have the ability to meet our working capital and capital expenditure needs for the foreseeable future.

The $1.6 million decrease in the balance of our cash and cash equivalents at December 31, 2014 compared with December 31, 2013 was primarily due to cash generated from operations of $27.9 million during 2014, offset by principal repayments of $21.5 million on our long-term debt and $10.1 million of capital expenditures.

The following table presents information regarding our cash flows for the years ended December 31, 2014 , 2013 and 2012 :

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Net cash provided by operating activities	$ 27,866	$ 61,206	$ 37,005
Net cash used in investing activities	(10,146)	(12,503)	(12,193)
Net cash used in financing activities	(19,331)	(4,637)	(6,973)

Cash flows from operating activities

Operating activities provided $27.9 million of cash during the year ended December 31, 2014, representing a decrease of $33.3 million, compared to cash provided by operating activities of $61.2 million for the year ended December 31, 2013, primarily due to a reduction of net income to $9.4 million in 2014, an increase in net payable to client of $12.1 million, collection of trade receivables of $4.6 million and an increase in the estimated liability for appeals of $3.3 million associated with our RAC contract with CMS. These items were partially offset by various working capital fluctuations such as an increase in other prepaid expenses and a decrease in accrued salaries and benefits.

Operating activities provided $61.2 million of cash during the year ended December 31, 2013, an increase of $24.2

million, compared to cash provided by operating activities of $37.0 million for the year ended December 31, 2012, primarily due to net income of $36.3 million, an increase in the estimated liability for appeals of $10.9 million associated with our RAC contract with CMS, collection of trade receivables of $3.4 million, and an increase in accrued salaries and benefits of $2.5 million. These items were partially offset by various working capital fluctuations such as a decrease in other current liabilities and deferred revenue. The estimated liability for appeals for revenue associated with CMS totaled $15.3 million in 2013, compared $4.4 million in 2012, due to higher claim recovery volumes under our RAC contract with CMS.

Operating activities provided $37. 0 million of cash during the year ended December 31, 2012, an increase of $8.0 million, compared to cash provided by operating activities of $29.0 million for the year ended December 31, 2011 primarily due to the increase in net income for the year ended December 31, 2012 to $23.0 million compared to $12.4 million for 2011. Cash used to pay accrued salary and benefits totaled $9.3 million in 2012, as compared to the $7.1 million in accrued salaries and benefits payable for the comparable period in 2011. Accounts payable increased $1.3 million in 2012 compared to 2011, primarily due to timing. The estimated liability for appeals for revenue received from CMS totaled $4.4 million in 2012, compared $0.5 million in 2011, due to the increase of appeals brought by healthcare providers and the overall backlog of claims subject to appeals under our RAC contract with CMS.

Cash flows from investing activities

We used $10.1 million and $12.5 million of cash in investment activities for the purchase of property, equipment and leasehold improvements during the years ended December 31, 2014 and 2013, respectively, primarily for investments in information technology, data storage, hardware, telecommunication systems and security enhancements to our proprietary software.

Investing activities resulted in cash outflow of $12.2 million during the year ended December 31, 2012. The primary uses of cash associated with investing activities in 2012 were $11.4 million for property, equipment and leasehold improvements, to enhance our proprietary technology platform, improve our telecommunications systems, upgrade our IT infrastructure for storage and operating activities, and $0.8 million for the purchase of a perpetual software license.

Cash flows from financing activities

Cash used in financing activities of $19.3 million during the year ended December 31, 2014 primarily due to the repayment of principal on outstanding debt and other contractual obligations of $22.5 million . This was partially offset by an income tax benefit of $3.2 million associated with the exercise of employee stock options, and $0.6 million in proceeds received from the exercise of employee stock options.

Cash used in financing activities of $4.6 million in 2013 was due to the repayment of principal on outstanding debt and other contractual obligations of $15.5 million, offset by an income tax benefit of $9.1 million associated with the exercise of employee stock options, and $1.8 million in proceeds received from the exercise of employee stock options.

For the year ended December 31, 2012, our primary financing activities were $156 million in proceeds from term loans, $12.8 million of net proceeds from our IPO which was completed in August 2012, and $4.5 million in revolving credit facility borrowings. These proceeds were offset by $103.4 million used for the repayment of our old notes payable and repayment of principal on our new term loans, $12.7 million used for the repayment of our old and new lines of credit, $60.3 million used to redeem 5.3 million shares of preferred stock, and $3.1 million used for debt issuance costs.

Estimated liability for appeals and Net payable to client

The December 31, 2014 balances of $18.6 million and $12.1 million for the Estimated liability for appeals and the Net payable to client, respectively, represent obligations that we expect to pay in the near term, although it is difficult to predict the precise timing of the associated cash outflows as they are dependent on the processing and resolution of audit appeals.

Long-term Debt

On March 19, 2012, we, through our wholly owned subsidiary, entered into a $147.5 million credit agreement, as amended and restated, with Madison Capital Funding LLC as administrative agent, ING Capital LLC as syndication agent, and other lenders party thereto. The senior credit facility consists of (i) a $57.0 million term A loan that matures in March 2017, (ii) a $79.5 million term B loan that matures in March 2018, and (iii) a $11.0 million revolving credit facility that expires in March 2017. On June 28, 2012, we amended the credit agreement to increase the amount of our borrowings under our term B loan by $19.5 million. On November 4, 2014, we further amended the credit agreement to modify a number of existing covenants and add certain new covenants.

All borrowings under the credit agreement bear interest at a rate per annum equal to an applicable margin corresponding to our total debt to EBITDA ratio, plus, at our option, either (i) a base rate determined by reference to the highest

of (a) the prime rate published in the Wall Street Journal or another national publication, (b) the federal funds rate plus 0.5%, (c) the sum of (A) the 1-month LIBOR rate and (B) the difference between the then effective applicable margins for LIBOR loans and base rate loans and (d) 2.5% or (ii) a LIBOR rate determined by reference to the highest of (a) a LIBOR rate published in Reuters or another national publication and (b) 1.5%. The term A loan and the revolving credit facility currently have an applicable margin of 4.25% for base rate loans and 5.25% for LIBOR rate loans, in each case based on a total debt to EBITDA ratio of less than 4.00 to 1.00. The term B loan (including the incremental term B loan) currently has an applicable margin of 4.75% for base rate loans and 5.75% for LIBOR rate loans, in each case based on a total debt to EBITDA ratio of less than 4.00 to 1.00. The minimum per annum interest rate that we are required to pay is 6.75% for the term A loan and revolving credit facility and 7.25% for the term B loan. Interest is due at the end of each month for base rate loans and at the end of each LIBOR period for LIBOR rate loans unless the LIBOR period is greater than 3 months, in which case interest is due at the last day of each 3-month interval of such LIBOR period.

The credit agreement requires us to prepay the two term loans on a prorated basis and then to prepay the revolving credit facility under certain circumstances: (i) with 100% of the net cash proceeds of any asset sale or other disposition of assets by us or our subsidiaries where the net cash proceeds exceed $1 million, (ii) with a percentage of our annual excess cash flow each year where such percentage ranges from 25%-75% depending on our total debt to EBITDA ratio reduced by any voluntary prepayments that are made on our term loans during the same period, unless we elect to apply voluntary prepayments in the inverse order of maturity, in which case only voluntary prepayments in excess of $10 million shall reduce the amount of excess cash flow we are required to prepay and (iii) with any net cash proceeds from a qualified initial public offering by us, less net proceeds applied to redeem any outstanding preferred equity or convertible debt, to pay a common shareholder dividend not to exceed $20 million or, if we comply with an adjusted EBITDA ratio set forth in the agreement, to our cash balances in an amount not to exceed $75 million. With respect to (ii) above, the Company made a pro rata prepayment of approximately $11.5 million to the lenders in May 2014.

We have to abide by certain negative covenants for our credit agreement, which limit the ability for our subsidiaries and us to:

- incur additional indebtedness;
- create or permit liens;
- pay dividends or other distributions to our equity holders;
- purchase or redeem certain equity interests of our equity holders, including any warrants, options and other security rights;
- pay management fees or similar fees to any of our equity holders;
- make any redemption, prepayment, defeasance, repurchase or any other payment with respect to any subordinated debt;
- consolidate, merge or make any acquisitions;
- sell assets, including the capital stock of our subsidiaries;
- enter into transactions with our affiliates;
- enter into different business lines;
- permit the aggregate amount of capital expenditures to exceed a certain amount; and
- make investments.

The credit agreement also requires us to meet certain financial covenants, including maintaining (i) a fixed charge coverage ratio, (ii) a total debt to EBITDA ratio, (iii) an interest coverage ratio, (iv) a minimum EBITDA amount,(v) a minimum required adjusted cash amount, and (vi) maximum capital expenditures, as such terms are defined in our credit agreement. These financial covenants are tested at the end of each year, quarter or month, as applicable. The table below further describes these financial covenants, as well as our current status under these covenants as of December 31, 2014.

Financial Covenant	Covenant Requirement	Actual Ratio at December 31, 2014
Fixed charge coverage ratio (minimum)*	1.20 to 1.0	1.38
Total debt to EBITDA ratio (maximum)*	3.25 to 1.0	2.33
Interest coverage ratio (minimum)**	2.25 to 1.0	5.35
EBITDA (minimum)**	$20,000,000	$48,052,000
Required Adjusted Cash Amount (minimum)***	$35,000,000	$59,313,000
Capital Expenditures ****	$12,500,000	$10,146,000

* Covenant requirement as of December 31, 2014. These covenant requirements adjust in future period.
** These requirements became effective December 2014, and will adjust in future periods.
*** This requirement became effective November 4, 2014.
****This requirement is an annual requirement effective December 31, 2014.

Our debt agreements contain, and any agreements to refinance our debt likely will contain, financial and restrictive covenants that limit our ability to incur additional debt, including to finance future operations or other capital needs, and to engage in other activities that we may believe are in our long−term best interests, including to dispose of or acquire assets or make capital expenditures. These covenants also require us to maintain certain financial ratios, including a fixed charge coverage ratio, total debt to EBITDA ratio and an interest coverage ratio, as well as minimum EBITDA and adjusted cash amounts. Our current projections, assuming we do not have any other adjustments to reduce our expenses, show that we will be narrowly in compliance with several of our covenants during the second half of 2015. However, we believe we can make appropriate reductions in a timely manner in our expense structure in order to maintain compliance with our financial covenants. Due to delays in the award of the new RAC contracts by CMS and pricing reductions in the student lending market, we have been actively restructuring both our variable and fixed expenses. Our expenses are largely comprised of variable expenses including salaries and wages, subcontractor fees, production specific vendors, printing and mailing services. As variable costs increase with growth of services provided under a contract, or new contract award, similarly, we can and will attempt to reduce variable costs to the extent we encounter contract delays or lower service volumes. We have actively managed our cost structure during contract transitions with both CMS and the Department of Education and have reduced our expenses with an intent to minimize adverse impacts on our future revenue and in order to remain in compliance with our financial covenants.

Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2014 :

	Payments Due by Period				
Contractual Obligations	*Total*	*Less Than 1 Year*	*1-3 Years*	*3-5 Years*	*More Than 5 Years*
Long-Term Debt Obligations	$ 111,795	$ 9,820	$ 18,939	$ 83,036	$ —
Interest Payments	22,263	7,723	13,254	1,286	—
Operating Lease Obligations	7,797	2,290	3,423	1,269	815
Purchase Obligations	7,423	7,423	—	—	—
Total	$ 149,278	$ 27,256	$ 35,616	$ 85,591	$ 815

(1) We entered into our new credit agreement on March 19, 2012 and amended it on June 28, 2012, with all outstanding indebtedness under our prior loan facility paid in full. Long-term debt obligations and interest payments presented in this table relate solely to our new credit agreement, as amended.

Adjusted EBITDA and Adjusted Net Income

To provide investors with additional information regarding our financial results, we have disclosed in the table below and within this report adjusted EBITDA and adjusted net income, both of which are non-GAAP financial measures. We have provided a reconciliation below of adjusted EBITDA to net income and adjusted net income to net income, the most directly comparable GAAP financial measure to these non-GAAP financial measures.

We have included adjusted EBITDA and adjusted net income in this report because they are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends and to prepare and approve our annual budget. Accordingly, we believe that adjusted EBITDA and adjusted net income provide useful information to investors and analysts in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of adjusted EBITDA and adjusted net income has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect interest expense on our indebtedness;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect tax payments;
- adjusted EBITDA and adjusted net income do not reflect the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA and adjusted net income do not reflect the impact of certain non-operating expenses resulting from matters we do not consider to be indicative of our core operating performance; and
- other companies may calculate adjusted EBITDA and adjusted net income differently than we do, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA and adjusted net income alongside other financial performance measures, including net income and our other GAAP results.

The following tables present a reconciliation of adjusted EBITDA and adjusted net income for the years ended December 31, 2014, 2013 and 2012 to actual net income for these periods:

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Reconciliation of Adjusted EBITDA:			
Net income	$ 9,400	$ 36,339	$ 22,951
Provision for income taxes	7,699	24,967	16,786
Interest expense	10,171	11,564	12,414
Interest income	(1)	(1)	(64)
Debt extinguishment costs (1)	—	—	3,679
Transaction expenses (2)	1,276	2,893	—
Depreciation and amortization	12,450	10,655	9,505
Non-core operating expenses (3)	—	—	47
Advisory fee (4)	—	—	2,641
Stock based compensation	3,707	2,994	1,614
Adjusted EBITDA	$ 44,702	$ 89,411	$ 69,573

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Reconciliation of Adjusted Net Income:			
Net income	$ 9,400	$ 36,339	$ 22,951
Debt extinguishment costs [(1)]	—	—	3,679
Transaction expenses [(2)]	1,276	2,893	—
Non–core operating expenses [(3)]	—	—	47
Advisory fee [(4)]	—	—	2,641
Stock based compensation	3,707	2,994	1,614
Amortization of intangibles [(5)]	3,737	3,731	3,676
Deferred financing amortization costs [(6)]	1,055	1,125	1,161
Tax adjustments [(7)]	(3,910)	(4,297)	(5,126)
Adjusted net income	$ 15,265	$ 42,785	$ 30,643

(1) Represents debt extinguishment costs comprised of approximately $3.3 million of fees paid to lenders in connection with our new credit facility and approximately $0.3 million of unamortized debt issuance costs in connection with our old credit facility.

(2) Represents direct and incremental costs associated with the Company's secondary offerings in February and April 2013, and expenses incurred in 2014 for potential acquisition and related financing.

(3) Represents professional fees and settlement costs related to strategic corporate development activities.

(4)Represents expenses incurred under an advisory services agreement with Parthenon Capital Partners, which was terminated in April 2012 and the August 2012 expense of $0.9 million associated with a payment to a financial advisor as part of the Company's initial public offering. See Note 11 "Related Party Transactions."

(5) Represents amortization of capitalized expenses related to the acquisition of Performant by an affiliate of Parthenon Capital Partners in 2004, and also an acquisition in the first quarter of 2012 to enhance our analytics capabilities.

(6) Represents amortization of capitalized financing costs related to debt offerings conducted in 2009, 2010 and 2012.

(7) Represents tax adjustments assuming a marginal tax rate of 40%.

Recent Accounting Pronouncements

In May 2014, FASB issued an ASU that amends the FASB ASC by creating a new Topic 606, Revenue from Contracts with Customers. The new guidance will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance on revenue recognition throughout the Industry Topics of the Codification. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In addition, an entity should disclose sufficient qualitative and quantitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. This amendment is to be either retrospectively adopted to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

In June 2014, FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ("ASU 2014-12"). ASU 2014-12 brings consistency to the accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 is effective for annual reporting periods (including interim periods) beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance will not have a material effect on our consolidated financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

We do not hold or issue financial instruments for trading purposes. We conduct all of our business in U.S. currency and therefore do not have any direct foreign currency risk. We do have exposure to changes in interest rates with respect to the borrowings under our senior secured credit facility, which bear interest at a variable rate based on the prime rate or LIBOR. For example, if the interest rate on our borrowings increased 100 basis points (1%) from the credit facility floor of 1.5%, our annual interest expense would increase by approximately $1.1 million.

