

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 30, 1999
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MCM CAPITAL GROUP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OF INCORPORATION)

7389
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

48-1215075
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

500 WEST FIRST STREET
HUTCHINSON, KANSAS 67501-5222
(800) 759-0327
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

FRANK I. CHANDLER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MCM CAPITAL GROUP, INC.
500 WEST FIRST STREET
HUTCHINSON, KANSAS 67501-5222
(800) 759-0327
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES OF ALL COMMUNICATIONS, INCLUDING ALL COMMUNICATIONS
SENT TO THE AGENT FOR SERVICE, SHOULD BE SENT TO:

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200 PARK AVENUE, 47TH FLOOR
NEW YORK, NY 10166
(212) 351-4000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as
practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis under Rule 415 under the Securities Act, check the
following box: []

If this Form is filed to register additional securities for an offering
under Rule 462(b) under the Securities Act, check the following box and list the
Securities Act registration statement number of the earlier effective
registration statement for the same offering: []

If this Form is a post-effective amendment filed under Rule 462(c) under
the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering: []

If this Form is a post-effective amendment filed under Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: []

If delivery of the prospectus is expected to be made under Rule 434, check the following box: []

 CALCULATION OF REGISTRATION FEE

| TITLE OF SHARES TO BE REGISTERED | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE | AMOUNT OF REGISTRATION FEE |
|------------------------------------|---|----------------------------|
| Common stock, \$.01 par value..... | \$86,250,000 (1) (2) | \$23,977.50 |

- (1) Includes shares of common stock subject to an option granted to the underwriters solely to cover over-allotments, if any. See "Underwriting."
 (2) Estimated under Section 457(o) solely for the purpose of calculating the amount of registration fee.

 THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING UNDER SAID SECTION 8(a), MAY DETERMINE.

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SUBJECT TO COMPLETION, DATED APRIL 30, 1999

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. NO ONE MAY SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SHARES

MCM CAPITAL GROUP, INC.
 COMMON STOCK
 \$ PER SHARE

 This is an initial public offering of common stock of MCM Capital Group, Inc. MCM is offering _____ shares and the selling stockholders identified in this prospectus are offering _____ shares. MCM will not receive any proceeds from the sale of shares by the selling stockholders. This is a firm commitment underwriting.

There is currently no public market for the shares. MCM expects that the price to the public in the offering will be between \$ _____ and \$ _____ per share. The market price of the shares after the offering may be higher or lower than the offering price.

The common stock will be listed on the Nasdaq National Market under the symbol "MCMC."

INVESTING IN THE COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 10.

PER SHARE TOTAL

| | | |
|---|-------|-------|
| | ----- | ----- |
| Price to the public..... | \$ | \$ |
| Underwriting discount..... | | |
| Proceeds to MCM..... | | |
| Proceeds to the selling stockholders... | | |

MCM has granted an over-allotment option to the underwriters. Under this option, the underwriters may elect to purchase a maximum of _____ additional shares from MCM within 30 days following the date of this prospectus to cover the over-allotments.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CIBC WORLD MARKETS U.S. BANCORP PIPER JAFFRAY

The date of this prospectus is _____, 1999.

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[LOGO AND PICTURES OF EMPLOYEES AND FACILITIES.]

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As used in this prospectus, the terms "MCM," "we" or "us" means MCM Capital Group, Inc. and our wholly-owned subsidiaries. We are currently doing business as a Kansas corporation named Midland Corporation of Kansas. Before the closing of this offering we intend to merge Midland Corporation of Kansas into our newly formed subsidiary, MCM Capital Group, Inc., to reincorporate in Delaware. Concurrent with the merger we intend to split our common stock shares on a 9.82 to 1 basis. We operate through our wholly-owned subsidiary, Midland Credit Management, Inc., and intend to continue to do so after this offering. All of the information provided in this prospectus assumes the reincorporation and split have taken place.

Unless otherwise stated herein, all information contained in this prospectus

assumes no exercise of the over-allotment option that has been granted to the underwriters. The underwriters are offering the shares subject to various conditions and may reject all or part of any order. The shares should be ready for delivery on or about _____, 1999 against payment in immediately available funds.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information in this prospectus and the consolidated financial statements and notes to the consolidated financial statements included in this prospectus.

This summary highlights information contained in other parts of this prospectus. It is not complete and does not contain all of the information that you should consider before investing in the shares. You should read the entire prospectus carefully.

MCM

OUR BUSINESS

MCM is a growing receivables management company. We acquire and service charged-off receivables originated from a variety of sources. We use our proprietary scoring model, extensive database, and experience in servicing nonperforming receivables to generate a return on the receivables we purchase. We currently focus on acquiring charged-off credit card receivables originated by major banks and private label merchants. Credit card issuers often sell a significant portion of their charged-off receivables to allow them to focus on their core businesses and realize immediate cash proceeds and earnings. Because the credit card issuers have already attempted to recover the receivables, we are able to buy receivable portfolios at substantial discounts to their face amounts.

We have grown rapidly in recent periods. We opened a new servicing center in Phoenix, Arizona in 1998 and we added 430 recovery personnel at this facility through March 31, 1999. From January 1, 1994 through March 31, 1999, we acquired \$1.7 billion of receivable portfolios for \$53.3 million, of which we acquired \$722.6 million of receivable portfolios in 1998 for \$24.8 million. Through March 31, 1999, we recovered \$46.2 million on these receivable portfolios.

We have extensive experience in acquiring and servicing charged-off receivable portfolios. Prior to 1992, MCM served for over 30 years as a third-party collection agency, developing the servicing methods, personnel and systems required to operate a debt recovery business. In 1992, we began to focus on acquiring and servicing receivable portfolios for our own account. As a result of our years of experience, we have developed a proprietary scoring model that we use to analyze and determine the value of a portfolio.

We acquire portfolios primarily through "forward flow" agreements with originating institutions. A forward flow agreement provides for the acquisition of charged-off receivables on a regular basis at a predetermined price over a specific time period. We currently have forward flow agreements with two credit card issuers, under which we acquired substantially all of our receivable portfolios in 1998 and in the first quarter of 1999.

Once we acquire a portfolio, we locate the individual customers and use a friendly but firm approach to recover the receivables in full or to negotiate settlements or payment plans. We focus our recovery efforts on maximizing the recovery of an account balance over time. MCM's recovery personnel consist of account managers who maintain all contact with our customers and skip tracers who locate our customers. We train our account managers to work with customers to evaluate their ability to pay and to develop individual payment programs. In cases where we believe customers have the ability to pay, but are unwilling to do so, we may pursue legal action to recover on their accounts.