While we currently hold our excess cash in an operating account, in the future we may invest all or a portion of our excess cash in short-term investments, including money market accounts, where returns may reflect current interest rates. As a result, market interest rate changes impact our interest expense and interest income. This impact will depend on variables such as the magnitude of interest rate changes and the level of our borrowings under our credit facility or excess cash balances.

ITEM 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto and the reports of KPMG LLP are set forth in the Index to Financial Statements under Item 15, Exhibits, Financial Statement Schedules, and is incorporated herein by reference.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures,

management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act, as of the fiscal year covered by this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were functioning effectively at the reasonable assurance level as of December 31, 2014.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). Under the supervision of, and with the participation of our Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of internal control over financial reporting as of December 31, 2014. Management based its assessment on criteria established in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that its internal control over financial reporting was effective as of December 31, 2014.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the year ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, other than those noted above.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

ITEM 11. Executive Compensation

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

ITEM 14. Principal Accounting Fees and Services

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Financial Statements

Financial Statements. The financial statements filed as part of this report are identified in the Index to Consolidated Financial Statements on page F-1.

Financial Statement Schedules . See Item 15(c) below.

Exhibits . See Item 15(b) below.

(b) Exhibits

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Securities and Exchange Commission. The Company shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of January 28, 2015, by and among Performant Financial Corporation. Project Phoenix Merger Sub, Inc. Premier Healthcare Exchange, Inc. and the other parties thereto (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 29, 2015)
3.1	Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1(b) to the Company’s Registration Statement on Form S-1/A filed July 30, 2012)
3.2	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.2(b) to the Company’s Registration Statement on Form S-1/A filed July 23, 2012)
4.2	Amended and Restated Registration Rights Agreement, dated as of August 15, 2012, among the Registrant and the persons listed thereon (incorporated by reference to Exhibit 4.2 to the Company’s Registration Statement on Form S-1/A filed July 23, 2012)
10.1	Form of Indemnification Agreement between the Registrant and its officers and directors (incorporated by reference to Exhibit 10.1 to the Company’s Registration Statement on Form S-1/A filed July 30, 2012)
10.2	2004 Equity Incentive Plan and form of agreements thereunder (incorporated by reference to Exhibit 10.2 to the Company’s Registration Statement on Form S-1 filed July 3, 2012)
10.3	2004 DCS Holdings Stock Option Plan and form of agreements thereunder (incorporated by reference to Exhibit 10.3 to the Company’s Registration Statement on Form S-1 filed July 3, 2012)
10.4	2007 Stock Option Plan and form of agreements thereunder (incorporated by reference to Exhibit 10.4 to the Company’s Registration Statement on Form S-1 filed July 23, 2012)
10.5	Recovery Audit Contractor contract by and between Diversified Collection Services, Inc. and Center for Medicare and Medicaid Services dated as of October 3, 2008, as amended (incorporated by reference to Exhibit 10.5 to the Company’s Registration Statement on Form S-1/A filed July 23, 2012)
10.6	Credit Agreement, dated as of March 19, 2012, by and among DCS Business Services, Inc., the Lenders party Hereto, Madison Capital Funding LLC, and ING Capital (incorporated by reference to Exhibit 10.6 to the Company’s Registration Statement on Form S-1/A filed July 23, 2012)
10.7	Form of Change of Control Agreement, as amended (incorporated by reference to Exhibit 10.7 to the Company’s Registration Statement on Form S-1/A filed July 30, 2012)
10.8	Employment Agreement between the Registrant and Lisa Im, dated as of April 15, 2012, as amended (incorporated by reference to Exhibit 10.8 to the Company’s Registration Statement on Form S-1/A filed July 23, 2012)
10.9	Employment Agreement between the Registrant and Jon D. Shaver dated as of March 31, 2003, as amended (incorporated by reference to Exhibit 10.9 to the Company’s Registration Statement on Form S-1/A filed July 23, 2012)
10.10	Repurchase Agreement between the Registrant and Lisa C. Im dated as of July 3, 2012 (incorporated by reference to Exhibit 10.10 to the Company’s Registration Statement on Form S-1 filed July 3, 2012)
10.11	Repurchase Agreement between the Registrant and Jon D. Shaver dated as of July 3, 2012 (incorporated by reference to Exhibit 10.11 to the Company’s Registration Statement on Form S-1 filed July 3, 2012)
10.12	Director Nomination Agreement between the Registrant and Parthenon DCS Holdings, LLC dated as of July 20, 2012

(incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)

10.13	Advisory Services Agreement between Diversified Collection Services, Inc. and Parthenon Capital, LLC dated as of January 8, 2004, as amended (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)

Exhibit Number	Description
10.14	Termination of the Advisory Services Agreement between Diversified Collection Services, Inc. and Parthenon Capital, LLC dated as of January 8, 2004, as amended, dated as of April 13, 2012 (incorporated by reference to Exhibit 10.14 to the Company’s Registration Statement on Form S-1/A filed July 23, 2012)
10.15	2012 Stock Incentive Plan*
10.16	Amendment No. 1 to Credit Agreement dated as of March 19, 2012, by and among DCS Business Services, Inc., the Lenders party thereto, Madison Capital Funding LLC,and ING Capital*
10.17	Amendment No. 2 Credit Agreement, dated as of November 4 2014, by and among Performant Business Services, Inc., the Lenders party thereto, and Madison Capital Funding LLC. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 10, 2014)
21	List of Subsidiaries
23	Consent of KPMG LLP, Independent Registered Public Accounting Firm
24	Powers of Attorney (included in the signature page to this report)
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Lisa C. Im
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by Hakan L. Orvell
32.1	Furnished Statement of the Chief Executive Officer under 18 U.S.C. Section 1350
32.2	Furnished Statement of the Chief Financial Officer under 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

Schedules not listed above have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes hereto.

Index to Consolidated Financial Statements

Consolidated Financial Statements of Performant Financial Corporation and Subsidiaries For the Years Ended December 31, 2014, 2013 and 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Performant Financial Corporation:

We have audited the accompanying consolidated balance sheets of Performant Financial Corporation and subsidiaries as of December 31, 2014 and 2013, the related consolidated statements of operations, changes in redeemable preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three−year period ended December 31, 2014, and the related Schedule II for the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and Schedule II referred to above present fairly, in all material respects, the financial position of Performant Financial Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three−year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

San Francisco, California
March 12, 2015

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except per share amounts)

Assets	December 31, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 80,298	$ 81,909
Trade accounts receivable, net of allowance for doubtful accounts of $32 and $32, respectively and estimated allowance for appeals of $0 and $1,160, respectively	15,047	19,649
Deferred income taxes	7,605	6,847
Prepaid expenses and other current assets	12,559	4,400
Income tax receivable	4,394	—
Debt issuance costs, current portion	986	1,055
Total current assets	120,889	113,860
Property, equipment, and leasehold improvements, net	27,647	26,247
Identifiable intangible assets, net	29,093	32,513
Goodwill	82,522	81,572
Debt issuance costs, net of current portion	2,456	2,789
Other assets	222	279
Total assets	$ 262,829	$ 257,260
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of notes payable	$ 9,820	$ 10,763
Accrued salaries and benefits	5,380	11,826
Accounts payable	1,370	2,383
Other current liabilities	8,452	5,311
Income taxes payable	—	103
Estimated liability for appeals	18,625	15,283
Net payable to client	12,110	—
Total current liabilities	55,757	45,669
Notes payable, net of current portion	101,975	122,541
Deferred income taxes	11,666	12,612
Other liabilities	2,259	2,204
Total liabilities	171,657	183,026
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.0001 par value. Authorized, 500,000 shares at December 31, 2014 and 2013, respectively; issued and outstanding, 49,350 and 48,316 shares at December 31, 2014 and 2013, respectively	5	5
Additional paid-in capital	57,329	49,791
Retained earnings	33,838	24,438
Total stockholders' equity	91,172	74,234
Total liabilities and stockholders' equity	$ 262,829	$ 257,260

See accompanying notes to consolidated financial statements.

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except per share amounts)

	For the Years Ended December 31,		
	2014	2013	2012
Revenues	$ 195,378	$ 255,302	$ 210,073
Operating expenses:			
Salaries and benefits	93,676	96,762	83,002
Other operating expenses	74,433	85,671	71,305
Total operating expenses	168,109	182,433	154,307
Income from operations	27,269	72,869	55,766
Debt extinguishment costs	—	—	(3,679)
Interest expense	(10,171)	(11,564)	(12,414)
Interest income	1	1	64
Income before provision for income taxes	17,099	61,306	39,737
Provision for income taxes	7,699	24,967	16,786
Net income	$ 9,400	$ 36,339	$ 22,951
Accrual for preferred stock dividends	—	—	2,038
Net income available to common shareholders	$ 9,400	$ 36,339	$ 20,913
Net income per share attributable to common shareholders (see Note 1)			
Basic	$ 0.19	$ 0.77	$ 0.48
Diluted	$ 0.19	$ 0.74	$ 0.44
Weighted average shares (see Note 1)			
Basic	48,816	47,492	43,985
Diluted	49,834	49,386	47,599

See accompanying notes to consolidated financial statements.

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Redeemable Preferred Stock and Stockholders' Equity (Deficit)
For the Years Ended December 31, 2014 , 2013 and 2012
(In thousands)

	Redeemable Preferred Stock Series A Convertible Preferred Stock			Common Stock				
	Shares	Amount	Due From Stockholders	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
Balance, December 31, 2011	5,296	$ 58,248	$ (2,266)	37,667	$ 4	$ 19,371	$ (32,814)	$ (15,705)
Increase in redemption value of Series A preferred stock	—	2,038	—	—	—	—	(2,038)	(2,038)
Conversion of Series A preferred stock to Series B preferred stock which was immediately redeemed for cash	—	(60,286)	—	—	—	—	—	—
Conversion of Series B preferred stock to common	(5,296)	—	—	5,296	—	—	—	—
Exercise of stock options	—	—	—	284	—	175	—	175
Issuance of stock	—	—	—	2,243	—	15,420	—	15,420
Purchase of treasury stock	—	—	—	(98)	—	(1,225)	—	(1,225)
Interest on notes receivable from stockholders	—	—	(57)	—	—	—	—	(57)
Repayment of notes receivable from stockholders	—	—	2,323	—	—	—	—	2,323
Stock-based compensation expense	—	—	—	—	—	1,614	—	1,614
Income tax benefit from employee stock options	—	—	—	—	—	615	—	615
Net income	—	—	—	—	—	—	22,951	22,951
Balance, December 31, 2012	—	—	—	45,392	4	35,970	(11,901)	24,073
Exercise of stock options	—	—	—	2,924	1	1,767	—	1,768
Stock-based compensation expense	—	—	—	—	—	2,994	—	2,994
Income tax benefit from employee stock options	—	—	—	—	—	9,060	—	9,060
Net income	—	—	—	—	—	—	36,339	36,339
Balance, December 31, 2013	—	—	—	48,316	5	49,791	24,438	74,234
Exercise of stock options	—	—	—	1,034	—	610	—	610
Stock-based compensation expense	—	—	—	—	—	3,707	—	3,707
Income tax benefit from employee stock options	—	—	—	—	—	3,221	—	3,221
Net income	—	—	—	—	—	—	9,400	9,400
Balance, December 31, 2014	—	$ —	$ —	49,350	$ 5	$ 57,329	$ 33,838	$ 91,172

See accompanying notes to consolidated financial statements.

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	For the Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 9,400	$ 36,339	$ 22,951
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on disposal of assets	33	1	51
Depreciation and amortization	12,450	10,655	9,505
Write-off of unamortized debt issuance costs	—	—	335
Deferred income taxes	(1,703)	(1,708)	(1,826)
Stock-based compensation	3,707	2,994	1,614
Interest expense from debt issuance costs and amortization of discount note payable	1,177	1,247	1,272
Interest income on notes receivable from stockholders	—	—	(57)
Changes in operating assets and liabilities:			
Trade accounts receivable	4,602	3,395	(3,646)
Prepaid expenses and other current assets	(8,159)	(1,524)	416
Income tax receivable	(4,394)	—	—
Other assets	57	451	(71)
Accrued salaries and benefits	(6,446)	2,538	2,150
Accounts payable	(1,013)	980	1,343
Other current liabilities	1,873	(2,941)	(1,223)
Income taxes payable	(103)	(327)	(40)
Deferred revenue	—	(2,187)	(27)
Estimated liability for appeals	3,342	10,905	3,928
Net payable to client	12,110	—	—
Other liabilities	933	388	330
Net cash provided by operating activities	27,866	61,206	37,005
Cash flows from investing activities:			
Purchase of property, equipment, and leasehold improvements	(10,146)	(12,503)	(11,356)
Purchase of perpetual software license and computer equipment	—	—	(837)
Net cash used in investing activities	(10,146)	(12,503)	(12,193)
Cash flows from financing activities:			
Borrowing under notes payable	—	—	156,000
Borrowing under line of credit	—	—	4,500
Redemption of preferred stock	—	—	(60,286)
Repayment of notes payable	(21,509)	(14,465)	(103,416)
Repayment of line of credit	—	—	(12,698)
Debt issuance costs paid	(653)	—	(3,074)
Proceeds from exercise of stock options	610	1,768	175
Proceeds from issuance of stock	—	—	12,624
Repayment of promissory notes from stockholders	—	—	2,323
Income tax benefit from employee stock options	3,221	9,060	615
Payment to stockholders	—	—	(1,761)
Purchase of treasury stock	—	—	(1,225)
Payment of purchase obligation	(1,000)	(1,000)	(750)
Net cash used in financing activities	(19,331)	(4,637)	(6,973)
Net increase (decrease) in cash and cash equivalents	(1,611)	44,066	17,839
Cash and cash equivalents at beginning of year	81,909	37,843	20,004
Cash and cash equivalents at end of year	$ 80,298	$ 81,909	$ 37,843
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	$ 10,185	$ 17,396	$ 18,037

Cash paid for interest	$ 8,978	$ 10,294	$ 11,178
Cash paid as debt extinguishment	$ —	$ —	$ 3,344
Supplemental disclosure of non-cash investing and financing activities:			
Obligation payable to sellers of perpetual license	$ —	$ —	$ 3,250
Issuance of common stock as part of debt issuance costs	$ —	$ —	$ 2,796

See accompanying notes to consolidated financial statements.

PERFORMANT FINANCIAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

For the Years Ended December 31, 2014, 2013 and 2012

1. Summary of Significant Accounting Policies

(a) Organization and Nature of Business

Performant Financial Corporation (the Company) is a leading provider of technology-enabled recovery and analytics services in the United States. The Company's services help identify, restructure and recover delinquent or defaulted assets and improper payments for both government and private clients in a broad range of markets. Company clients typically operate in complex and regulated environments and outsource their recovery needs in order to reduce losses on billions of dollars of defaulted student loans, improper healthcare payments and delinquent state tax and federal treasury receivables. The Company generally provides our services on an outsourced basis, where we handle many or all aspects of the clients' recovery processes.

The Company's consolidated financial statements include the operations of Performant Financial Corporation (PFC), its wholly owned subsidiary Performant Business Services, Inc., and its wholly owned subsidiaries Performant Recovery, Inc. (Recovery), Performant Technologies, Inc., and Performant Europe Ltd. Effective August 13, 2012, we changed the name of our wholly owned subsidiary from DCS Business Services, Inc. (DCSBS) to Performant Business Services, Inc., and DCSBS' wholly owned subsidiaries from Diversified Collection Services, Inc. (DCS), and Vista Financial, Inc. (VFI), to Performant Recovery, Inc., and Performant Technologies, Inc., respectively. PFC is a Delaware corporation headquartered in California and was formed in 2003. Performant Business Services, Inc. is a Nevada corporation founded in 1997. Recovery is a California corporation founded in 1976. Performant Technologies, Inc. is a California corporation that was formed in 2004.