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If we are unable to recover on an account, we package the account with other similar accounts and attempt to resell the portfolio to interested third parties.

We service our receivable portfolios out of two servicing centers. As of March

31, 1999, we employed 430 recovery personnel at our Phoenix facility, which can accommodate up to 700 recovery personnel. We believe the Phoenix market has a significant base of experienced recovery personnel and we are continuing to hire for this facility. Our second servicing facility is located at our headquarters in Hutchinson, Kansas. In addition to our headquarters staff, this facility housed approximately 48 recovery personnel as of March 31, 1999.

Our principal executive offices are located at 500 West First Street, Hutchinson, Kansas 67501 and our telephone number is (800) 759-0327. We operate through Midland Credit Management, Inc., a wholly-owned subsidiary.

OUR MARKET OPPORTUNITY

The receivables management industry is growing rapidly, driven by increasing levels of consumer debt and increasing charge-offs of the underlying receivables by originating institutions. At December 31, 1997, consumer debt (the amount owed by individuals in the U.S.) totalled \$5.6 trillion. Consumer credit, which consists of installment and noninstallment loans, totalled \$1.3 trillion, or 23% of consumer debt. Credit card debt is the fastest growing component of consumer credit, reaching \$560 billion in December 1997. Credit card debt accounted for 44% of total consumer credit in 1997, up from 30% in 1990, and is projected to reach 51% or \$950 billion by 2005. Despite generally sound economic conditions and historically low U.S. unemployment levels, credit card charge-offs rose to approximately 6.5%, or \$36.2 billion, of outstanding credit card receivables in 1997.

Historically, originating institutions have sought to manage exposure to credit losses by maintaining internal recovery infrastructures, outsourcing recovery activities to third-party collection agencies and, to a lesser extent, selling their charged-off receivables for immediate cash proceeds. From the originating institution's perspective, selling receivables to receivables management companies such as MCM yields immediate cash proceeds and earnings and represents a substantial reduction in the two to five year period typically required for traditional recovery efforts. It is estimated that sales of charged-off credit card debt have increased from \$2.2 billion in 1990 to \$16.5 billion in 1997 and will reach \$25.0 billion in 2000 as selling institutions utilize this recovery approach.

We derived the statistical data set forth in the above "Our Market Opportunity" from The Nilson Report's May 1998 issue.

OUR STRATEGY

Our goal is to become a leading acquiror and servicer of charged-off receivables. To achieve this goal, we have implemented a business strategy that emphasizes the following elements:

- hiring, training and retaining qualified personnel;
- increasing receivable portfolio acquisitions;
- maintaining and enhancing our technology platform;
- applying and improving our proprietary scoring model;
- maintaining funding flexibility;

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- entering other charged-off receivables markets; and
- pursuing acquisitions of complementary companies.

FUNDING SOURCES AND ACCOUNTING FOR OUR SECURITIZATION PROGRAM

We finance our operations through a variety of funding sources. We maintain a warehouse facility to provide funds to purchase receivables and have utilized lines of credit to provide ongoing working capital. We completed our first term securitization transaction in December 1998 and intend to engage in additional securitization transactions. We enter into these securitization transactions to obtain an additional source of funds.

Our 1998 term securitization included receivables with an aggregate face value of approximately \$1.3 billion and a carrying value of \$33.8 million at the time

of transfer. We structured this transaction for accounting purposes as a sale of the receivables, which resulted in a pretax gain of \$9.3 million. In the future, we intend to structure and account for our securitizations as financing transactions rather than sales. As a result, we will recognize income over the estimated life of the receivables rather than recognize a gain at the time of a securitization. In addition, the receivables and corresponding debt will remain on our balance sheet.

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THE OFFERING

Common stock offered by MCM..... shares

Common stock offered by the selling stockholders..... shares

Common stock to be outstanding after this offering..... shares(1)

Use of proceeds by MCM.....

- To repay our Nationsbank line of credit and our Bank of Kansas loans
- For working capital to expand our business, including the acquisition of additional receivable portfolios and potential business acquisitions

Proposed Nasdaq National Market symbol..... MCMC

- -----

(1) Does not include (a) 196,400 shares of common stock issuable upon exercise of outstanding options and (b) shares of common stock subject to the underwriters' over-allotment option.

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SUMMARY FINANCIAL DATA

FOR THE YEAR ENDED DECEMBER 31,

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

(IN THOUSANDS, EXCEPT PER SHARE AND PERSONNEL DATA)

CONSOLIDATED STATEMENT OF INCOME

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|----------|----------|----------|----------|-----------|
| DATA: | | | | | |
| REVENUES | | | | | |
| Income from receivable portfolios..... | \$ 1,676 | \$ 2,035 | \$ 2,387 | \$ 3,200 | \$ 15,952 |
| Gain on sales of receivable portfolios..... | 563 | 501 | 995 | 2,014 | 10,818 |
| Servicing fees..... | 44 | -- | -- | -- | 105 |
| Total revenues..... | 2,283 | 2,536 | 3,382 | 5,214 | 26,875 |
| EXPENSES | | | | | |
| Salaries and employee benefits... | 1,345 | 1,439 | 1,650 | 2,064 | 7,472 |
| Other operating expenses..... | 289 | 261 | 200 | 338 | 2,201 |
| General and administrative expenses..... | 272 | 330 | 306 | 490 | 1,290 |
| Depreciation and amortization.... | 105 | 103 | 96 | 156 | 426 |
| Total expenses..... | 2,011 | 2,133 | 2,252 | 3,048 | 11,389 |
| Income before interest, income taxes and extraordinary charge... | 272 | 403 | 1,130 | 2,166 | 15,486 |
| Interest and other expenses..... | 26 | 133 | 145 | 819 | 2,886 |
| Income before income taxes and extraordinary charge..... | 246 | 270 | 985 | 1,347 | 12,600 |
| Provision for income taxes..... | 4 | 97 | 391 | 540 | 5,065 |

| | | | | | |
|--|---------|----------|---------|------------|------------|
| Income before extraordinary charge..... | 242 | 173 | 594 | 807 | 7,535 |
| Extraordinary charge, net of income tax..... | -- | -- | -- | -- | 180 |
| Net income..... | \$ 242 | \$ 173 | \$ 594 | \$ 807 | \$ 7,355 |
| Net income per common share: | | | | | |
| Basic..... | \$ 0.02 | \$ 0.02 | \$ 0.06 | \$ 0.08 | \$ 0.75(1) |
| Diluted..... | 0.02 | 0.02 | 0.06 | 0.08 | 0.74(1) |
| Average common shares outstanding: | | | | | |
| Basic..... | 9,820 | 9,820 | 9,820 | 9,820 | 9,820 |
| Diluted..... | 9,820 | 9,820 | 9,820 | 9,820 | 9,931 |
| SELECTED FINANCIAL DATA: | | | | | |
| Cash flows provided by (used in): | | | | | |
| Operations..... | \$ 836 | \$ (136) | \$ (27) | \$ (1,076) | \$ 3,434 |
| Investing..... | (677) | 320 | (1,623) | (10,723) | 9,155 |
| Financing..... | (212) | (91) | 1,620 | 12,156 | (8,408) |
| Return on average assets(2)..... | 12.27% | 8.20% | 22.09% | 9.30% | 24.72%(3) |
| Return on average equity(2)..... | 675.16% | 57.03% | 89.27% | 66.54% | 196.18%(3) |

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FOR THE YEAR ENDED DECEMBER 31,

| 1994 | 1995 | 1996 | 1997 | 1998 |
|------|------|------|------|------|
|------|------|------|------|------|

(IN THOUSANDS, EXCEPT PER SHARE AND PERSONNEL DATA)

SELECTED OPERATING DATA:

| | | | | | |
|--|----------|----------|----------|----------|-----------|
| Collections on receivable portfolios..... | \$ 2,217 | \$ 2,722 | \$ 3,173 | \$ 5,127 | \$ 15,940 |
| Purchases of receivable portfolios, at face value..... | 32,888 | 58,091 | 142,438 | 653,912 | 722,597 |
| Purchases of receivable portfolios, at cost..... | 616 | 1,090 | 4,216 | 18,249 | 24,762 |
| Total recovery personnel at end of period..... | 34 | 35 | 44 | 53 | 379 |
| Total employees at end of period... | 49 | 51 | 56 | 72 | 446 |

AS OF DECEMBER 31, 1998

| ACTUAL | AS ADJUSTED(4) |
|--------|----------------|
|--------|----------------|

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DATA:

| | | |
|---|----------|----|
| Cash..... | \$ 4,658 | \$ |
| Investment in receivable portfolios..... | 2,052 | |
| Retained interest in securitized receivables..... | 23,986 | |
| Total assets..... | 34,828 | |
| Notes payable and other borrowings..... | 7,005 | |
| Capital lease obligations..... | 506 | |
| Total liabilities..... | 20,906 | |
| Total stockholders' equity..... | 13,922 | |

(1) Earnings per share for the year ended December 31, 1998 based on income before extraordinary charge is as follows:

| | |
|--------------|--------|
| Basic..... | \$0.77 |
| Diluted..... | \$0.76 |

(2) Average assets and average equity were determined based on the average of monthly balances during the year.

(3) Return on average assets and return on average equity for 1998 include the

effect of the securitization transaction which closed on December 30, 1998. If we excluded the effect of the securitization transaction from the return calculations, the results for 1998 would be as follows:

Return on average assets..... 5.90%
Return on average equity..... 63.13%

(4) Adjusted to give effect to our receipt of the estimated net proceeds from the sale of _____ shares of common stock offered by us at an estimated public offering price of \$ _____ per share and our application of those proceeds as described in "Use of Proceeds."

RISK FACTORS

You should consider carefully the following factors together with all of the other information included in this prospectus before you decide to purchase our common stock.

WE MAY NOT BE ABLE TO RECOVER SUFFICIENT AMOUNTS ON OUR RECEIVABLES TO FUND OUR OPERATIONS

We acquire and service charged-off receivables. These are credit obligations that individual customers have failed to pay. Before we purchase receivables, the originating institutions have generally made numerous attempts to recover on the nonperforming receivables, often using a combination of their in-house recovery departments and third-party collection agencies. After a period of time, originating institutions often write off these receivables. These receivable amounts are difficult to collect and our recovery results may not cover the costs associated with purchasing the receivables and running our business.

WE MAY NOT BE ABLE TO OBTAIN THE RESOURCES NECESSARY TO ACHIEVE OUR GROWTH PLANS

We have expanded rapidly in recent periods, placing great demands on our management, employee and financial resources. For example, during 1998, the number of accounts we serviced increased from 488,000 to 781,000, and our employee base increased from 72 to 446. We intend to continue our growth, which will place additional demands on our resources. To sustain our planned growth, we will need to enhance our operational and financial systems and increase our management, employee and financial resources. We cannot assure you that we will be able to manage our expanding operations effectively or obtain adequate resources for our expansion.

WE MAY NOT BE ABLE TO MAINTAIN A LABOR BASE THAT IS SUFFICIENTLY TRAINED TO SUPPORT OUR OPERATIONS

Our industry is very labor intensive. We compete for qualified personnel with companies in our business and in the collection agency, teleservices and telemarketing industries. We will not be able to service our receivables effectively, continue our growth and maintain profitability if we cannot hire and retain sufficient qualified recovery personnel.

We experience high rates of personnel turnover. The high turnover rate among our employees increases our recruiting and training costs and may limit the number of experienced recovery personnel available to service our receivables.

Our growth requires that we continually hire and train new employees. A large percentage of our employees joined us within the past year and are still gaining experience with the recovery process and our procedures and policies. These employees tend to be less productive and generally produce the greatest rate of turnover.

WE ARE HIGHLY DEPENDENT ON EXTERNAL FINANCING TO FUND OUR OPERATIONS

We depend on external sources of financing to fund our operations, including our warehouse facility, securitizations and lines of credit. Recently, our need for additional financing and capital resources has increased dramatically with the growth of our business. We cannot assure you that we will be able to meet our future liquidity requirements. Our failure to obtain financing and capital as needed would have a material adverse effect on us. Recent industry conditions, including the bankruptcy of credit card or other receivables

purchasers, have caused a tightening of credit to companies serving these markets. Increased competition also affects the availability and cost of financing to us.

Our credit facilities impose a number of restrictive covenants on us, including financial covenants. Failure to satisfy any one of these covenants would preclude us from further borrowing under the defaulted facility and could prevent us from securing alternative sources of funds necessary to operate our business. Our warehouse facility also contains a condition to borrowing that we further diversify our receivables suppliers for portfolios to be financed under the warehouse facility after June 29 of this year. If we do not meet this condition, we would not be able to borrow under the warehouse facility until we do.

OUR FUTURE SUCCESS DEPENDS UPON SUFFICIENT RECEIVABLES BEING AVAILABLE FOR PURCHASE AT PRICES CONSISTENT WITH OUR RETURN TARGETS

Our success depends upon the continued availability of receivables that meet our requirements. The availability of receivable portfolios at favorable prices depends on a number of factors outside of our control, including the continuation of the current growth trends in consumer debt and sales of receivable portfolios by originating institutions and competitive factors affecting potential purchasers and sellers of receivables. A reduction in credit being extended by credit issuers could result in fewer receivables being available at prices that we find attractive.