The Company is managed and operated as one business, with a single management team that reports to the Chief Executive Officer.

(b) Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP. The Company consolidates entities in which it has controlling financial interest, and as of December 31, 2014 , all of the Company's subsidiaries are 100% owned. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of the consolidated financial statements in conformity with U.S. GAAP, requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, primarily accounts receivable, intangible assets, goodwill, estimated liability for appeals, accrued expenses, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Our actual results could differ from those estimates.

(d) Stock Split

On July 26, 2012, the Company effected a two -for-one stock split of the Company's shares of Common Stock. Accordingly, all per share amounts, average shares outstanding, shares outstanding, and equity based compensation presented in the consolidated financial statements and notes have been adjusted retroactively to reflect the stock split. Shareholders' deficit has been retroactively adjusted to give effect to the stock split for all periods presented by reclassifying the par value of the additional shares issued in connection with the stock split to additional paid-in capital. Concurrently with the stock split, the authorized Common Stock was increased from 25,000,000 shares to 60,000,000 shares. On August 15, 2012, the authorized Common Stock was increased to 500,000,000 shares and the authorized preferred stock was increased to 50,000,000 shares.

(e) Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid debt instruments with original maturities of three months or less when purchased. These investments can include money market funds that invest in highly liquid U.S. government and agency obligations, certificates of deposit, bankers' acceptances, and commercial paper.

The Company collects monies on behalf of its clients. Cash is often held on behalf of the clients in various trust accounts and is subsequently remitted to the clients based on contractual agreements. Cash held in these trust accounts for contracting agencies is not included in the Company's assets (Note 12(a)).

(f) Hosted Service Installation and Implementation Deliverables

In 2008, the Company entered into a long-term contract to provide hosted services to a client beginning in March 2009. The Company determined that certain installation and implementation deliverables were not separate units of accounting within the contract, and should be combined for revenue recognition purposes with the hosted service deliverable. Accordingly, revenue for these contract elements is being taken ratably from the commencement of hosted services in March 2009 through the contract period of March 2018. Additionally, the Company deferred the direct incremental costs associated with the installation and implementation deliverables, with the costs being expensed ratably from the March 2009 commencement of services through March 2018.

(g) Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements are stated at cost, net of accumulated depreciation. Furniture and equipment are depreciated using the straight-line method over estimated useful lives ranging from 5 to 7 years. Buildings are depreciated using the straight-line method over 31.5 years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the lease. Computer software and computer hardware are depreciated using the straight-line method over 3 years and 5 years, respectively.

Maintenance and repairs are charged to expense as incurred. Improvements that extend the useful lives of assets are capitalized.

When property is sold or retired, the cost and the related accumulated depreciation are removed from the consolidated balance sheet and any gain or loss from the transaction is included in the consolidated statements of operations.

(h) Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price and related costs over the fair value assigned to the net assets of businesses acquired. Goodwill is not amortized, but instead is reviewed for impairment at least annually. Impairment is the condition that exists when the carrying amount of goodwill is not recoverable and its carrying amount exceeds its fair value.

The Company performed a qualitative assessment of whether it is more likely than not that goodwill fair value is less than its carrying amount for 2014 , 2013 and 2012 and concluded that there was no need to perform an impairment test.

Identifiable intangible assets consist of customer contracts and related relationships, a perpetual license, and covenants not to compete. Customer contracts and related relationships are amortized over their estimated useful life of 4 to 20 years. The perpetual license is amortized over its estimated useful life of 5 years.

(i) Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company did not recognize an impairment expense for intangible assets in 2014 , 2013 and 2012.

(j) System Developments

The Company follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 350-40, *Internal-Use Software* , which specifies that costs incurred during the application stage of development should be capitalized. All other costs are expensed as incurred. During 2014 , 2013 and 2012 , costs of $7.2 million , $4.9 million and $5.4 million respectively, were capitalized for projects in the application stage of development, with depreciation expense of $4.0 million , $2.6 million and $2.4 million respectively, for completed projects.

(k) *Debt Issuance Costs*

Debt issuance costs represent loan and legal fees paid in connection with the issuance of long-term debt. Debt issuance costs are amortized to interest expense in accordance with key terms of the notes as amended.

(l) *Revenues, Accounts Receivable, and Estimated Liability for Appeals*

Revenue is recognized upon the collection of defaulted loan and debt payments. Loan rehabilitation revenue is recognized when the rehabilitated loans are sold (funded) by clients. Incentive revenue is recognized upon receipt of official notification of incentive award from customers. Under the Company's RAC contract with CMS, the Company recognizes revenues when the healthcare provider has paid CMS for a given claim or has agreed to an offset against other claims by the provider. Providers have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of CMS. The Company accrues an estimated liability for appeals at the time revenue is recognized based on the Company's estimate of the amount of revenue probable of being refunded to CMS following successful appeal. In addition, if the Company's estimate of the liability for appeals with respect to revenues recognized during a prior period changes, the Company increases or decreases current period accruals based on such change in estimated liability. At December 31, 2014 , a total of $18.6 million was presented as an allowance against revenue, representing the Company's estimate of claims that may be overturned. Of this amount, $0.0 million was related to amounts in accounts receivable and $18.6 million was related to commissions which had already been received. The zero allowance against accounts receivable at December 31, 2014 is due to the fact that the receivable from CMS is netted against an offsetting payable for overturned audits, and at December 31, 2014, the amount of the payable exceeded the amount of the receivable as discussed in note 1(m). The total accrued liability for appeals of $18.6 million has therefore been presented in the caption estimated liability for appeals at December 31, 2014. At December 31, 2013, the total appeals-related liability was $16.4 million , comprised of an estimated liability for appeals of $15.3 million and a contra-accounts-receivable estimated allowance for appeals of $1.1 million . The $18.6 million balance at December 31, 2014 and the $15.3 million balance as of December 31, 2013, represents the Company's best estimate of the probable amount of losses related to appeals of claims for which commissions were previously collected. In addition to the $18.6 million amount accrued at December 31, 2014 , the Company estimates that it is reasonably possible that it could be required to pay an additional amount up to approximately $5.4 million as a result of potentially successful appeals. To the extent that required payments by the Company exceed the amount accrued, revenues in the applicable period would be reduced by the amount of the excess.

For the year ended December 31, 2014 , the Company had 4 clients whose individual revenues exceeded 10% of the Company's total revenues. The dollar amount and percent of total revenue of each of the 4 clients is summarized in the table below (in thousands):

Rank	2014 Revenue	Percent of total revenue
1	$53,211	27.2%
2	29,444	15.1%
3	29,171	14.9%
4	24,855	12.7%

For the year ended December 31, 2013 , the Company had 4 clients whose individual revenues exceeded 10% of the Company's total revenues. The dollar amount and percent of total revenue of each of the 4 clients is summarized in the table below (in thousands):

Rank	2013 Revenue	Percent of total revenue
1	$66,820	26.2%
2	51,566	20.2%
3	42,056	16.5%
4	30,902	12.1%

For the year ended December 31, 2012 , the Company had 5 clients whose individual revenues exceeded 10% of the Company's total revenues. The dollar amount and percent of total revenue of each of the 5 clients is summarized in the table below (in thousands):

Rank	2012 Revenue	Percent of total revenue
1	$54,130	25.8%
2	39,183	18.7%
3	29,027	13.8%
4	25,469	12.1%
5	22,397	10.7%

Revenue from the largest three customers was 57% , 63% and 58% of total revenue in 2014 , 2013 and 2012 , respectively. Accounts receivable due from these three customers were 39% , 59% and 63% of total trade receivables at December 31, 2014 , 2013 and 2012 , respectively. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company determines the allowance for doubtful accounts by specific identification. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was $0.0 million for both December 31, 2014 and December 31, 2013 , respectively.

(m) Net Payable to Client

The Company nets outstanding accounts receivable invoices from an audit & recovery contract against payables for overturned audits. The overturned audits are netted against current fees due on the invoice to the client when they are processed by the client's system. The "Net payable to client" balance of $12.1 million represents the excess of payables of $14.2 million for overturned audits offset by outstanding accounts receivable of $2.1 million at December 31, 2014. At December 31, 2013, the net of the outstanding accounts receivable invoices of $12.8 million was offset against a payable for overturned audits of $5.9 million for a net receivable of $6.9 million , presented in Accounts receivable. The Company expects that the net payable-to client balance will be paid to the client within the next twelve months.

(n) Prepaid Expenses and Other Current Assets

At December 31, 2014, Prepaid expenses and other current assets includes $5.6 million of amounts estimated to become due from subcontractors. The Company employs subcontractors to audit claims as part of an audit & recovery contract, and to the extent that audits by these subcontractors are overturned on appeal, the fees associated with such claims are contractually refundable to the Company. At December 31, 2014, the receivable associated with estimated future overturns of subcontractor audits was $5.6 million . In addition, at December 31, 2014, Prepaid expenses and other current assets includes a net receivable of $3.0 million for subcontractor fees for already overturned audits refundable to the Company once the Company refunds its fees to the client as prime contractor. By comparison, at December 31, 2013, there was a net subcontractor payable under this contract of $3.7 million that was offset by a subcontractor receivable for estimated future overturns of subcontractor audits of $5.2 million , with the net asset of $1.5 million included in Other liabilities.

(o) Legal Expenses

The Company recognizes legal fees related to litigation as they are incurred.

(p) Comprehensive Income

The Company has no components of comprehensive income other than its net income. Accordingly, comprehensive income is equivalent to net income.

(q) Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, short-term debt and long-term debt. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair values based on or due to their short-term maturities. The carrying values of short-term debt and long-term debt approximate fair value, in which their variable interest rates approximate market rates.

(r) Income Taxes

The Company accounts for income taxes under the asset-and-liability method. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying value of assets and liabilities for financial reporting purposes and for taxation purposes. Deferred income tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(s) Preferred Stock

The carrying amounts of preferred stock are periodically increased by amounts representing dividends not currently declared or paid, but which would be payable under certain redemption features. Such increases in carrying amounts are recorded against retained earnings.

(t) Stock Options

The Company accounts for its employee stock-based compensation awards in accordance with FASB ASC Topic 718, *Compensation – Stock Compensation* . FASB ASC Topic 718 requires that all employee stock-based compensation is recognized as a cost in the financial statements and that for equity-classified awards, such cost is measured at the grant date fair value of the award. The Company estimates grant date fair value using the Black-Scholes-Merton option-pricing model.

FASB ASC Topic 718 also requires that excess tax benefits recognized in equity related to stock option exercises are reflected as financing cash inflows. The Company recognized income tax benefits resulting from the exercise of stock options in 2014 , 2013 and 2012 of $ 3.2 million , $9.1 million and $0.6 million , respectively.

(u) Earnings per Share

For the years ended December 31, 2014 and 2013, basic earnings per share is calculated by dividing net income available to common shareholders by the sum of the weighted average number of common shares outstanding during the year. For the year ended December 31, 2012, basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of shares of Series A Convertible Preferred Stock outstanding during the period. The Series A Convertible Preferred Stock are included in the basic denominator because they could be converted into common shares for no cash consideration (via conversion units as further described in Note 7), and were thus considered outstanding common shares in computing basic earnings per share. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares and dilutive common shares equivalents outstanding during the period. The Company’s common share equivalents consist of stock options and restricted stock units.

The following table reconciles the basic to diluted weighted average shares outstanding using the treasury stock method (shares in thousands):

	Years Ended December 31,		
	2014	**2013**	**2012**
Weighted average shares outstanding – basic	48,816	47,492	43,985
Dilutive effect of stock options	1,018	1,894	3,614
Weighted average shares outstanding – diluted	49,834	49,386	47,599

For the year ended December 31, 2014 , the Company excluded 2,894,013 options from the calculation of diluted earnings per share for the year ended December 31, 2014 because the options’ combined exercise price, unamortized fair value and excess tax benefits were greater during the year than the average price for the Company's common stock because their effect would be anti-dilutive.

(v) Recent Accounting Pronouncements

In May 2014, FASB issued an ASU that amends the FASB ASC by creating a new Topic 606, *Revenue from Contracts with Customers.* The new guidance will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance on revenue recognition throughout the Industry Topics of the Codification. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In addition, an entity should disclose sufficient qualitative and quantitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. This amendment is to be either retrospectively adopted to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

In June 2014, FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ("ASU 2014-12"). ASU 2014-12 brings consistency to the accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 is effective for annual reporting periods (including interim periods) beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance will not have a material effect on our consolidated financial statements.

2. Acquisition

In February 2012, the Company purchased a perpetual software license and computer equipment from HOPS, a non-public Florida company, in a transaction valued at $3.7 million . The purchase agreement calls for a total of $4.0 million in cash payments to be made over an approximate 3 year period, beginning with an initial payment of $0.8 million which was made in February 2012, followed by quarterly payments of $0.3 million . As part of the transaction valuation, these payments were discounted to a present value using an estimate of our incremental borrowing rate.

The HOPS proprietary software platform provides data filtering services for government and commercial health plans to help identify improper payments made to health providers, and enhances our existing service offering in recovery of improper payments.

The purchase is being treated as a business combination for accounting purposes; the following table summarizes the estimated fair values of the assets acquired at the acquisition date (in thousands):

		February 1, 2012
Computer equipment	$	280
Perpetual license		3,250
Customer relationships		150
Total identifiable assets acquired	$	3,680

The acquired intangible assets will be amortized over their estimated useful lives, which are 5 and 4 years for the perpetual license and customer relationships, respectively.

3. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at December 31, 2014 and 2013 (in thousands):

	December 31, 2014	December 31, 2013
Land	$ 1,767	$ 1,767
Building and leasehold improvements	5,966	5,773
Furniture, equipment, and automobile	5,193	4,932
Computer hardware and software	60,229	52,021
	73,155	64,493
Less accumulated depreciation and amortization	(45,508)	(38,246)
Property, equipment and leasehold improvements, net	$ 27,647	$ 26,247

Depreciation and amortization expense of property, equipment and leasehold improvements was $8.7 million , $6.9 million and $5.8 million for the years ended December 31, 2014 , 2013 and 2012 , respectively.

4. Identifiable Intangible Assets

Identifiable intangible assets consist of the following at December 31, 2014 and 2013 (in thousands):

December 31, 2014	Gross Amounts	Accumulated Amortization	Net
Amortizable intangibles:			
Customer contracts and related relationships	$ 62,451	$ (34,774)	$ 27,677
Perpetual license	3,313	(1,897)	1,416
Total intangible assets	$ 65,764	$ (36,671)	$ 29,093

December 31, 2013	Gross Amounts	Accumulated Amortization	Net
Amortizable intangibles:			
Customer contracts and related relationships	$ 62,198	$ (31,689)	$ 30,509
Perpetual license	3,250	(1,246)	2,004
Total intangible assets	$ 65,448	$ (32,935)	$ 32,513

For the years ended December 31, 2014 , 2013 and 2012 , amortization expense related to intangible assets amounted to $3.7 million , $3.7 million and $3.7 million , respectively.

The estimated aggregate amortization expense for each of the five following fiscal years is as follows (in thousands):

Year Ending December 31,	Amount
2015	$ 3,803
2016	3,768
2017	3,167
2018	3,094
2019	3,090
Thereafter	12,171
Total	$ 29,093

5. Credit Agreement

On March 19, 2012, the Company recapitalized entering into a credit agreement (the Agreement) consisting of a Term A Loan of $57.0 million , a Term B Loan of $79.5 million , and a revolving credit facility of $11.0 million . In connection with the recapitalization, our old credit facility, scheduled to mature in 2012, was extinguished, and our indebtedness on the old facility was paid in full. As of December 31, 2011, the indebtedness on the old facility consisted of $33.2 million under the Term A-2 Loan, $62 million under the Term B Loan and $8.2 million under the line of credit. On June 28, 2012, the Agreement was amended to increase the Term B Loan to $99 million . Payments under the Agreement are as follows (in thousands):

Year Ending December 31,	Amount
2015	$9,820
2016	9,820
2017	9,119
2018	83,036
Total	$111,795

Proceeds from the new Term A, Term B, and revolving credit facility borrowings were used along with $14.5 million of our cash to repay our old notes payable and line of credit in the amount of $103.4 million and to redeem 3,897,000 shares of Series A Convertible Preferred Stock plus accrued dividends for a total of $44.0 million . Fees paid in conjunction with the credit agreement totaled $8.1 million , including an agency fee for $1.5 million to an entity associated with our majority stockholder, and an agreement to grant 215,000 shares of Common Stock valued at approximately $2.8 million to an investment bank acting as advisor.

Proceeds from the additional Term B borrowings were used to redeem the remaining 1,399,000 shares of Series A Convertible Preferred Stock outstanding plus accrued dividends for a total of $16.3 million . Fees paid in conjunction with the credit agreement totaled $0.8 million , including an agency fee for $0.2 million to an entity associated with our majority stockholder. Remaining proceeds of $2.3 million were used along with existing cash to pay off the line of credit balance of $4.5 million .

The Term A Loan is charged interest either at Prime (subject to a 2.5% floor) + 4.25% or LIBOR (subject to a 1.5% floor) + 5.25% , which was 6.75% at December 31, 2014 . The Term A loan requires quarterly payments of $2.5 million beginning in June 2012, with the remaining outstanding principal balance due March 19, 2017 . As of December 31, 2014 , the Term A loan ending balance, including the current portion was $26.1 million .

The Term B loan is charged interest at Prime + 4.75% (subject to a 2.50% floor) or LIBOR (subject to a 1.50% floor) + 5.75% which was 7.25% at December 31, 2014 . The Term B loan requires quarterly payments of $0.2 million beginning in June 2012, with the outstanding principal balance due March 19, 2018 . As of December 31, 2014 , the Term B loan ending balance, including the current portion was $85.7 million .

The Company has a line of credit under the Agreement which allows for borrowings of up to $11 million . Borrowings accrue interest at Prime + 4.25% or LIBOR + 5.25% , which was 6.75% at December 31, 2014 . Both the Prime and the LIBOR alternatives are subject to minimum rate floors. In addition, a facility fee of 0.5% is assessed on the commitment amount. There were no outstanding borrowings under this line of credit at December 31, 2014 , but there are letters of credit outstanding in the amount of $2.0 million , leaving remaining borrowing capacity under the line of credit of $9.0 million at December 31, 2014 . The line of credit expires in March 19, 2017 .

The Agreement contains certain restrictive financial covenants, which require, among other things, that we meet a minimum fixed charge coverage ratio of 1.20 and maximum total debt to EBITDA ratio of 3.25 . Additionally, these covenants restrict the Company and its subsidiaries' ability to incur certain types or amounts of indebtedness, incur liens on certain assets, make material changes in corporate structure or the nature of its business, dispose of material assets, engage in a change in control transaction, make certain foreign investments, enter into certain restrictive agreements, or engage in certain transactions with affiliates. We were in compliance with all such covenants at December 31, 2014 .

The Agreement contains a prepayment provision which requires the Company to perform an annual excess cash flow computation based on earnings before interest, taxes, depreciation and amortization compared to changes in working capital. Based on the results of this computation, in May 2014 and May 2013, the Company made payments of $11.5 million and $3.6 million , respectively, to the lenders.

During our March 19, 2012 recapitalization, debt issuance costs of $5.0 million were capitalized, including $1.5 million of agent fees paid to an entity associated with our majority stockholder, and $0.8 million paid to third parties for legal and other services and a grant of 215,000 shares of Common Stock issued as compensation to an investment bank acting as financial advisor valued at approximately $2.8 million , based upon a price of $13 per share. These costs are being amortized to expense over the life of the new loans.

The Company capitalized an additional $0.8 million related to our June 28, 2012 amendment to the Agreement, which included $0.2 million of agent fees paid to an entity associated with our majority stockholders, and $0.0 million paid to third parties for legal and other services. Debt issuance costs are being amortized to interest expense over the life of the new loans. Accumulated amortization of debt issuance costs amounted to $3.1 million at December 31, 2014 .

Debt extinguishment costs of $3.7 million were expensed, including $3.3 million of fees paid to the lenders, and $0.3 million of unamortized debt issuance costs associated with the old credit facility.

On November 4, 2014, the Company entered into Amendment No. 2 to its Credit Agreement (Second Amendment) in which certain financial covenants were amended and additional financial covenants were added. Under the Second Amendment, the total debt to EBITDA ratio, which required the Company to maintain a ratio of 3.25 to1.0 as of September 30, 2014 was revised as follows:

- for the computation periods ending December 31, 2014, March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015, the Company must maintain a total debt to EBITDA ratio of 5.00 to1.0
- for the computation periods ending March 31, 2016, June 30, 2016, September 30, 2016 and December 31, 2016, the Company must maintain a total debt to EBITDA ratio of 4.75 to1.0; and
- for each computation period ending March 31, 2017 and thereafter, the Company must maintain a total debt to EBITDA ratio of 3.25 to1.0

In addition, the fixed charge coverage ratio of 1.20 to1.0, which was in effect for every computation period under the Credit Agreement as of September 30, 2014, has been revised under the Second Amendment to apply only to the computation periods ending September 30, 2014, March 31, 2017, and each computation period thereafter.

The Second Amendment also added an interest coverage ratio, defined as the ratio of EBITDA compared to interest expense paid in cash for the computation period. Under this new financial covenant, the Company is required to maintain:

- an interest coverage ratio not to be less than 2.25 to1.0 for the computation periods ending December 31, 2014, March 31, 2015, June 30,2015, September 30, 2015, and December 31, 2015; and
- an interest coverage ratio not to be less than of 2.50 to1.0 for the computation period ending March 31, 2016, June 30, 2016, September 30, 2016 and December 31, 2016.

In addition, among other things, under the Second Amendment, the Company is now required to maintain minimum adjusted cash balances of $35.0 million from November 4, 2014 through December 31, 2015, and minimum adjusted cash balances of $30.0 million from January 1, 2016 through December 31, 2016. Further, under the Second Amendment, the Company must maintain EBITDA for any trailing twelve month period of not less than $20.0 million beginning with the month ending November 30, 2014 through the month ending December 31, 2016. Also, pursuant to the terms of the Second Amendment, the lenders are not required to make new loans or issue new letters of credit under the Company's line of credit when the total debt to EBITDA ratio exceeds 3.25 to 1.0. Lastly, under the Second Amendment, capital expenditures of the Company in the years ending December 31, 2014, December 31, 2015, and December 31, 2016, are not permitted to exceed $12.5 million .

Interest charged under the Credit Agreement as revised by the Second Amendment is a function of the total debt to EBITDA ratio, adjusted quarterly. When the total debt to EBITDA ratio is greater than 4.0 to1.00, the Term A loan is charged interest either at Prime + 4.75% or LIBOR + 5.75% , while the Term B loan is charged interest either at Prime + 5.25% or LIBOR + 6.25% . When the total debt to EBITDA ratio is equal to or less than 4.0 to1.00, the Term A loan is charged interest either at Prime + 4.25% or LIBOR + 5.25% , while the Term B loan is charged interest either at Prime + 4.75% or LIBOR + 5.75% .

Fees for the Second Amendment of $ 0.5 million were paid to the lenders on November 4, 2014.

6. Commitments and Contingencies

The Company leases office facilities and certain equipment. In August 2013, we entered into a new lease agreement for office space for approximately 15,667 square feet in Grants Pass, Oregon. In January 2012, we renewed two of our facilities leases and entered into a new lease agreement for approximately 6,000 square feet in Livermore, California.

Future minimum rental commitments under non-cancelable leases as of December 31, 2014 are as follows (in thousands):

Year Ending December 31,	Amount
2015	$ 2,290
2016	1,938
2017	1,485
2018	668
2019	601
Thereafter	815
Total	$ 7,797

Lease expense was $2.9 million , $2.6 million and $2.4 million for the years ended December 31, 2014 , 2013 and 2012 , respectively.

7. Capital Stock

Prior to August 15, 2012, the total number of shares of capital stock that the Company had authority to issue was 96,000,000 , consisting of 18,000,000 shares of Series A Participating Senior Preferred Stock (Series A Preferred Stock), $0.0001 par value per share (Series A Preferred Stock); 18,000,000 shares of Series B Redeemable Senior Preferred Stock, $0.0001 par value per share (Series B Preferred Stock); and 60,000,000 shares of Common Stock, $0.0001 par value per share. On August 15, 2012, the authorized Common Stock was increased to 500,000,000 shares and the authorized preferred stock was increased to 50,000,000 shares.

(a) Series A Preferred Stock

Issuanc e – On May 23, 2006, the Company sold 5,295,676 shares of Series A Preferred Stock to shareholders at a price of $5.67 per share, receiving gross proceeds of $30,000,000 , and net proceeds of $29,925,000 after issuance costs of $75,000 .

Retirement of Series of A Preferred Stock - On March 19, 2012, the Company recapitalized. As part of the recapitalization, 3,897,000 shares of Series A Convertible Preferred Stock were converted into conversion units, which consisted of one share of Series B Preferred Stock and one share of Common Stock. The Series B Preferred shares plus accrued dividends were redeemed for cash of $44 million , and 3,897,000 shares of Common Stock were issued to the holders of the redeemed Series A Convertible Preferred Stock.

In June 2012, the remaining 1,399,000 shares of Series A Convertible Preferred Stock were converted into conversion units of one share of Series B Preferred Stock and one share of Common Stock. The shares Series B Preferred Stock plus accrued dividends were redeemed for cash of $16.3 million and 1,399,000 shares of Common Stock were issued to the holders of the redeemed Series A Convertible Preferred Stock.

Dividends – The holders of Series A Preferred Stock were entitled to receive dividends as declared by the board of directors. The dividends accrued on a daily basis at the rate of 12% per annum on the sum of the Liquidation Value plus accumulated dividends and accrued and unpaid dividends thereon from the date of issuance of the Preferred Stock. As of December 31, 2011, the Company had accrued dividends payable of $28,248,000 recorded as an increase to the Series A Preferred Stock.

Voting – Each share of Series A Preferred Stock entitled the holder to cast a number of votes per share equal to the number of votes that the holder would be entitled to cast assuming that such shares of Series A Preferred Stock had been converted into shares of Common Stock.

Liquidation – In the event of any liquidation, dissolution, or winding up of the Company, before any distribution or payment to holders of Common Stock, but on parity with the holders of Series B Preferred Stock, holders of shares of Series A Preferred Stock were entitled to be paid an amount equal to the Liquidation Value of $5.67 per share plus any accumulated or accrued but unpaid dividends thereon. In addition to the payments set forth above, the holders of shares of Series A Preferred Stock were entitled to participate, on a parity and ratably on a per-share basis with the holders of Common Stock, with respect to all such distributions or payments that the holders of Series A Preferred Stock would have been entitled to receive with respect to the number of shares of Common Stock into which such holders' shares of Series A Preferred Stock were convertible immediately prior to any relevant record date or payment date in connection with liquidation, dissolution, or winding up, but only to the extent that shares of Common Stock would have participated in such distributions or payments (and such payment shall be junior to all equity securities of the Company that rank senior to the Common Stock, including without limitation the Series B Preferred Stock).

Conversion – The Series A Preferred Stock was convertible into Conversion Units (as defined below), at a rate of one Conversion Unit for one share of Series A Preferred Stock. A Conversion Unit consisted of (i) the number of shares of Common Stock determined by dividing the Liquidation Value of the Series A Preferred Stock by the Conversion Price then in effect (the Common Portion) and (ii) one share of Series B Preferred Stock (the Series B Portion) subject to adjustments. If upon conversion there were any unpaid, accrued, or accumulated dividends due on the shares of Series A Preferred Stock, such dividends continued to be deferred, but were considered unpaid, accrued, or accumulated dividends (as the case may be) due on the Series B Preferred Stock.

- Optional conversion – Each share of Series A Preferred Stock was convertible, at the option of the holder thereof, into a Conversion Unit at any time after the date of issuance of such share.

- Automatic conversion – Each share of Series A Preferred Stock automatically could have been converted into Conversion Units on the date specified by written consent or agreement of the holders of a majority of the then outstanding shares of Series A Preferred Stock.
- Conversion price – The initial Conversion Price of the shares issued in May 2006 was $5.67 per share. In order to prevent dilution of the conversion rights granted to the holders of the Series A Preferred Stock, the Conversion Price was subject to adjustment from time to time under certain circumstances. If the Company (i) declared a dividend on the Common Stock payable in shares of its capital stock (including Common Stock), (ii) subdivided the outstanding Common Stock, (iii) combined the outstanding Common Stock into a smaller number of shares, or (iv) issued any shares of its capital stock in a reclassification of the Common Stock, then, in each such case, the Conversion Price was to be proportionately adjusted so that, in connection with a conversion of the shares of Series A Preferred Stock after such date, the holder of shares of Series A Preferred Stock would have been entitled to receive the aggregate number and kind of shares of capital stock, which, if the conversion had occurred immediately prior to such date, the holder would have owned upon such conversion and been entitled to receive by virtue of such dividend, subdivision, combination, or reclassification.

(b) Issuance of Shares of Common Stock as Compensation

As part of the March 19, 2012 recapitalization, the Company issued to its financial advisor as compensation in connection with the debt portion of the recapitalization 215,000 shares of Common Stock valued at approximately $2.8 million based upon a price of $13 per share. This amount represents debt issuance costs and is being amortized to expense over the 5 to 6 year life of the loans described in Note 5.

(c) Initial Public Offering

In August 2012, the Company completed its initial public offering (IPO) in which we issued and sold 1,924,000 shares of Common Stock at a public offering price of $9.00 per share. The Company received net proceeds of $12.6 million after deducting underwriter discounts and commissions of $1.0 million and other offering expenses of approximately $3.6 million . In addition, a financial advisor to the Company was paid $0.9 million through the issuance of 103,500 shares of Common Stock valued at $9.00 per share.

8. Stock-based Compensation

(a) Stock Options

The Company established the 2004 DCS Holdings Stock Option Plan, the DCS Holdings, Inc. 2004 Equity Incentive Plan (Performant Financial Corporation is the new name of DCS Holdings, Inc.), the Performant Financial Corporation 2007 Stock Option Plan, and the Performant Financial Corporation 2012 Stock Incentive Plan (the Plans). Under the terms of the 2004 DCS Holdings Stock Option Plan, stock options may be granted for up to 4,000,000 shares of the Company’s authorized but unissued Common Stock. The 2004 DCS Holdings Stock Option Plan was terminated on the completion of the Company’s initial public offering in August 2012. No shares of our common stock are available under our 2004 Stock Option Plan other than for satisfying exercises of stock options granted under this plan prior to termination.

Under the terms of the DCS Holdings, Inc. 2004 Equity Incentive Plan, incentive and nonqualified stock options, stock bonuses, and rights to acquire restricted stock may be granted for up to 3,600,000 shares of the Company’s authorized but unissued Common Stock. Options granted under the DCS Holdings, Inc. 2004 Equity Incentive Plan generally vest over a four -year period. The Company’s DCS Holdings, Inc. 2004 Equity Incentive Plan was terminated on the completion of its initial public offering in August 2012. No shares of our common stock are available under our 2004 Equity Incentive Plan other than for satisfying exercises of stock options granted under this plan prior to termination.

Under the terms of the Performant Financial Corporation 2007 Stock Option Plan, incentive and nonqualified stock options may be granted for up to 4,000,000 shares of the Company’s authorized but unissued Common Stock. Options granted under the Performant Financial Corporation 2007 Stock Option Plan generally vest over a five -year period. Performant Financial Corporation 2007 Stock Option Plan was terminated on the completion of its initial public offering in August 2012. No shares of our common stock are available under our 2007 Stock Option Plan other than for satisfying exercises of stock options granted under this plan prior to termination.