Competition limits our ability to obtain receivables. We compete with other purchasers of defaulted consumer receivables and with third-party collection agencies, and are affected by financial services companies that manage their own defaulted consumer receivables. Some of our competitors have the advantages of capital, personnel and other resources that exceed ours. The possible entry of new competitors (including competitors that historically have focused on the acquisition of different asset types) and the expected increase in competition from current market participants may adversely affect our access to receivables. In addition, aggressive pricing by competitors could raise the price of receivable portfolios above levels that we are willing to pay. We cannot assure you that we will be able to compete successfully with our existing or future competitors for the purchase of portfolios at prices consistent with our return targets.

To remain profitable, we must continually service a sufficient number of receivables to generate income that exceeds our fixed overhead costs. For example, fixed costs such as personnel salaries and lease or other facilities costs constitute a significant portion of our overhead. If we do not continually replace the receivable portfolios we service with additional receivable portfolios, we may have to reduce the number of employees in our recovery operations, and then rehire employees as we obtain additional receivable portfolios. These practices could lead to:

- low employee morale, fewer experienced employees and higher training costs;
- disruptions in our operations and loss of efficiency in recovery functions; and
- excess costs associated with unused space in recovery facilities.

To maintain the profitability of our operations, we will need to continue to identify and acquire significant receivable portfolios at favorable prices.

WE ARE HIGHLY DEPENDENT ON OUR TWO EXISTING FORWARD FLOW AGREEMENTS

We have agreements with two credit card issuers to purchase a portion of their future flows of charged-off receivables. These "forward flow" agreements are for one year and

expire in December 1999. In 1998 and in the first quarter of 1999, we acquired

substantially all of our receivables through these forward flow agreements. If we are not able to renew one or both of our existing agreements, we may not be able to obtain replacement forward flow agreements. If we renew these agreements, the new agreements may be on less favorable terms, which may include higher prices and/or reduced volumes from the receivables we purchase under the existing contracts. In addition, even if one or both of these contracts were renewed, we may not be able to obtain a sufficient number of receivables to maintain a profitable level of recoveries, retain qualified personnel, or sustain our current growth.

One of our forward flow agreements is with a major retailer that is in bankruptcy (and has been in bankruptcy since we entered into our agreement). The retailer has been closing selected retail stores for some time. We cannot assure you that this company's financial situation and reduction in size will not result in fewer available receivables under our forward flow agreements, which would adversely affect our operations.

WE USE ESTIMATES IN OUR ACCOUNTING AND WE WOULD HAVE TO CHARGE OUR EARNINGS IF ACTUAL RESULTS WERE LESS THAN ESTIMATED

We accrue income from receivable portfolios based on the effective interest rate determined for each pool applied to each pool's original cost basis, adjusted for unpaid accrued income and principal paydowns. The effective interest rate is the internal rate of return determined based on estimates of the timing and amounts of anticipated future cash flows for each pool. We base these estimates on our historical performance experience. The actual amount recovered by us on portfolios may not correlate to our historical performance experience. If recoveries on portfolios are less than or slower than estimated, we may be required to record a charge to earnings in an amount that could materially adversely affect our operating results. A variety of factors beyond our control, including changes in general economic conditions and changes in consumer attitudes toward repayment of defaulted obligations, may make our previous estimates inaccurate or may alter the way we make future estimates.

WE MAY HAVE TO WRITE DOWN THE RETAINED INTEREST IN OUR SECURITIZATION

The failure of the receivables relating to the December 1998 securitization to perform to our expectations would adversely affect the value of our retained interest in those securitized receivables and the related cash flows and earnings. We record changes in the unrealized gain on the retained interest as a separate component of stockholders' equity. In the event there is a permanent decline in the value of the retained interest in excess of the balances of the unrealized gain, we would recognize a charge to earnings in the amount of this excess.

OUR SERVICING FEES MAY BE INSUFFICIENT, WHICH WOULD NEGATIVELY AFFECT OUR CASH FLOW, LIQUIDITY AND PROFITABILITY

Although we will receive a servicing fee to compensate us for our obligations to service receivables that are securitized, the servicing fee may not be sufficient to reimburse us for all of our costs associated with servicing the receivables. Specifically, we do not expect the servicing fee on our 1998 securitization to cover our costs of servicing and have therefore recorded a liability of \$3.6 million in connection with the servicing agreement.

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WE COULD LOSE OUR SERVICING RIGHTS

In a securitization or warehouse facility, the seller or borrower often is the servicer of the receivables. If we fail to satisfy our servicing obligations, our ability to securitize receivables and to obtain additional financing would be adversely affected. We could lose the right to service receivables included in our securitizations or warehouse facility for a variety of reasons. These reasons include:

- defaults in our servicing obligations;
- breaches of representations and warranties related to a securitization or the warehouse facility; and
- bankruptcy or other insolvency.

The loss of the right to service the receivables included in the securitizations or warehouse facility would have a material adverse effect on us.

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE AND ADVERSELY AFFECT OUR STOCK PRICE

Because of the nature of our business, our quarterly operating results may fluctuate in the future which may adversely affect the market price of our common stock. The reasons our results may fluctuate include:

- the timing and amount of recoveries on our receivables;
- any charge to earnings resulting from a decline in the value of our receivable portfolios or in the value of our retained interest in securitized receivables, or any required increase in a related servicing liability; and
- increases in operating expenses associated with the growth of our operations.

Additionally, in future periods we will not recognize gains relating to securitization transactions as a result of our intent to structure and account for future securitizations as financing transactions. For securitizations structured and accounted for as sale transactions, earnings for the reporting period in which the securitization transaction occurred are increased by the amount of the related gain on securitization. In structuring securitization transactions as financings, we will not recognize a gain at the time of securitization and therefore our earnings for the related reporting period will be lower relative to earnings results reflective of gain on sale accounting. Since we accounted for our December 30, 1998 securitization as a sale transaction and thus recorded a related gain in 1998, our earnings during 1999 and future periods may not be comparable to those for 1998.

FLUCTUATIONS IN ECONOMIC CONDITIONS COULD ADVERSELY AFFECT OUR PROFITABILITY OR FINANCIAL CONDITION

Since we began acquiring nonperforming receivables, the U.S. economy has generally been strong and many economic factors have been favorable. We cannot assure you that our recovery experience would not worsen in a weak economic cycle. If our actual recovery experience with respect to a receivable portfolio is materially lower than that projected when we purchase a receivable portfolio, our financial condition and results of operations could be materially adversely affected.