The terms of the Performant Financial Corporation 2012 Stock Incentive Plan provide for the granting of incentive stock options within the meaning of Section 422 of the Code to employees and the granting of nonstatutory stock options, restricted stock, stock appreciation rights, stock unit awards and cash-based awards to employees, non-

employee directors and consultants. The Company has reserved 4,300,000 shares of common stock under the 2012 Plan. Options granted under the Performant Financial Corporation 2012 Stock Incentive Plan generally vest over periods of four or five -years.

The exercise price of incentive stock options shall generally not be less than 100% of the fair market value of the Common Stock subject to the option on the date that the option is granted. The exercise price of nonqualified stock options shall generally not be less than 85% of the fair market value of the Common Stock subject to the option on the date that the option is granted. Options issued under the Plans have a maximum term of 10 years and vest over schedules determined by the board of directors. Options issued under the Plans generally provide for immediate vesting of unvested shares in the event of a sale of the Company.

Total stock-based compensation expense charged as salaries and benefits expense in the consolidated statements of operations was $3.7 million , $3.0 million and $1.6 million for the years ended December 31, 2014 , 2013 , and 2012 , respectively.

The following table sets forth a summary of our stock option activity for the year ended December 31:

	Outstanding Options	Weighted average exercise price per share	Weighted average remaining contractual life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2011	5,664,750	$ 0.80	5.20	
Granted	2,549,109	10.32		
Forfeited	(19,077)	7.99		
Exercised	(285,058)	0.61		
Outstanding at December 31, 2012	7,909,724	3.85	5.89	
Granted	313,600	11.85		
Forfeited	(102,381)	10.05		
Exercised	(2,908,122)	0.60		
Outstanding at December 31, 2013	5,212,821	6.03	6.62	
Granted	254,000	9.69		
Forfeited	(410,625)	10.53		
Exercised	(1,032,813)	0.62		
Outstanding at December 31, 2014	4,023,383	$ 7.18	6.41	$ 7,641
Vested, exercisable, and expected to vest [(1)] at December 31, 2014	3,980,118	$ 7.16	6.38	$ 7,634
Exercisable at December 31, 2014	2,475,868	$ 5.32	5.47	$ 7,510

(1) Options expected to vest reflect an estimated forfeiture rate.

The weighted-average grant-date exercise price of stock options granted during the years ended December 31, 2014 , 2013 and 2012 was $9.69 , $11.85 and $10.32 , respectively, per share. The aggregate intrinsic value of our stock options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the years ended December 31, 2014 , 2013 and 2012 , was $8.8 million , $31.3 million and $2.9 million , respectively. At December 31, 2014 , 2013 , and 2012 , there was $7.5 million , $10.5 million and $12 million , respectively, of unrecognized stock-based compensation expense related to non-vested stock-based compensation arrangements, which the Company expects to recognize over a weighted-average period of 2.74 years as stock-based compensation expense.

Net cash proceeds from the exercise of stock options were $0.6 million , $1.8 million and $0.2 million during 2014, 2013 and 2012, respectively. For the years ended December 31, 2014 , 2013 and 2012 , we realized a $3.2 million , $9.1 million and $0.6 million tax benefit from the exercise of stock options, respectively.

The fair value of each option grant was estimated using the Black-Scholes option pricing model. Expected volatilities are calculated based on the historical volatility data of comparable peer companies over a term comparable to the expected term of the options issued. The expected term of the award is determined based on the average of the vesting term and the contractual term. Management monitors share option exercise and employee termination patterns to estimate forfeiture rates within the valuation model. Separate groups of employees that have similar groups of employees with similar historical exercise behavior are considered separately for valuation purposes.

We estimated the fair value of options granted using a Black-Scholes option pricing model with the following assumptions:

	For the Years Ended December 31,		
	2014	2013	2012
Expected volatility	51.0%	54.2%	48.3%
Expected dividends	—%	—%	—%
Expected term (years)	6.1	6.2	6.5
Risk-free interest rate	1.9%	1.5%	1.0%
Weighted-average estimated fair value of options granted during the year	$4.85	$6.23	$5.22

Valuation and Amortization Method – The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option pricing model. The fair value is then amortized on a straight line basis over the requisite service periods of the awards, which is generally the vesting period. Stock options typically have a ten year life from the grant date and vesting periods of four to five years. The fair value of the Company's common stock is based on the market price of the stock on the date of grant.

Expected Term – The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding. For awards granted subject only to service vesting requirements, the Company utilizes the simplified method under the provisions of FASB ASC 718-10-S99-1 (Staff Accounting Bulletin No. 107) for estimating the expected term of the stock-based award.

Expected Volatility – Because there is insufficient history of the Company's stock price returns, the Company lacks sufficient historical volatility data for its equity awards. Accordingly, the Company calculates the expected volatility using a composite made up of comparable peer companies and an approximate 38% company weighting over a term comparable to the expected term of the options issued.

Expected Dividend – The Company has never paid dividends on its common shares and currently does not intend to do so. Accordingly, the dividend yield percentage is zero for all periods.

Risk-Free Interest Rate – The risk-free interest rate used in the Black Scholes valuation method is based on the U.S. Treasury constant maturity interest rate whose term is consistent with the expected life of our stock options.

(b) Restricted Stock Units

The following table summarizes restricted stock unit activity for the year ended December 31:

	Number of Awards	Weighted average grant date fair value
Outstanding at December 31, 2012	—	$ —
Granted	5,263	10.59
Forfeited	—	—
Vested and converted to shares	—	—
Outstanding at December 31, 2013	5,263	$ 10.59
Granted	488,545	9.27
Forfeited	(30,900)	9.26
Vested and converted to shares	(1,316)	10.59
Outstanding at December 31, 2014	461,592	$ 9.28
Expected to vest at December 31, 2014	438,510	$ 9.28

At December 31, 2014 and 2013, there was $ 3.5 million and $0.1 million of compensation expense yet to be recognized related to non-vested restricted stock units. The unrecognized expense as of December 31, 2014 is expected to be recognized over the remaining weighted-average vested period of 3.3 years . 1,316 and none of the restricted stock units vested during the years ended December 31, 2014 and 2013, respectively. Restricted stock units granted under the Performant Financial Corporation 2012 Stock Incentive Plan generally vest over periods between

one and four years. The company did not realize any tax benefits related to the restricted stock units during the year ended December 31, 2014 and 2013.

9. Employee Benefit Plan

The Company has a 401(k) Salary Deferral Plan (the Plan) covering all full-time employees who have met certain service requirements. Employees may contribute a portion of their salary up to the maximum limit established by the Internal Revenue Code for such plans. Employer contributions are discretionary. No matching contributions were made during 2014, 2013 and 2012.

10. Income Taxes

The Company's income tax expense (benefit) consists of the following (in thousands):

	2014	2013	2012
Current:			
Federal	$ 6,802	$ 21,526	$ 15,142
State	2,600	5,149	3,470
	9,402	26,675	18,612
Deferred:			
Federal	$ (1,625)	$ (866)	$ (1,599)
State	(78)	(842)	(227)
	(1,703)	(1,708)	(1,826)
Total Expense (Benefit)	$ 7,699	$ 24,967	$ 16,786

A reconciliation of the income tax expense calculated using the applicable federal statutory rates to the actual income tax expense for the years ended December 31, 2014 , 2013 and 2012 is as follows:

	2014	2013	2012
Federal income at the statutory rate	35 %	35%	35%
State income tax, net of federal benefit	10 %	5%	5%
Permanent differences	2 %	1%	2%
Other	(2)%	—%	—%
	45 %	41%	42%

The following table summarizes the components of the Company's deferred tax assets and liabilities as of December 31, 2014 , and 2013 (in thousands):

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	2014	2013
Deferred tax assets:		
Bad debt reserve	$ 13	$ 13
Vacation accrual	685	1,020
Nonqualified stock options	3,059	1,526
Debt issuance costs	643	848
Acquisition costs	630	158
State tax deferral	934	1,474
Deferred revenue	273	352
State tax credits	305	290
Net operating loss	110	47
Estimated liability for appeals	5,313	4,277
Other	304	118
Total deferred tax assets	12,269	10,123
Valuation allowance	(349)	(147)
Total deferred tax assets net of valuation allowance	11,920	9,976
Deferred tax liabilities:		
Identifiable intangible assets	(10,227)	(11,176)
Fixed assets	(5,732)	(4,543)
Other	(22)	(22)
Total deferred tax liabilities	(15,981)	(15,741)
Net deferred tax liabilities	$ (4,061)	$ (5,765)

The Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, except for certain state tax credits. Income tax expense is allocated to the subsidiaries included in the consolidated tax return on the basis of the subsidiaries' stand-alone tax provision.

The Company has a valuation allowance of approximately $0.3 million and $0.1 million , as of December 31, 2014 and December 31, 2013, respectively, primarily related to California enterprise zone tax credits for which it is not more likely than not that the tax benefit will be realized.

The Company has state tax credits of $0.3 million , which, due to the Assembly Bill 93 and Senate Bill 90 signed on July 11, 2013, are now limited to a 10 year carryforward, and will expire in 2024. The Company has state net operating loss carryforwards of $0.4 million which expire in 2020 .

The following table reconciles the Company's unrecognized tax benefits as of December 31, 2014 from its unrecognized tax benefits as of December 31, 2012 (in thousands):

Unrecognized tax benefits balance at December 31, 2012	$ 279
Increase related to prior year tax positions	357
Increase related to current year tax positions	49
Settlements	(139)
Unrecognized tax benefits balance at December 31, 2013	546
Increase related to prior year tax positions	444
Decrease related to prior year tax positions	(42)
Unrecognized tax benefits balance at December 31, 2014	$ 948

At December 31, 2014 and 2013 , we had approximately $0.9 million and $0.5 million of unrecognized tax benefits, respectively. We do not expect any significant change in unrecognized tax benefits during the next twelve months. The Company records interest expense and penalties related to unrecognized tax benefits in income tax expense. The amount of accrued interest was not material at December 31, 2014 and 2013 , respectively. No penalties were recognized in 2014 or accrued at December 31, 2014 , and 2013 respectively. Unrecognized tax benefits of approximately 0.9 million which, if recognized, would favorably affect the Company's effective income tax rate.

The Company files federal and state income tax returns. For years before 2010, the Company is no longer subject to California, Texas, and certain state state tax examinations. For tax year before 2011, the Company is no longer subject to Federal and certain other state tax examinations.

11. Related Party Transactions

Our notes payable, both before and after the recapitalization of March 19, 2012, are held by a number of lenders, some of whom also invested in and held our stock during 2012 and 2013. As a result, these entities are considered related parties. Interest expense under these arrangements totaled $10.3 million and $11.1 million for the years ended December 31, 2013 and 2012 , respectively, and the debt extinguishment expense associated with the recapitalization totaled $3.3 million for the year ended December 31, 2012 .

In an agreement dated April 13, 2012 , the Company and an affiliate of Parthenon Capital Partners terminated an existing advisory services agreement, which called for quarterly payments of $0.1 million . As part of the April 13, 2012 termination agreement, the Company agreed to pay Parthenon Capital $1.3 million in equal quarterly installments of $0.1 million beginning in April 2012, provided that the remaining balance will become due and payable immediately upon the closing of an IPO or the sale of the Company. The Company paid two quarterly installments of $0.1 million and paid the remaining balance of $1.1 million on August 15, 2012, the date the IPO closed. In addition, the agreement specifies that the affiliate will be due a fee equal to 1% of the aggregate gross proceeds of an IPO offering or 1% of the aggregate consideration paid in connection with the sale of the Company, as applicable. The Company expensed and paid $0.9 million to Parthenon Capital Partners in August 2012 upon successful closing of the IPO.

12. Other Commitments and Contingencies

(a) Trust Funds

The Company collects principal and interest payments and collection costs on defaulted loans for various contracting agencies. Cash collections for some of the Company’s customers are held in trust in bank accounts controlled by the Company. The Company remits trust funds to the contracting agencies on a regular basis. The amount of cash held in trust and the related liability are separated from and not included in the Company’s assets and liabilities. Cash held in trust for customers totaled $9.7 million and $1.1 million at December 31, 2014 and 2013 , respectively.

(b) Litigation

The Company, during the ordinary course of its operations, has been named in various legal suits and claims, several of which are still pending. In the opinion of management and the Company’s legal counsel, such legal actions will not have a material effect on the Company’s financial position or results of operations or cash flows.

13. Subsequent Events

On January 28, 2015, we entered into an Agreement and Plan of Merger (“Merger Agreement”) with Premier Healthcare Exchange, Inc., a Delaware corporation (“PHX”), pursuant to which, PHX would become our wholly-owned indirect subsidiary. The Merger Agreement contains customary closing conditions, including completion of a financing by us to fund the consideration payable under the terms of the Merger Agreement. The purchase price under the Merger Agreement is approximately $108 million in cash, subject to certain adjustments, and certain PHX stockholders will also exchange shares for $22 million of our common stock. We also could be obligated to pay up to an additional $19.1 million in cash pursuant to an earnout arrangement based on PHX in revenues in 2015. On January 28, 2015 we announced proposed concurrent public offerings of $80 million aggregate principal amount of convertible senior notes due 2020 and $50 million of shares of our common stock to finance the cash portion of the consideration payable under the Merger Agreement. On January 30, 2015, we announced our decision to withdraw the proposed public offerings of convertible senior notes and common stock. The Merger Agreement is currently terminable by either us or PHX without penalty, except that we are obligated to pay an expense termination fee of $750,000 in the event the merger is not completed due to our failure to complete the required financing of the consideration payable under the Merger Agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PERFORMANT FINANCIAL CORPORATION

By: /s/ Lisa C. Im
Lisa C. Im
Chief Executive Officer

Date: March 12, 2015

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Lisa C. Im and Hakan L. Orvell, and each of them, his or her true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Lisa C. Im **Lisa C. Im**	Chief Executive Officer (Principal Executive Officer) and Board Chair	March 12, 2015
/s/ Hakan L. Orvell **Hakan L. Orvell**	Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2015
/s/ Todd R. Ford **Todd R. Ford**	Director	March 12, 2015
/s/ Brian P. Golson **Brian P. Golson**	Director	March 12, 2015
/s/ Bradley F. Fluegel **Bradley F. Fluegel**	Director	March 12, 2015
/s/ Bruce Hansen **Bruce Hansen**	Director	March 12, 2015
/s/ William D. Hansen **William D. Hansen**	Director	March 12, 2015

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SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
For the years ended December 31, 2014, 2013 and 2012

Allowance for doubtful accounts (in thousands):

Description	Balance at Beginning of Period	Additions Charged against Revenue	Recoveries	Charge-offs	Balance at End of Period
2014	$ 32	—	—	—	$ 32
2013	$ 65	—	2	(35)	$ 32
2012	$ 77	—	2	(14)	$ 65

Estimated allowance and liability for appeals – RAC Contract (in thousands):

Description	Balance at Beginning of	Additions Charged against Revenue	Appeals found in Providers Favor	Balance at End of Period
2014	$ 16,443	8,624	(6,442)	$ 18,625 *
2013	$ 5,577	12,791	(1,925)	$ 16,443 *
2012	$ 934	8,589	(3,946)	$ 5,577 *