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WE COULD LOSE A MEMBER OF OUR SENIOR MANAGEMENT TEAM, WHICH COULD NEGATIVELY AFFECT OUR OPERATIONS

The loss of the services of one or more of our executive officers or key employees could have a material adverse impact on our financial condition and results of operations. We have employment agreements with Frank Chandler, our Chief Executive Officer and President, and each of our Senior Vice Presidents. The agreements contain noncompetition provisions that survive termination of employment in some circumstances. However, these agreements do not assure the continued services of these officers and we cannot assure you that the noncompetition provisions will be enforceable.

WE COULD SUFFER YEAR 2000 COMPUTER PROBLEMS THAT COULD ADVERSELY AFFECT OUR OPERATIONS

We could be affected by failures of our business systems, as well as those of our suppliers and vendors, due to the year 2000 problem. As the year changes from 1999 to 2000, our business systems could fail, because our systems may not accurately recognize the two-digit "00" as the year 2000. Consequently, information technology and other business systems may not be able to accurately process transactions before, on, or after January 1, 2000.

We recently upgraded our computer, telecommunications, software applications, and business systems, and believe that these systems are substantially year 2000 ready. However, we cannot assure you that year 2000 problems will not arise with our systems or adversely affect us.

Year 2000 failures on the part of our suppliers or vendors could occur and have a material adverse effect on us. Our suppliers and vendors include our telephone and utility suppliers, our forward-flow contract and other receivables vendors, and to a lesser extent, our licensed software vendors. Potential consequences of our business systems, or the business systems of the third parties with whom we conduct business, not being year 2000 ready include failure to operate due to a lack of power, disruption or errors in credit information and receivable recovery efforts, and delays in receiving inventory and supplies. If any of these events were to occur, the results could have a material adverse impact on us.

WE COULD SUFFER FROM INADEQUATE OR FAILING TECHNOLOGY SYSTEMS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS

Our success depends in large part on sophisticated telecommunications and computer systems. The inadequacy or failure of these systems to perform could have a material adverse effect on our business. Our key technology components include:

- predictive dialers;
- automated call distribution systems;
- digital switching equipment;
- a mainframe computer system; and
- a proprietary scoring model.

The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty or operating malfunction, could have a material adverse effect on our business. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to properly bid on prospective

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acquisitions of receivable portfolios and to maintain and expand the proprietary databases we use for our recovery activities. Any simultaneous failure of both of our information systems or proprietary software and their backup systems could cause interruptions in our operations and have a material adverse effect on us.

We must anticipate and stay current with technological developments. However, we may not be successful in anticipating, managing, or adopting technological changes on a timely basis. Computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. Our business relies on computer and telecommunications technologies and we must be able to successfully integrate these technologies into our business.

While we believe that our existing information systems are sufficient to meet our current demands and continued expansion, our future growth may require additional investment in these systems. We depend on having the capital resources necessary to invest in new technologies to acquire and service receivables. We cannot assure you that adequate capital resources will be available to us.

Our business also depends on service provided by various local and long distance telephone companies. A significant increase in telephone service costs or any significant interruption in telephone services could have a material adverse impact on us.

WE MAY MAKE ACQUISITIONS THAT PLACE ADDITIONAL PRESSURE ON OUR RESOURCES

We intend to consider acquisitions of other companies in our industry that could complement our business, including the acquisition of entities in diverse geographic regions and entities offering greater access to industries and markets that we do not currently serve. We have no experience in completing acquisitions, and we may not be able to successfully acquire other businesses. If we do, we may not be able to successfully integrate these businesses with our own. Further, acquisitions may place additional constraints on our resources such as diverting the attention of our management from other business concerns. Through acquisitions, we may enter markets in which we have no or limited

experience. Moreover, any acquisition may result in a potentially dilutive issuance of equity securities, incurrence of additional debt and amortization of expenses related to goodwill and intangible assets, all of which could adversely affect our profitability.

GOVERNMENT REGULATION MAY LIMIT OUR ABILITY TO RECOVER AND ENFORCE RECEIVABLES

Federal and state laws may limit our ability to recover and enforce receivables regardless of any act or omission on our part. While we are not a credit card issuer, some laws and regulations applicable to credit card issuers may affect our operations if a credit card issuer were to fail to comply. Laws relating to debt collections also directly apply to our business. Federal laws that may affect our operations include the following:

- Fair Debt Collection Practices Act;
- Truth-In-Lending Act;
- Fair Credit Billing Act;
- Equal Credit Opportunity Act;
- Fair Credit Reporting Act; and
- Electronic Funds Transfer Act.

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Related regulations, state laws and new legislation may also affect our operations. Our failure to comply with any laws or regulations applicable to us could adversely affect our ability to recover on receivables, and therefore, adversely affect our results of operations and financial condition.

While all of our receivables acquisition contracts contain provisions indemnifying us for losses due to the originating institution's failure to comply with applicable laws and other events, we cannot assure you that the indemnities received from originating institutions will be adequate to protect us from losses on the receivables or liabilities to customers.

THE VOTING POWER OF OUR CONTROLLING STOCKHOLDERS MAY LIMIT YOUR VOTING RIGHTS

MCM Holding Company LLC, a New York limited liability company, and C.P. International Investments Limited, a Bahamian corporation, each currently owns or controls 35% of our common stock, and Frank Chandler, our Chief Executive Officer and President, currently owns and controls approximately 20% of our common stock. Following completion of this offering, the current members of MCM Holding will own and control approximately %, C.P. International will own or control approximately %, and Mr. Chandler will own and control approximately % of the outstanding common stock. Accordingly, these stockholders will continue to have control over our affairs, including the ability to elect our directors and determine the outcome of votes by our stockholders on corporate matters, including mergers, sales of all or substantially all of our assets, charter amendments and other matters requiring stockholder approval. MCM Holding and C.P. International are parties to stockholders' agreements, under which they have agreed that, if either of them sells their shares, under certain circumstances, the other will have the right to join in the sale. In addition, MCM has granted demand and piggyback registration rights in favor of MCM Holding and C.P. International to facilitate resale of their stock.

WE CAN ISSUE PREFERRED STOCK WITHOUT YOUR APPROVAL WHICH COULD ADVERSELY AFFECT YOUR RIGHTS

Our certificate of incorporation authorizes us to issue shares of "blank check" preferred stock, the designation, number, voting powers, preferences, and rights of which may be fixed or altered from time to time by our board of directors. Accordingly, the board of directors has the authority, without stockholder approval, to issue preferred stock with rights that could adversely affect the voting power or other rights of the common stock holders or the market value of the common stock.

ANTI-TAKEOVER PROVISIONS IN OUR CHARTER DOCUMENTS AND STATE LAW MAY INHIBIT BENEFICIAL CHANGES OF CONTROL

Our certificate of incorporation and by-laws and Delaware law contain provisions which could make it more difficult for a third party to acquire us, even if such a change in control would be beneficial to our stockholders. For example:

- our board of directors has the power to issue shares of preferred stock and set the related terms without stockholder approval;
- we are restricted in our ability to enter into business combinations with interested stockholders;
- our stockholders may hold a special meeting only if our board of directors calls the meeting or if a majority of the votes entitled to be cast at a special meeting make a written demand for the meeting; and

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- we require advanced notice for nominating candidates and for stockholder proposals.

ADDITIONAL SHARES OF OUR COMMON STOCK THAT WILL BE ELIGIBLE FOR FUTURE SALE IN THE PUBLIC MARKET AFTER THIS OFFERING COULD ADVERSELY AFFECT OUR STOCK PRICE OR ABILITY TO RAISE CAPITAL

If one or more of our stockholders sell substantial amounts of our common stock (including shares we issue when an option holder exercises options) in the public market, the market price of our common stock could drop. These sales could make it difficult for us to raise funds through future offerings of common stock or depress our stock price at a time when we need to raise capital.

When this offering is complete, there will be _____ shares of common stock outstanding. If the option holder exercises all of his vested options to purchase shares of common stock, there will be _____ shares of common stock outstanding. Of these shares, _____ shares sold in the initial public offering are freely tradeable without restriction, except for any shares acquired by an "affiliate." In addition, _____ shares will be available for sale under Rule 144 90 days after the closing of this offering. Even the perception that additional shares could be sold in the public market could affect our stock price.

FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus contains forward-looking statements within the meaning of the federal securities laws. These statements include, among others, statements found under "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Forward-looking statements typically are identified by use of terms such as "may," "will," "expect," "anticipate," "estimate" and similar words, although some forward-looking statements are expressed differently. You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors, some of which are beyond our control. Factors that could affect our results and cause them to differ from those contained in the forward-looking statements include the competitive environment in which we operate, the level of credit card and other consumer debt and delinquencies on this debt, our ability to retain qualified personnel to recover on our receivables efficiently, any legal claims asserted against us, labor disturbances and our plans to continue to grow.

You should also consider carefully the statements under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and other sections of this prospectus which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the shares of common stock we are offering will be \$ _____. If the underwriters fully exercise the

over-allotment option, the net proceeds of the shares sold by us will be \$. "Net proceeds" is what we expect to receive after paying underwriting discounts and commissions and estimated offering expenses. For the purposes of estimating net proceeds, we are assuming that the public offering price will be \$ per share. We will not receive any proceeds from the sale of shares by the selling stockholders.

We expect to use a portion of the net proceeds we receive to repay some of our existing debt (totaling approximately \$ million), with the balance to be used for working capital to facilitate expansion of the business, including the purchase of additional receivable portfolios and potential acquisitions of recovery businesses. We have no pending commitments or negotiations related to any business acquisitions. Prior to using the proceeds as described above, we will invest the funds in short-term, investment grade, interest-bearing securities.

Our existing debt includes a \$15 million revolving credit facility with approximately \$14.6 million outstanding as of March 31, 1999 and \$0.4 million in Bank of Kansas loans. The revolving credit facility expires on July 15, 1999, bears a floating interest rate based on the prime rate established by the lender (resulting in a borrowing rate of 7.75% at March 31, 1999) and will be retired with the proceeds of this offering. The Bank of Kansas loans expire on January 15, 2001, have an interest rate of 9.00% and will be repaid in full with the proceeds of this offering. We currently use the revolving credit facility to fund receivable portfolio purchases and to provide working capital.

DIVIDEND POLICY

We have never declared or paid dividends on our common stock and we anticipate that we will retain earnings to support operations and to finance the growth and development of our business. Therefore, we do not intend to declare or pay dividends on the common stock for the foreseeable future. The declaration, payment and amount of future dividends, if any, will be subject to the discretion of our board of directors. In addition, while our current financing agreements do not place restrictions on dividend payments, we may be subject to dividend restrictions under future financing facilities.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 1998 and as adjusted to give effect to our receipt of the estimated net proceeds from the sale of shares of common stock offered by us at an estimated public offering price of \$ per share and the application of our net proceeds as described in "Use of Proceeds." To better understand this table you should review "Management's Discussion and Analysis of Financial Condition and Results of Operations," our financial statements, including the related notes, and the other financial information included elsewhere in this prospectus.

| | DECEMBER 31, 1998 | |
|--|-------------------|-------------|
| | ACTUAL | AS ADJUSTED |
| | ----- | ----- |
| Debt: | | |
| Notes payable and other borrowings..... | \$ 7,005,302 | |
| Stockholders' equity: | | |
| Preferred Stock, par value \$.01 per share, 5,000,000 shares authorized; none issued and outstanding..... | -- | |
| Common Stock, par value \$.01 per share, 50,000,000 shares authorized; 9,820,000 shares issued and outstanding, actual; and shares issued and outstanding, as adjusted..... | 98,200 | |
| Additional paid-in capital..... | 31,800 | |
| Unrealized gain..... | 4,882,883 | |
| Retained earnings..... | 8,908,966 | |
| | ----- | |
| Total stockholders' equity..... | 13,921,849 | |

| | | |
|---------------------------|--------------|-------|
| Total capitalization..... | \$20,927,151 | \$ |
| | ===== | ===== |

DILUTION

At December 31, 1998, our net tangible book value was \$13.9 million or \$1.42 per share. "Net tangible book value" is total assets minus the sum of liabilities and intangible assets. "Net tangible book value per share" is net tangible book value divided by the total number of shares of common stock outstanding as of December 31, 1998.

After giving effect to adjustments relating to the offering, our pro forma net tangible book value per share on December 31, 1998 would have been \$ or \$ per share. The adjustments made to determine pro forma net tangible book value per share are the following:

- An increase in total assets to reflect the net proceeds received by us from the offering as described under "Use of Proceeds" (assuming that the public offering price will be \$ per share).
- The addition of the number of shares offered by us under this prospectus to the number of shares outstanding.