* Includes $0 , $1,160 and $1,199 related to the estimated allowance for appeals that apply to uncollected accounts receivable as of 2014, 2013 and 2012, respectively.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of January 28, 2015, by and among Performant Financial Corporation, Project Phoenix Merger Sub, Inc., Premier Healthcare Exchange, Inc. and the other parties thereto (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 29, 2015)
3.1	Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1(b) to the Company's Registration Statement on Form S-1/A filed July 30, 2012)
3.2	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.2(b) to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
4.2	Amended and Restated Registration Rights Agreement, dated as of August 15, 2012, among the Registrant and the persons listed thereon (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
10.1	Form of Indemnification Agreement between the Registrant and its officers and directors (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1/A filed July 30, 2012)
10.2	2004 Equity Incentive Plan and form of agreements thereunder (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed July 3, 2012)
10.3	2004 DCS Holdings Stock Option Plan and form of agreements thereunder (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 filed July 3, 2012)
10.4	2007 Stock Option Plan and form of agreements thereunder (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 filed July 23, 2012)
10.5	Recovery Audit Contractor contract by and between Diversified Collection Services, Inc. and Center for Medicare and Medicaid Services dated as of October 3, 2008, as amended (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
10.6	Credit Agreement, dated as of March 19, 2012, by and among DCS Business Services, Inc., the Lenders party Hereto, Madison Capital Funding LLC, and ING Capital (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
10.7	Form of Change of Control Agreement, as amended (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1/A filed July 30, 2012)
10.8	Employment Agreement between the Registrant and Lisa Im, dated as of April 15, 2012, as amended (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
10.9	Employment Agreement between the Registrant and Jon D. Shaver dated as of March 31, 2003, as amended (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
10.10	Repurchase Agreement between the Registrant and Lisa C. Im dated as of July 3, 2012 (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed July 3, 2012)
10.11	Repurchase Agreement between the Registrant and Jon D. Shaver dated as of July 3, 2012 (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 filed July 3, 2012)
10.12	Director Nomination Agreement between the Registrant and Parthenon DCS Holdings, LLC dated as of July 20, 2012 (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
10.13	Advisory Services Agreement between Diversified Collection Services, Inc. and Parthenon Capital, LLC dated as of January 8, 2004, as amended (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1/A filed July

	23, 2012)
10.14	Termination of the Advisory Services Agreement between Diversified Collection Services, Inc. and Parthenon Capital, LLC dated as of January 8, 2004, as amended, dated as of April 13, 2012 (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1/A filed July 23, 2012)
10.15	2012 Stock Incentive Plan*

Exhibit Number	Description
10.16	Amendment No. 1 to Credit Agreement Credit Agreement, dated as of March 19, 2012, by and among DCS Business Services, Inc., the Lenders party thereto, Madison Capital Funding LLC, and ING Capital*
10.17	Amendment No. 2 to Credit Agreement, dated as of November 4, 2014, by and among Performant Business Services, Inc., the Lenders thereto, and Madison Capital Funding LLC. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 10, 2014)
21	List of Subsidiaries
23	Consent of KPMG LLP, Independent Registered Public Accounting Firm
24	Powers of Attorney (included in the signature page to this report)
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Lisa C. Im
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by Hakan L. Orvell
32.1	Furnished Statement of the Chief Executive Officer under 18 U.S.C. Section 1350
32.2	Furnished Statement of the Chief Financial Officer under 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

Exhibit 10.15

PERFORMANT FINANCIAL CORPORATION

2012 STOCK INCENTIVE PLAN

(Adopted by the Board of Directors on **July 20, 2012**)

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PERFORMANT FINANCIAL CORPORATION

2012 STOCK INCENTIVE PLAN

SECTION 1.ESTABLISHMENT AND PURPOSE.

The Plan was adopted by the Board of Directors on July 20, 2012 **,** and shall be effective immediately prior to the time when the Company's registration statement on Form S-1 in respect of the initial offering of Stock to the public (the "Registration Statement") is declared effective by the Securities and Exchange Commission (the "Effective Date"). The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Employees, Outside Directors and Consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of Employees, Outside Directors and Consultants with exceptional qualifications and (c) linking Employees, Outside Directors and Consultants directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of restricted shares, stock units,

options (which may constitute incentive stock options or nonstatutory stock options) or stock appreciation rights.

SECTION 2.DEFINITIONS.

(a) *"Affiliate"* shall mean any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.

(b) *"Award"* shall mean any award of an Option, a SAR, a Restricted Share or a Stock Unit or a Cash-Based Award under the Plan.

(c) *"Board of Directors"* shall mean the Board of Directors of the Company, as constituted from time to time.

(d) " *Cash-Based Award* " shall mean an Award that entitles the Participant to receive a cash-denominated payment.

(e) *"Change in Control"* shall mean the occurrence of any of the following events:

(i) A change in the composition of the Board of Directors occurs, as a result of which fewer than one-half of the incumbent directors are directors who either:

(A) Had been directors of the Company on the "look-back date" (as defined below) (the "original directors"); or

(B) Were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved (the "continuing directors");

provided, however, that for this purpose, the "original directors" and "continuing directors" shall not include any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board of Directors; or

(ii) Any "person" (as defined below) who by the acquisition or aggregation of securities, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company; or

(iii) The consummation of a merger or consolidation of the Company or a Subsidiary of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (A) the Company (or its successor) and (B) any direct or indirect parent corporation of the Company (or its successor); or

(iv) The sale, transfer or other disposition of all or substantially all of the Company's assets.

For purposes of subsection (e)(i) above, the term "look-back" date shall mean the later of (1) the Effective Date

or (2) the date 24 months prior to the date of the event that may constitute a Change in Control.

For purposes of subsection (e)(ii)) above, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (1) a trustee or other fiduciary holding securities under an employee benefit plan maintained by the Company or a Parent or Subsidiary and (2) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the Stock.

Any other provision of this Section 2(e) notwithstanding, a transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction, and a Change in Control shall not be deemed to occur if the Company files a registration statement with the United States Securities and Exchange Commission for the initial or secondary public offering of securities or debt of the Company to the public.

(f) *"Code"* shall mean the Internal Revenue Code of 1986, as amended.

(g) *"Committee"* shall mean the Compensation Committee as designated by the Board of Directors, which is authorized to administer the Plan, as described in Section 3 hereof.

(h) *"Company"* shall mean Performant Financial Corporation, a Delaware corporation.

(i) *"Consultant"* shall mean a consultant or advisor who provides bona fide services to the Company, a Parent, a Subsidiary or an Affiliate as an independent contractor (not including service as a member of the Board of Directors) or a member of the board of directors of a Parent or a Subsidiary, in each case who is not an Employee.

(j) *"Employee"* shall mean any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(k) *"Exchange Act"* shall mean the Securities Exchange Act of 1934, as amended.

(l) *"Exercise Price"* shall mean, in the case of an Option, the amount for which one Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, shall mean an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of one Share in determining the amount payable upon exercise of such SAR.

(m) *"Fair Market Value"* with respect to a Share, shall mean the market price of one Share, determined by the Committee as follows:

(i) If the Stock was traded over-the-counter on the date in question, then the Fair Market Value shall be equal to the last transaction price quoted for such date by the OTC Bulletin Board or, if not so quoted, shall be equal to the mean between the last reported representative bid and asked prices quoted for such date by the principal automated inter-dealer quotation system on which the Stock is quoted or, if the Stock is not quoted on any such system, by the Pink Quote system;

(ii) If the Stock was traded on any established stock exchange (such as the New York Stock Exchange, The Nasdaq Global Market or The Nasdaq Global Select Market) or national market system on the date in question, then the Fair Market Value shall be equal to the closing price reported for such date by the applicable exchange or system; and

(iii) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

In all cases, the determination of Fair Market Value by the Committee shall be conclusive and binding on all persons.

(n) *"ISO"* shall mean an employee incentive stock option described in Section 422 of the Code.

(o) *"Nonstatutory Option"* or *"NSO"* shall mean an employee stock option that is not an ISO.

(p) *"Offeree"* shall mean a person to whom the Committee has offered the right to acquire Shares under the Plan (other than upon exercise of an Option).

(q) *"Option"* shall mean an ISO or Nonstatutory Option granted under the Plan and entitling the holder to purchase Shares.

(r) *"Optionee"* shall mean a person who holds an Option or SAR.

(s) *"Outside Director"* shall mean a member of the Board of Directors who is not a common-law employee of, or paid consultant to, the Company, a Parent or a Subsidiary.

(t) *"Parent"* shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be a Parent commencing as of such date.

(u) *"Participant"* shall mean a person who holds an Award.

(v) " *Performance Based Award"* shall mean any Restricted Share Award, Stock Unit Award or Cash-Based Award granted to a Participant that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

(w) *"Plan"* shall mean this 2012 Stock Incentive Plan of Performant Financial Corporation, as amended from time to time.

(x) *"Purchase Price"* shall mean the consideration for which one Share may be acquired under the Plan (other than upon exercise of an Option), as specified by the Committee.

(y) *"Restricted Share"* shall mean a Share awarded under the Plan.

(z) *"Restricted Share Agreement"* shall mean the agreement between the Company and the recipient of a Restricted Share which contains the terms, conditions and restrictions pertaining to such Restricted Shares.

(aa) *"SAR"* shall mean a stock appreciation right granted under the Plan.

(bb) *"SAR Agreement"* shall mean the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her SAR.

(cc) *"Service"* shall mean service as an Employee, Consultant or Outside Director, subject to such further limitations as may be set forth in the Plan or the applicable Award agreement. Service does not terminate when an Employee goes on a bona fide leave of absence, that was approved by the Company in writing, if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. However, for purposes of determining whether an Option is entitled to ISO status, an Employee's employment will be treated as terminating three months after such Employee went on leave, unless such Employee's right to return to active work is guaranteed by law or by a contract. Service terminates in any event when the approved leave ends, unless such Employee immediately returns to active work. The Company determines which leaves of absence count toward Service, and when Service terminates for all purposes under the Plan.

(dd) *"Share"* shall mean one share of Stock, as adjusted in accordance with Section 12 (if applicable).

(ee) *"Stock"* shall mean the Common Stock of the Company.

(ff) *"Stock Option Agreement"* shall mean the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to such Option.

(gg) *"Stock Unit"* shall mean a bookkeeping entry representing the Company's obligation to deliver one Share (or distribute cash) on a future date in accordance with the provisions of a Stock Unit Agreement.

(hh) *"Stock Unit Agreement"* shall mean the agreement between the Company and the recipient of a Stock Unit which contains the terms, conditions and restrictions pertaining to such Stock Unit.

(ii) *"Subsidiary"* shall mean any corporation, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(jj) *"Total and Permanent Disability"* shall mean any permanent and total disability as defined by Section 22 (e)(3) of the Code.

SECTION 3.ADMINISTRATION.

(a) *Committee Composition* . The Plan shall be administered by a Committee appointed by the Board of Directors or by the Board of Directors acting as the Committee. The Committee shall consist of two or more directors of the Company. In addition, to the extent required by the Board of Directors, the composition of the Committee shall satisfy (i) such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and (ii) such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m)(4)(C) of the Code.

(b) *Committee for Non-Officer Grants* . The Board of Directors may also appoint one or more separate committees of the Board of Directors, each composed of one or more directors of the Company who need not satisfy the requirements of Section 3(a), who may administer the Plan with respect to Employees who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Employees and may determine all terms of such grants. Within the limitations of the preceding sentence, any reference in the Plan to the Committee shall include such committee or committees appointed pursuant to the preceding sentence. To the extent permitted by applicable laws, the Board of Directors may also authorize one or more officers of the Company to designate Employees, other than officers under Section 16 of the Exchange Act, to receive Awards and/or to determine the number of such Awards to be received by such persons; provided, however, that the Board of Directors shall specify the total number of Awards that such officers may so award.

(c) *Committee Procedures* . The Board of Directors shall designate one of the members of the Committee as chairman. The Committee may hold meetings at such times and places as it shall determine. The acts of a majority of the Committee members present at meetings at which a quorum exists, or acts reduced to or approved in writing (including via email) by all Committee members, shall be valid acts of the Committee.

(d) *Committee Responsibilities* . Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take the following actions:

(v) To interpret the Plan and to apply its provisions;

(vi) To adopt, amend or rescind rules, procedures and forms relating to the Plan;

(vii) To adopt, amend or terminate sub-plans established for the purpose of satisfying applicable foreign laws including qualifying for preferred tax treatment under applicable foreign tax laws;

(viii) To authorize any person to execute, on behalf of the Company, any instrument required to carry

out the purposes of the Plan;

(ix) To determine when Awards are to be granted under the Plan;

(x) To select the Offerees and Optionees;

(xi) To determine the type of Award and the number of Shares or amount of cash to be made subject to each Award;

(xii) To prescribe the terms and conditions of each Award, including (without limitation) the Exercise Price and Purchase Price, and the vesting or duration of the Award (including accelerating the vesting of Awards, either at the time of the Award or thereafter, without the consent of the Participant), to determine whether an Option is to be classified as an ISO or as a Nonstatutory Option, and to specify the provisions of the agreement relating to such Award;

(xiii) To amend any outstanding Award agreement, subject to applicable legal restrictions and to the consent of the Participant if the Participant's rights or obligations would be materially impaired;

(xiv) To prescribe the consideration for the grant of each Award or other right under the Plan and to determine the sufficiency of such consideration;

(xv) To determine the disposition of each Award or other right under the Plan in the event of a Participant's divorce or dissolution of marriage;

(xvi) To determine whether Awards under the Plan will be granted in replacement of other grants under an incentive or other compensation plan of an acquired business;

(xvii) To correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award agreement;

(xviii) To establish or verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; and

(xix) To take any other actions deemed necessary or advisable for the administration of the Plan.

Subject to the requirements of applicable law, the Committee may designate persons other than members of the Committee to carry out its responsibilities and may prescribe such conditions and limitations as it may deem appropriate, except that the Committee may not delegate its authority with regard to the selection for participation of or the granting of Awards under the Plan to persons subject to Section 16 of the Exchange Act. All decisions, interpretations and other actions of the Committee shall be final and binding on all Participants and all persons deriving their rights from a Participant. No member of the Committee shall be liable for any action that he has taken or has failed to take in good faith with respect to the Plan or any Award under the Plan.

(e) *Amendment or Cancellation and Re-grant of Stock Awards* . Notwithstanding any contrary provision of the Plan, neither the Board of Directors nor any Committee, nor their designees, shall have the authority to: (i) amend the terms of outstanding Options or SARs to reduce the Exercise Price thereof, or (ii) cancel outstanding Options or SARs with an Exercise Price above the current Fair Market Value per Share in exchange for another Option, SAR or other Award, unless the stockholders of the Company have previously approved such an action or such action relates to an adjustment pursuant to Section 12.

SECTION 4.ELIGIBILITY.

(a) *General Rule* . Only common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. Only Employees, Consultants and Outside Directors shall be eligible for the grant of Restricted Shares, Stock Units, Nonstatutory Options, SARs or Cash-Based Awards.

(b) *Ten-Percent Stockholders* . An Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, a Parent or Subsidiary shall not be eligible for the grant of an ISO unless such grant satisfies the requirements of Section 422(c)(5) of the Code.

(c) *Attribution Rules* . For purposes of Section 4(b) above, in determining stock ownership, an Employee shall be deemed to own the stock owned, directly or indirectly, by or for such Employee's brothers, sisters, spouse, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be deemed to be owned proportionately by or for its stockholders, partners or beneficiaries.

(d) *Outstanding Stock* . For purposes of Section 4(b) above, "outstanding stock" shall include all stock actually issued and outstanding immediately after the grant. "Outstanding stock" shall not include shares authorized for issuance under outstanding options held by the Employee or by any other person.

SECTION 5.STOCK SUBJECT TO PLAN.

(a) *Basic Limitation* . Shares offered under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares authorized for issuance as Awards under the Plan shall not exceed 4,300,000 (the "Absolute Share Limit"). The number of Shares that may be delivered in the aggregate pursuant to the exercise of ISOs granted under the Plan shall not exceed the Absolute Share Limit plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Section 5(c). The limitations of this Section 5(a) shall be subject to adjustment pursuant to Section 12. The number of Shares that are subject to Options or other Awards outstanding at any time under the Plan shall not exceed the number of Shares which then remain available for issuance under the Plan. The Company shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan.