The following table illustrates the pro forma increase in net tangible book value of \$ per share and the dilution (the difference between the offering price per share and net tangible book value per share) to new investors.

| | |
|---|----|
| Assumed initial public offering price per share..... | \$ |
| Net tangible book value per share at December 31, 1998..... | |
| Increase in net tangible book value per share attributable to new investors..... | |
| Pro forma net tangible book value per share at December 31, 1998 after giving effect to the offering..... | |
| Dilution per share to new investors in the offering..... | \$ |

The table below shows the difference between the existing stockholders and the new investors purchasing common stock in this offering with respect to the total number of shares acquired from MCM, the total consideration paid and the average price paid per share (based upon an assumed initial public offering price of \$ per share).

| | SHARES PURCHASED | | TOTAL CONSIDERATION | | AVERAGE |
|----------------------------|------------------|---------|---------------------|---------|-----------|
| | NUMBER | PERCENT | AMOUNT | PERCENT | PRICE PER |
| | ----- | ----- | ----- | ----- | SHARE |
| | ----- | ----- | ----- | ----- | ----- |
| Existing stockholders..... | | | | | |
| New investors..... | | | | | |
| | ----- | --- | ----- | --- | |
| Total..... | ===== | === | ===== | === | |

The table above does not give effect to sales of shares by the selling stockholders.

SELECTED FINANCIAL DATA

This table sets forth selected historical financial data of MCM. You should read

carefully the consolidated financial statements and notes included in this prospectus. The selected data in this section is not intended to replace the consolidated financial statements. The selected financial data as of December 31, 1996, 1997 and 1998 and for the years then ended were derived from our audited consolidated financial statements included elsewhere in this prospectus. These consolidated financial statements were audited by Ernst & Young LLP, independent auditors. We derived the selected financial data as of December 31, 1994 and 1995 and for the years then ended from unaudited consolidated financial statements that are not included in this prospectus. MCM's management believes that the unaudited historical consolidated financial statements contain all adjustments needed to present fairly in all material respects the information included in those statements, and that the adjustments made consist only of normal recurring adjustments.

| FOR THE YEAR ENDED DECEMBER 31, | | | | | |
|---|----------|----------|----------|----------|---------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 |
| (IN THOUSANDS, EXCEPT PER SHARE AND PERSONNEL DATA) | | | | | |
| CONSOLIDATED STATEMENT OF INCOME DATA: | | | | | |
| REVENUES | | | | | |
| Income from receivable portfolios..... | \$ 1,676 | \$ 2,035 | \$ 2,387 | \$ 3,200 | \$ 15,952 (1) |
| Gain on sales of receivable portfolios..... | 563 | 501 | 995 | 2,014 | 10,818 (2) |
| Servicing fees..... | 44 | -- | -- | -- | 105 |
| Total revenues..... | 2,283 | 2,536 | 3,382 | 5,214 | 26,875 |
| EXPENSES | | | | | |
| Salaries and employee benefits..... | 1,345 | 1,439 | 1,650 | 2,064 | 7,472 |
| Other operating expenses..... | 289 | 261 | 200 | 338 | 2,201 |
| General and administrative expenses..... | 272 | 330 | 306 | 490 | 1,290 |
| Depreciation and amortization..... | 105 | 103 | 96 | 156 | 426 |
| Total expenses..... | 2,011 | 2,133 | 2,252 | 3,048 | 11,389 (3) |
| Income before interest, income taxes and extraordinary charge..... | 272 | 403 | 1,130 | 2,166 | 15,486 |
| Interest and other expenses..... | 26 | 133 | 145 | 819 | 2,886 (1) |
| Income before income taxes and extraordinary charge..... | 246 | 270 | 985 | 1,347 | 12,600 |
| Provision for income taxes..... | 4 | 97 | 391 | 540 | 5,065 |
| Income before extraordinary charge..... | 242 | 173 | 594 | 807 | 7,535 |
| Extraordinary charge, net of income tax..... | -- | -- | -- | -- | 180 |
| Net income..... | \$ 242 | \$ 173 | \$ 594 | \$ 807 | \$ 7,355 |
| Net income per common share: | | | | | |
| Basic..... | \$ 0.02 | \$ 0.02 | \$ 0.06 | \$ 0.08 | \$ 0.75 (4) |
| Diluted..... | 0.02 | 0.02 | 0.06 | 0.08 | 0.74 (4) |
| Average common shares outstanding: | | | | | |
| Basic..... | 9,820 | 9,820 | 9,820 | 9,820 | 9,820 |
| Diluted..... | 9,820 | 9,820 | 9,820 | 9,820 | 9,931 |

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| FOR THE YEAR ENDED DECEMBER 31, | | | | | |
|---|---------|----------|---------|------------|-------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 |
| (IN THOUSANDS, EXCEPT PER SHARE AND PERSONNEL DATA) | | | | | |
| SELECTED FINANCIAL DATA: | | | | | |
| Cash flows provided by (used in): | | | | | |
| Operations..... | \$ 836 | \$ (136) | \$ (27) | \$ (1,076) | \$ 3,434 |
| Investing..... | (677) | 320 | (1,623) | (10,723) | 9,155 |
| Financing..... | (212) | (91) | 1,620 | 12,156 | (8,408) |
| Return on average assets(5)..... | 12.27% | 8.20% | 22.09% | 9.30% | 24.72% (6) |
| Return on average equity(5)..... | 675.16% | 57.03% | 89.27% | 66.54% | 196.18% (6) |
| SELECTED OPERATING DATA: | | | | | |

| | | | | | |
|--|----------|----------|----------|----------|-----------|
| Collections on receivable portfolios..... | \$ 2,217 | \$ 2,722 | \$ 3,173 | \$ 5,127 | \$ 15,940 |
| Purchases of receivable portfolios, at face value..... | 32,888 | 58,091 | 142,438 | 653,912 | 722,597 |
| Purchases of receivable portfolios, at cost..... | 616 | 1,090 | 4,216 | 18,249 | 24,762 |
| Total recovery personnel at end of period..... | 34 | 35 | 44 | 53 | 379 |
| Total employees at end of period..... | 49 | 51 | 56 | 72 | 446(3) |

AS OF DECEMBER 31,

| ----- | ----- | ----- | ----- | ----- | ----- |
|-------|-------|-------|-------|-------|-------|
| 1994 | 1995 | 1996 | 1997 | 1998 | |
| ----- | ----- | ----- | ----- | ----- | ----- |