(b) *Section 162(m) Award Limitation* . Notwithstanding any contrary provisions of the Plan, and subject to the provisions of Section 12, with respect to any Option or SAR that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code, no Participant may receive Options or SARs under the Plan in any calendar year that relate to an aggregate of more than 2,000,000 Shares. To the extent required by Section 162(m) of the Code or the regulations thereunder, in applying the foregoing limitation with respect to a Participant, if any Option or SAR is canceled, the canceled Option or SAR shall continue to count against the maximum number of Shares with respect to which Options and SARs may be granted to the Participant. For this purpose, the repricing of an Option or SAR shall be treated as the cancellation of the existing Option or SAR and the grant of a new Option or SAR.

(c) *Additional Shares* . If Restricted Shares or Shares issued upon the exercise of Options are forfeited, then such Shares shall again become available for Awards under the Plan. If Stock Units, Options or SARs are forfeited or terminate for any reason before being exercised or settled, or an Award is settled in cash without the delivery of Shares to the holder, then any Shares subject to the Award shall again become available for Awards under the Plan. Only the number of Shares (if any) actually issued in settlement of Awards (and not forfeited) shall reduce the number available in Section 5(a) and the balance shall again become available for Awards under the Plan. Any Shares withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall again become available for Awards under the Plan. Notwithstanding the foregoing provisions of this Section 5(c), Shares that have actually been issued shall not again become available for Awards under the Plan, except for Shares that are forfeited and do not become vested.

SECTION 6.RESTRICTED SHARES.

(a) *Restricted Stock Agreement* . Each grant of Restricted Shares under the Plan shall be evidenced by a Restricted Stock Agreement between the recipient and the Company. Such Restricted Shares shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent

with the Plan. The provisions of the various Restricted Stock Agreements entered into under the Plan need not be identical.

(b) *Payment for Awards* . Restricted Shares may be sold or awarded under the Plan for such consideration as the Committee may determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes, past services and future services.

(c) *Vesting* . Each Award of Restricted Shares may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. A Restricted Stock Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Restricted Shares or thereafter, that all or part of such Restricted Shares shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) *Voting and Dividend Rights* . The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid.

(e) *Restrictions on Transfer of Shares* . Restricted Shares shall be subject to such rights of repurchase, rights of first refusal or other restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Restricted Stock Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

SECTION 7.TERMS AND CONDITIONS OF OPTIONS.

(a) *Stock Option Agreement* . Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Option Agreement. The Stock Option Agreement shall specify whether the Option is an ISO or an NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

(b) *Number of Shares* . Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 12.

(c) *Exercise Price* . Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value of a Share on the date of grant, except as otherwise provided in 4(c), and the Exercise Price of an NSO shall not be less 100% of the Fair Market Value of a Share on the date of grant. Notwithstanding the foregoing, Options may be granted with an Exercise Price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code. Subject to the foregoing in this Section 7(c), the Exercise Price under any Option shall be determined by the Committee in its sole discretion. The Exercise Price shall be payable in one of the forms described in Section 8.

(d) *Withholding Taxes* . As a condition to the exercise of an Option, the Optionee shall make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with such exercise. The Optionee shall also make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the disposition of Shares acquired by exercising an Option.

(e) *Exercisability and Term* . Each Stock Option Agreement shall specify the date when all or any installment

of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed 10 years from the date of grant (five years for ISOs granted to Employees described in Section 4(b)). A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability, or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's Service. Options may be awarded in combination with SARs, and such an Award may provide that the Options will not be exercisable unless the related SARs are forfeited. Subject to the foregoing in this Section 7(e), the Committee at its sole discretion shall determine when all or any installment of an Option is to become exercisable and when an Option is to expire.

(f) *Exercise of Options* . Each Stock Option Agreement shall set forth the extent to which the Optionee shall have the right to exercise the Option following termination of the Optionee's Service with the Company and its Subsidiaries, and the right to exercise the Option of any executors or administrators of the Optionee's estate or any person who has acquired such Option(s) directly from the Optionee by bequest or inheritance. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Service.

(g) *Effect of Change in Control* . The Committee may determine, at the time of granting an Option or thereafter, that such Option shall become exercisable as to all or part of the Shares subject to such Option in the event that a Change in Control occurs with respect to the Company.

(h) *No Rights as a Stockholder* . An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Shares covered by his Option until the date of the issuance of a stock certificate for such Shares. No adjustments shall be made, except as provided in Section 12.

(i) *Modification, Extension and Renewal of Options* . Within the limitations of the Plan, the Committee may modify, extend or renew outstanding options or may accept the cancellation of outstanding options (to the extent not previously exercised), whether or not granted hereunder, in return for the grant of new Options for the same or a different number of Shares and at the same or a different Exercise Price, or in return for the grant of a different Award for the same or a different number of Shares. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, materially impair his or her rights or obligations under such Option.

(j) *Restrictions on Transfer of Shares* . Any Shares issued upon exercise of an Option shall be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Option Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

(k) *Buyout Provisions* . The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize an Optionee to elect to cash out an Option previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

SECTION 8.PAYMENT FOR SHARES.

(a) *General Rule* . The entire Exercise Price or Purchase Price of Shares issued under the Plan shall be payable in lawful money of the United States of America at the time when such Shares are purchased, except as provided in Section 8(b) through Section 8(g) below.

(b) *Surrender of Stock* . To the extent that a Stock Option Agreement so provides, payment may be made all or in part by surrendering, or attesting to the ownership of, Shares which have already been owned by the Optionee or his representative. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan. The Optionee shall not surrender, or attest to the ownership

of, Shares in payment of the Exercise Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Option for financial reporting purposes.

(c) *Services Rendered* . At the discretion of the Committee, Shares may be awarded under the Plan in consideration of services rendered to the Company or a Subsidiary. If Shares are awarded without the payment of a Purchase Price in cash, the Committee shall make a determination (at the time of the Award) of the value of the services rendered by the Offeree and the sufficiency of the consideration to meet the requirements of Section 6(b).

(d) *Cashless Exercise* . To the extent that a Stock Option Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Exercise Price.

(e) *Exercise/Pledge* . To the extent that a Stock Option Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker or lender to pledge Shares, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of the aggregate Exercise Price.

(f) *Net Exercise* . To the extent that a Stock Option Agreement so provides, by a "net exercise" arrangement pursuant to which the number of Shares issuable upon exercise of the Option shall be reduced by the largest whole number of Shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price (plus tax withholdings, if applicable) and any remaining balance of the aggregate exercise price (and/or applicable tax withholdings) not satisfied by such reduction in the number of whole Shares to be issued shall be paid by the Optionee in cash other form of payment permitted under the Stock Option Agreement.

(g) *Promissory Note* . To the extent that a Stock Option Agreement or Restricted Stock Agreement so provides, payment may be made all or in part by delivering (on a form prescribed by the Company) a full-recourse promissory note.

(h) *Other Forms of Payment* . To the extent that a Stock Option Agreement or Restricted Stock Agreement so provides, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

(i) *Limitations under Applicable Law* . Notwithstanding anything herein or in a Stock Option Agreement or Restricted Stock Agreement to the contrary, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

SECTION 9.STOCK APPRECIATION RIGHTS.

(a) *SAR Agreement* . Each grant of a SAR under the Plan shall be evidenced by a SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical.

(b) *Number of Shares* . Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 12.

(c) *Exercise Price* . Each SAR Agreement shall specify the Exercise Price. The Exercise Price of a SAR shall not be less than 100% of the Fair Market Value of a Share on the date of grant. Notwithstanding the foregoing, SARs may be granted with an Exercise Price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code. Subject to the foregoing in this Section 9(c), the Exercise Price under any SAR shall

be determined by the Committee in its sole discretion.

(d) *Exercisability and Term* . Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. A SAR Agreement may provide for accelerated exercisability in the event of the Optionee’s death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee’s service. SARs may be awarded in combination with Options, and such an Award may provide that the SARs will not be exercisable unless the related Options are forfeited. A SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or thereafter. A SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

(e) *Effect of Change in Control* . The Committee may determine, at the time of granting a SAR or thereafter, that such SAR shall become fully exercisable as to all Common Shares subject to such SAR in the event that a Change in Control occurs with respect to the Company.

(f) *Exercise of SARs* . Upon exercise of a SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (a) Shares, (b) cash or (c) a combination of Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price.

(g) *Modification or Assumption of SARs* . Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of shares and at the same or a different exercise price, or in return for the grant of a different Award for the same or a different number of Shares. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the holder, materially impair his or her rights or obligations under such SAR.

(h) *Buyout Provisions* . The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents a SAR previously granted, or (b) authorize an Optionee to elect to cash out a SAR previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

SECTION 10.STOCK UNITS.

(a) *Stock Unit Agreement* . Each grant of Stock Units under the Plan shall be evidenced by a Stock Unit Agreement between the recipient and the Company. Such Stock Units shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical.

(b) *Payment for Awards* . Stock Units may be awarded under the Plan for such consideration as the Committee may determine. Cash payment need not be required.

(c) *Vesting Conditions* . Each Award of Stock Units may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Unit Agreement. A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant’s death, disability or retirement or other events. The Committee may determine, at the time of granting Stock Units or thereafter, that all or part of such Stock Units shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) *Voting and Dividend Rights* . The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee’s discretion, carry with it a

right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions (including without limitation, any forfeiture conditions) as the Stock Units to which they attach.

(e) *Form and Time of Settlement of Stock Units* . Settlement of vested Stock Units may be made in the form of (a) cash, (b) Shares or (c) any combination of both, as determined by the Committee. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. A Stock Unit Agreement may provide that vested Stock Units may be settled in a lump sum or in installments. A Stock Unit Agreement may provide that the distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date, subject to compliance with Section 409A. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 12.

(f) *Death of Recipient* . Any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

(g) *Creditors' Rights* . A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

SECTION 11.CASH-BASED AWARDS

The Committee may, in its sole discretion, grant Cash-Based Awards to any Participant in such number or amount and upon such terms, and subject to such conditions, as the Committee shall determine at the time of grant and specify in an applicable Award agreement. The Committee shall determine the maximum duration of the Cash-Based Award, the amount of cash which may be payable pursuant to the Cash-Based Award, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Committee shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Committee. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash or in shares of Stock, as the Committee determines.

SECTION 12.ADJUSTMENT OF SHARES.

(a) *Adjustments* . In the event of a subdivision of the outstanding Stock, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Stock (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make appropriate and equitable adjustments in:

(i) The number of Shares available for future Awards under Section 5;

(ii) The limitations set forth in Sections 5(a) and (b) and Section 18;

(iii) The number of Shares covered by each outstanding Award; and

(iv) The Exercise Price under each outstanding Award.

(b) *Dissolution or Liquidation* . To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

(c) *Reorganizations* . In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Subject to compliance with Section 409A of the Code, such agreement shall provide for:

(iv) The continuation of the outstanding Awards by the Company, if the Company is a surviving corporation;

(v) The assumption of the outstanding Awards by the surviving corporation or its parent or subsidiary;

(vi) The substitution by the surviving corporation or its parent or subsidiary of its own awards for the outstanding Awards;

(vii) Immediate vesting, exercisability and settlement of outstanding Awards followed by the cancellation of such Awards upon or immediately prior to the effectiveness of such transaction; or

(viii) Settlement of the intrinsic value of the outstanding Awards (whether or not then vested or exercisable) in cash or cash equivalents or equity (including cash or equity subject to deferred vesting and delivery consistent with the vesting restrictions applicable to such Awards or the underlying Shares) followed by the cancellation of such Awards (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment); in each case without the Participant's consent. Any acceleration of payment of an amount that is subject to section 409A of the Code will be delayed, if necessary, until the earliest time that such payment would be permissible under Section 409A without triggering any additional taxes applicable under Section 409A.

The Company will have no obligation to treat all Awards, all Awards held by a Participant, or all Awards of the same type, similarly.

(d) *Reservation of Rights* . Except as provided in this Section 12, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend or any other increase or decrease in the number of shares of stock of any class. Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of Shares subject to an Award. The grant of an Award pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets. In the event of any change affecting the Shares or the Exercise Price of Shares subject to an Award, including a merger or other reorganization, for reasons of administrative convenience, the Company in its sole discretion may refuse to permit the exercise of any Award during a period of up to thirty (30) days prior to the occurrence of such event.

SECTION 13.DEFERRAL OF AWARDS.

(a) *Committee Powers* . Subject to compliance with Section 409A of the Code, the Committee (in its sole

discretion) may permit or require a Participant to:

(i) Have cash that otherwise would be paid to such Participant as a result of the exercise of a SAR or the settlement of Stock Units credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books;

(ii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR converted into an equal number of Stock Units; or

(iii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR or the settlement of Stock Units converted into amounts credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books. Such amounts shall be determined by reference to the Fair Market Value of such Shares as of the date when they otherwise would have been delivered to such Participant.

(b) *General Rules* . A deferred compensation account established under this Section 13 may be credited with interest or other forms of investment return, as determined by the Committee. A Participant for whom such an account is established shall have no rights other than those of a general creditor of the Company. Such an account shall represent an unfunded and unsecured obligation of the Company and shall be subject to the terms and conditions of the applicable agreement between such Participant and the Company. If the deferral or conversion of Awards is permitted or required, the Committee (in its sole discretion) may establish rules, procedures and forms pertaining to such Awards, including (without limitation) the settlement of deferred compensation accounts established under this Section 13.

SECTION 14.AWARDS UNDER OTHER PLANS.

The Company may grant awards under other plans or programs. Such awards may be settled in the form of Shares issued under this Plan. Such Shares shall be treated for all purposes under the Plan like Shares issued in settlement of Stock Units and shall, when issued, reduce the number of Shares available under Section 5.

SECTION 15.PAYMENT OF DIRECTOR'S FEES IN SECURITIES.

(a) *Effective Date* . No provision of this Section 15 shall be effective unless and until the Board of Directors has determined to implement such provision.

(b) *Elections to Receive NSOs, SARs, Restricted Shares or Stock Units* . To the extent permitted by the Board of Directors, an Outside Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash, NSOs, SARs, Restricted Shares or Stock Units, or a combination thereof, as determined by the Board of Directors. Alternatively, the Board of Directors may mandate payment in any of such alternative forms. Such NSOs, SARs, Restricted Shares and Stock Units shall be issued under the Plan. An election under this Section 15 shall be filed with the Company on the prescribed form.

(c) *Number and Terms of NSOs, SARs, Restricted Shares or Stock Units* . If permitted or mandated by the Board of Directors, the number of NSOs, SARs, Restricted Shares or Stock Units to be granted to Outside Directors in lieu of annual retainers and meeting fees that would otherwise be paid in cash shall be calculated in a manner determined by the Board of Directors. The terms of such NSOs, SARs, Restricted Shares or Stock Units shall also be determined by the Board of Directors.

SECTION 16.LEGAL AND REGULATORY REQUIREMENTS.

Shares shall not be issued under the Plan unless the issuance and delivery of such Shares complies with (or is exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations and the regulations of any stock exchange on which the Company's securities may then be listed, and the Company has obtained the approval or

favorable ruling from any governmental agency which the Company determines is necessary or advisable. The Company shall not be liable to a Participant or other persons as to: (a) the non-issuance or sale of Shares as to which the Company has not obtained from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares under the Plan; and (b) any tax consequences expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted under the Plan.

SECTION 17.TAXES.

(a) *General* . To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) *Share Withholding* . The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. In no event may a Participant have Shares withheld that would otherwise be issued to him or her in excess of the number necessary to satisfy the minimum legally required tax withholding.

(c) *Section 409A* .

Each Award that provides for "nonqualified deferred compensation" within the meaning of Section 409A of the Code shall be subject to such additional rules and requirements as specified by the Committee from time to time in order to comply with Section 409A. If any amount under such an Award is payable upon a "separation from service" (within the meaning of Section 409A) to a Participant who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the Participant's separation from service, or (ii) the Participant's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. In addition, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 18.OTHER PROVISIONS APPLICABLE TO AWARDS.

(a) *Transferability* . Unless the agreement evidencing an Award (or an amendment thereto authorized by the Committee) expressly provides otherwise, no Award granted under this Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner (prior to the vesting and lapse of any and all restrictions applicable to Shares issued under such Award), other than by will or the laws of descent and distribution; provided, however, that an ISO may be transferred or assigned only to the extent consistent with Section 422 of the Code. Any purported assignment, transfer or encumbrance in violation of this Section 18(a) shall be void and unenforceable against the Company.

(b) *Substitution and Assumption of Awards* . The Committee may make Awards under the Plan by assumption, substitution or replacement of stock options, stock appreciation rights, stock units or similar awards granted by another entity (including a Parent or Subsidiary), if such assumption, substitution or replacement is in connection with an asset acquisition, stock acquisition, merger, consolidation or similar transaction involving the Company (and/or its Parent or Subsidiary) and such other entity (and/or its affiliate). Notwithstanding any provision of the Plan (other than the maximum number of Shares that may be issued under the Plan), the terms of such assumed, substituted or replaced Awards shall be as the Committee, in its discretion, determines is appropriate.

(c) *Qualifying Performance Criteria* . The number of Shares or other benefits granted, issued, retainable

and/or vested under an Award may be made subject to the attainment of performance goals. The Committee may utilize any performance criteria selected by it in its sole discretion to establish performance goals; provided, however, that in the case of any Performance Based Award, the following conditions shall apply:

(i) The amount potentially available under an Award shall be subject to the attainment of pre-established, objective performance goals relating to a specified period of service based on one or more of the following performance criteria: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, (p) market segment shares, (q) costs, (r) expenses, (s) regulatory body approval for commercialization of a product, or (t) implementation or completion of critical projects ("Qualifying Performance Criteria"), any of which may be measured either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group or index, in each case as specified by the Committee in the Award;

(ii) Unless specified otherwise by the Committee at the time the performance goals are established or otherwise within the time prescribed by Section 162(m) of the Code, the Committee shall appropriately adjust the method of evaluating performance under a Qualifying Performance Criteria for a performance period as follows: (i) to exclude asset write-downs, (ii) to exclude litigation or claim judgments or settlements, (iii) to exclude the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) to exclude accruals for reorganization and restructuring programs, (v) to exclude any extraordinary nonrecurring items as determined under generally accepted accounting principles and/or described in managements' discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year, (vi) to exclude the dilutive effects of acquisitions or joint ventures, (vii) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a performance period following such divestiture, (viii) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends, (ix) to exclude the effects of stock based compensation and the award of bonuses under the Company's bonus plans; and (x) to exclude costs incurred in connection with potential acquisitions or divestitures that are required to be expensed under generally accepted accounting principles, in each case in compliance with Section 162(m);

(iii) The Committee shall establish the applicable performance goals in writing and an objective method for determining the Award earned by a Participant if the goals are attained, while the outcome is substantially uncertain and not later than the 90th day of the performance period (but in no event after 25% of the period of service with respect to which the performance goals relate has elapsed), and shall determine and certify in writing, for each Participant, the extent to which the performance goals have been met prior to payment or vesting of the Award;

(iv) The Committee may not in any event increase the amount of compensation payable under the Plan upon the attainment of the pre-established performance goals to a Participant who is a "covered employee" within the meaning of Section 162(m) of the Code; and

(v) The maximum aggregate number of Shares that may be subject to Performance Based Awards granted to a Participant in any calendar year is 2,000,000 Shares (subject to adjustment under Section 12), and the maximum aggregate amount of cash that may be payable to a Participant under Performance Based Awards granted to a Participant in any calendar year that are Cash-Based Awards is $10,000,000.

SECTION 19.NO EMPLOYMENT RIGHTS.

No provision of the Plan, nor any Award granted under the Plan, shall be construed to give any person any right to become, to be treated as, or to remain an Employee or Consultant. The Company and its Subsidiaries reserve the right to terminate any person's Service at any time and for any reason, with or without notice.

SECTION 20.DURATION AND AMENDMENTS.

(a) *Term of the Plan* . The Plan, as set forth herein, shall terminate automatically on July 19, 2022, and may be terminated on any earlier date pursuant to subsection (b) below.

(b) *Right to Amend or Terminate the Plan* . The Board of Directors may amend or terminate the Plan at any time and from time to time. Rights and obligations under any Award granted before amendment of the Plan shall not be materially impaired by such amendment, except with consent of the Participant. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules.

(c) *Effect of Termination* . No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan shall not affect Awards previously granted under the Plan.

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SECTION 21.EXECUTION.

To record the adoption of the Plan by the Board of Directors, the Company has caused its authorized officer to execute the same.

Performant Financial Corporation

By /s/ Hakan L. Orvell

Name Hakan L. Orvell

Title Chief Financial Officer

AMENDMENT NO. 1 TO CREDIT AGREEMENT
(INCREMENTAL AMENDMENT)

This AMENDMENT NO. 1 TO CREDIT AGREEMENT (INCREMENTAL AMENDMENT) ("Amendment") is dated as of June 28, 2012, and is entered into by and among DCS BUSINESS SERVICES, INC., a Nevada corporation ("Borrower"), the Lenders (as defined in the Credit Agreement as hereafter defined) providing the June 2012 Requested Term B Loan Increase (as hereafter defined) on the date hereof, and MADISON CAPITAL FUNDING LLC, as Agent for all Lenders.

W I T N E S S E T H:

WHEREAS, Borrower, Agent and the Lenders from time to time party thereto are parties to that certain Credit Agreement dated as of March 19, 2012 (as the same has been or may be from time to time amended, restated, supplemented or otherwise modified, the "Credit Agreement"; capitalized terms not otherwise defined herein have the definitions provided therefor in the Credit Agreement);

WHEREAS, Borrower has requested that certain Lenders fund to borrower on the date hereof a Requested Term B Loan Increase in the aggregate amount of $19,500,000 (the "June 2012 Requested Term B Loan Increase"), and the Lenders executing this Amendment have each agreed to fund a portion of such June 2012 Requested Term B Loan Increase such that the principal amount of the Term B Loan held by each such Lender shall be equal to the amount set forth on Annex I to this Amendment after giving effect to such funding, subject to the payment by Borrower of certain fees as reflected in the Notice of Borrowing and Letter of Direction delivered by Borrower to Agent on the date hereof with respect to the June 2012 Requested Term B Loan Increase;

WHEREAS, Borrower, Agent and the Lenders party hereto desire to amend the Credit Agreement to reflect the June 2012 Requested Term B Loan Increase and that the Requested Term B Loan Increase shall become a part of the Term B Loan and have all terms applicable to the Term B Loan under the Credit Agreement except as expressly set forth herein and except with respect to up-front fees which are agreed to separately from this Amendment, and pursuant to Section 2.1.3 of the Credit Agreement, an Incremental Amendment (as defined therein) to accomplish the foregoing may be executed solely by Borrower, Agent and the Lenders participating in the June 2012 Requested Term B Loan Increase;

NOW THEREFORE, in consideration of the mutual conditions and agreements set forth in the Credit Agreement and this Amendment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **June 2012 Requested Term B Loan Increase .** On the date hereof, Borrower is borrowing the June 2012 Requested Term B Loan Increase in the amount of $19,500,000 as an increase to the Term B Loan from the Lenders party to this Amendment (with the amount funded by each such Lender equal to the amount described in the second recitals clause hereof, and the amount of the Term B Loan under the Credit Agreement is accordingly hereby increased by such amount, and such increased amount of the Term B Loan be subject to all of the terms and conditions of the Credit Agreement applicable to the existing Term B Loan except as expressly set forth in Section 2 below.

2. **Amortization of June 2012 Requested Term B Loan Increase .** It is the intention of Borrower, Agent and the Lenders party hereto that the Term B Loan installment due on June 30, 2012 shall not be increased as a result of the June 2012 Requested Term B Loan Increase (but that each subsequent installment of the Term B Loan shall be increased as set forth in the parenthetical in the first sentence of Section 2.11.3 of the Credit Agreement). Accordingly, Borrower, Agent and the Lenders party hereto agree that (i) the installment of the Term B Loan due on June 30, 2012 shall remain

$198,750 (with none of such installment to be applied to the principal of the June 2012 Requested Term B Loan Increase), and (ii) commencing with the installment of the Term B Loan due on September 30, 2012 and for each scheduled installment of the Term B Loan thereafter, the scheduled installments of the Term B Loan (other than on the Term B Loan Maturity Date) shall be increased pursuant to the parenthetical of the first sentence of Section 2.11.3 of the Credit Agreement by 0.25% of the principal amount of the June 2012 Requested Term B Loan Increase (such that, absent any subsequent event altering the amounts of scheduled installments of the Term B Loan following the date hereof, each installment of the Term B Loan shall be increased by $48,750 (0.25% of the principal amount of the June 2012 Requested Term B Loan Increase) from $198,750 for scheduled installments of $247,500 on each date (other than the Term B Loan Maturity Date set forth in Section 2.11.3 of the Credit Agreement (with the outstanding principal balance of the Term B Loan (as increased by the June 2012 Term B Loan Increase) to be paid in full on the Term B Loan Maturity Date)).

3. **Amendment and Restatement of Annex I to the Credit Agreement .** The Credit Agreement is hereby amended by amending and restating Annex I to the Credit Agreement in its entirety in the form of Annex I attached to this amendment in order to reflect the June 2012 Requested Term B Loan Increase.

4. **Conditions to Effectiveness .** The effectiveness of this Amendment is subject to satisfaction of the following conditions precedent (unless specifically waived in writing by Agent):

(a) Agent shall have received a copy of this Amendment (including the Consent and Reaffirmation attached hereto), executed by Borrower, each Loan Party and each Lender participating in the June 2012 Requested Term B Loan Increase;

(b) After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing; and

(c) Agent shall have received such documents, instruments and agreements as are reasonably required by Agent in connection with this Amendment and the June 2012 Requested Term B Loan Increase, in form and substance reasonably satisfactory to Agent.

5. **Representations and Warranties .** To induce Agent and the applicable Lenders to enter into this Amendment and provide the June 2012 Requested Term B Loan Increase, Borrower represents and warrants to Agent and Lenders that:

(a) the execution, delivery and performance of this Amendment and the June 2012 Requested Term B Loan Increase has been duly authorized by all requisite corporate action on the part of Borrower and that this Amendment has been duly executed and delivered by Borrower;

(b) this Amendment and the Borrower's obligations under the Credit Agreement in respect of the June 2012 Requested Term B Loan Increase constitute the legal, valid and binding obligation of Borrower and are enforceable against Borrower in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditor's rights generally and to general principles of equity;

(c) the execution and delivery by Borrower of this Amendment and the consummation of the June 2012 Requested Term B Loan Increase does not require the consent or approval of any Person, except such consents and approvals as have been obtained;

(d) after giving effect to this Amendment the representations and warranties of Borrower and each other Loan Party set forth in the Credit Agreement and the other Loan Documents are true and correct in all material respects with

the same effect as if made on the date hereof (except to the extent such representations and warranties are stated to relate to a specific earlier date, in which case such representations and warranties are true and correct in all material respects as of such earlier date); and

(e) no Default or Event of Default has occurred and is continuing.

6. **Severability**. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

7. **References**. Any reference to the Credit Agreement contained in any document, instrument or Credit Agreement executed in connection with the Credit Agreement shall be deemed to be a reference to the Credit Agreement as modified by this Amendment.

8. **Counterparts; Electronic Transmission**. This Amendment may be executed in one or more counterparts, each of which shall constitute an original, but all of which taken together shall be one and the same instrument. Facsimile signatures and other electronic signatures shall also constitute originals.

9. **Ratification**. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions of the Credit Agreement and shall not be deemed to be a consent to the modification or waiver of any other term or condition of the Credit Agreement. Except as expressly modified and superseded by this Amendment, the terms and provisions of the Credit Agreement and each of the other Loan Documents are ratified and confirmed and shall continue in full force and effect.

10. **Governing Law**. THIS AGREEMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF ILLINOIS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal and delivered by their respective duly authorized officers on the date first written above.

DCS BUSINESS SERVICES, INC.
By: /s/ Hakan Orvell
Name: Hakan Orvell
Title: Vice President and Chief Financial Officer

MADISON CAPITAL FUNDING LLC,
as Agent and a Lender
By: /s/ Michael Nativi
Name: Michael Nativi
Title: Vice President

CONSENT AND REAFFIRMATION

Each of Performant Financial Corporation, Diversified Collection Services, Inc. and Vista Financial, Inc. (collectively, the "Companies") hereby (i) acknowledges receipt of a copy of the foregoing Amendment No. 1 to Credit Agreement (Incremental Amendment) dated as of June 28, 2012 (the "Amendment"); (ii) consents to Borrower's execution and delivery of the Amendment and the borrowing of the Requested Term B Increase contemplated thereby; (iii) agrees to be bound by the Amendment; (iv) affirms that nothing contained in the Amendment shall modify in any respect whatsoever any Loan Document to which it is a party; and (v) reaffirms that such Loan Documents shall continue to remain in full force and effect and that its guaranty of the Obligations and grant of security interests in its assets to secure such guaranty of the Obligations shall apply to the Obligations as increased by the Requested Term B Increase contemplated by the Amendment. Although the Companies have been informed of the matters set forth herein and has acknowledged and agreed to same, each of the Companies understands that Agent and Lenders have no obligation to inform either Company of such matters in the future or to seek acknowledgment of either Company or agreement to future amendments, waivers or consents, and nothing herein shall create such a duty.

IN WITNESS WHEREOF, the parties hereto have caused this Consent and Reaffirmation to be duly executed under seal and delivered by their respective duly authorized officers on and as of the date of the Amendment.

[Signature Page Follows]

PERFORMANT FINANCIAL CORPORATION
By: /s/ Hakan Orvell
Name: Hakan Orvell
Title: Vice President and Chief Financial Officer

DIVERSIFIED COLLECTION SERVICES, INC.
By: /s/ Hakan Orvell
Name: Hakan Orvell
Title: Vice President and Chief Financial Officer

VISTA FINANCIAL, INC.

By: /s/ Hakan Orvell
Name: Hakan Orvell
Title: Vice President and Chief Financial Officer and Treasurer

Exhibit 21

SUBSIDIARIES

Company Name	State of Incorporation
Performant Business Services, Inc.	Nevada
Performant Recovery, Inc.	California
Performant Technologies, Inc.	California

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Performant Financial Corporation:

We consent to the incorporation by reference in the registration statements on Form S-8 (No. 333-184657) and Form S-3 (No. 333-200627) of our report dated March 12, 2015 with respect to the consolidated balance sheets of Performant Financial Corporation and subsidiaries as of December 31, 2014 and 2013, the related consolidated statements of operations, changes in redeemable preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2014, and the related Schedule II for each of the years in the three-year period ended December 31, 2014, which report appears in this Form 10-K.

/s/ KPMG LLP

San Francisco, California
March 12, 2015

Exhibit 31.1

I, Lisa C. Im, certify that:

1. I have reviewed this annual report on Form 10-K of Performant Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 13, 2015

/s/ Lisa C. Im

Lisa C. Im
Chief Executive Officer

Exhibit 31.2

I, Hakan L. Orvell, certify that:

1. I have reviewed this annual report on Form 10-K of Performant Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 13, 2015

/s/ Hakan L. Orvell
Hakan L. Orvell
Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATIONS

I, Lisa C. Im, Chief Executive Officer of Performant Financial Corporation (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10-K of the Company (the "Report"), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 13, 2015

/s/ Lisa C. Im
Lisa C. Im
Chief Executive Officer

Exhibit 32.2

SECTION 1350 CERTIFICATIONS

I, Hakan L. Orvell, Chief Financial Officer of Performant Financial Corporation (the “Company”), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10-K of the Company (the “Report”), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 13, 2015

/s/ Hakan L. Orvell
Hakan L. Orvell
Chief Financial Officer