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DATA:

| | | | | | |
|---|-------|--------|--------|--------|-----------|
| Cash..... | \$ 57 | \$ 150 | \$ 120 | \$ 477 | \$ 4,658 |
| Investment in receivable portfolios..... | 473 | 660 | 2,840 | 15,411 | 2,052(1) |
| Retained interest in securitized receivables..... | -- | -- | -- | -- | 23,986(2) |
| Total assets..... | 1,952 | 1,920 | 4,034 | 16,964 | 34,828 |
| Notes payable and other borrowings..... | 1,227 | 1,136 | 2,756 | 14,774 | 7,005(1) |
| Capital lease obligations..... | -- | -- | -- | -- | 506 |
| Total liabilities..... | 1,880 | 1,581 | 3,287 | 15,410 | 20,906 |
| Total stockholders' equity..... | 72 | 339 | 747 | 1,554 | 13,922 |

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(1) During 1998, prior to the December 30 securitization transaction, we increased our investment in receivable portfolios by \$21.0 million or 135.5%. In addition, \$13.0 million or 71.5% of our 1997 acquisitions of receivable portfolios occurred during the fourth quarter of 1997. As a result, income from receivable portfolios increased dramatically in 1998. In order to finance the significant increase in acquisitions of receivable portfolios during 1998, MCM's borrowings increased as well during the year. MCM had average monthly borrowings of \$23.7 million during 1998, as compared to \$6.9 million during 1997, resulting in a 312.7% increase in interest expense.

(2) In December 1998, we completed our first securitization transaction of receivable portfolios, which had a carrying value of \$33.8 million. The transaction was structured and accounted for as a sale in accordance with SFAS 125, which resulted in a pretax gain of \$9.3 million. In connection with the securitization transaction, we recorded a retained interest in the securitized receivables and a servicing liability. The retained interest is carried at fair value in accordance with SFAS 115 and changes in the fair value, as well as the initial write up to fair value, are recorded in a separate component of stockholders' equity.

We intend to structure and account for our future securitization transactions as financings, rather than sales. As a result, MCM will not record a gain at the time of securitization and the securitized receivables and related debt will remain on our balance sheet.

(3) In connection with the opening of the Phoenix facility, we increased our employees from 72 at December 31, 1997 to 446 at December 31, 1998. As a result of this increase in employees and the costs associated with establishing the Phoenix facility, MCM's expenses increased significantly during 1998.

(4) Earnings per share for the year ended December 31, 1998 based on income before extraordinary charge is as follows:

| | |
|--------------|--------|
| Basic..... | \$0.77 |
| Diluted..... | \$0.76 |

(5) Average assets and average equity were determined based on the average of monthly balances during the year.

(6) Return on average assets and return on average equity for 1998 include the effect of the securitization transaction which closed on December 30, 1998. If the securitization transaction were excluded from the return calculations, the results for 1998 would be as follows:

| | |
|-------------------------------|--------|
| Return on average assets..... | 5.90% |
| Return on average equity..... | 63.13% |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

You should read this discussion together with the consolidated financial statements and other financial information included in this prospectus.

OVERVIEW

MCM is a growing receivables management company. We acquire and service charged-off receivables originated from a variety of sources. We currently focus on acquiring charged-off credit card receivables originated by major banks and private label merchants. Credit card issuers often sell a significant portion of their charged-off receivables to allow them to focus on their core businesses and realize immediate cash proceeds and earnings. Because the credit card issuers have already attempted to recover the receivables, we are able to buy receivable portfolios at substantial discounts to their face amounts.

We have grown rapidly in recent periods. We opened a new servicing center in Phoenix, Arizona in 1998 and we added 430 recovery personnel at this facility through March 31, 1999. From January 1, 1994 through March 31, 1999, we acquired \$1.7 billion of receivable portfolios for \$53.3 million, of which we acquired \$722.6 million of receivable portfolios in 1998 for \$24.8 million. Through March 31, 1999, we recovered \$46.2 million on these receivable portfolios.

We completed our first term securitization in December 1998, which we structured for accounting purposes as a sale of the receivables. In the future, we intend to structure and account for our securitizations as financing transactions rather than sales. As a result, we will recognize income over the estimated life of the receivables rather than recognize a gain at the time of a securitization. In addition, the receivables and corresponding debt will remain on our balance sheet. This will result in lower income relative to income reflective of gain on sale accounting in the reporting period in which the securitization occurs, as there will be no gain recorded at the time of the securitization.

Origination

Portfolio Purchases. MCM purchases receivable portfolios on a transaction by transaction basis as well as through forward flow agreements with originating institutions. Under a forward flow agreement, MCM agrees to purchase charged-off receivables from a third-party supplier on a periodic basis at a predetermined price over a specified time period. To date, we have structured forward flow agreements with two credit card issuers. We completed substantially all portfolio purchases during 1998 and the first quarter of 1999 under these forward flow agreements, which will terminate in December 1999, unless renewed.

Our industry places receivables into categories depending on the number of collection agencies that have previously attempted to collect on the receivables. For example, "zero agency receivables" have had no previous third-party collection activity and "secondary agency receivables" have had two previous collection agencies attempt to collect on the receivables. In 1998 and the first quarter of 1999, we acquired primarily zero and secondary agency receivables.

Accounting

Static Pool Analysis. We account for our investment in receivable portfolios on the accrual basis of accounting in accordance with the provisions of the American Institute of

Certified Public Accountants' Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans." When MCM acquires a portfolio, it records it at cost, and establishes the portfolio as a separate static pool. MCM accounts for each static pool as a separate unit for the economic life of the pool to track income from each receivable portfolio, to apply recoveries to the principal of each receivable portfolio and to make provisions for loss or impairment of each receivable portfolio.

In accounting for our investment in receivable portfolios, MCM has developed a proprietary software model to facilitate cash flow modeling of each static pool and determine the internal rate of return for income recognition purposes. MCM projects the timing and amounts of recoveries based on historical performance experience, as well as current market conditions and specific portfolio characteristics. Income from receivable portfolios is accrued based on the internal rate of return determined for each pool applied to each pool's original cost basis, adjusted for unpaid accrued income and principal paydowns. To the extent recoveries exceed the income accrual, the carrying value is reduced. If the accrual is greater than recoveries, then the carrying value of the receivable portfolios is increased by this amount. Accretion typically occurs in the early months of ownership of the portfolios during which time recoveries are lower while MCM begins the process of skip tracing efforts and initiating contact with the borrowers.

At least quarterly, we evaluate the reasonableness of our assumptions (relating primarily to the amounts and timing of recoveries and the discount rate) based on actual performance. In the event that assumptions need to be adjusted, MCM prospectively adjusts the internal rate of return, and thus the income accrual for a pool. We also monitor impairment of our receivable portfolios on a quarterly basis based on the fair value of each portfolio compared to each portfolio's carrying amount. We base the fair value of the portfolio on discounted expected future cash flows, using a discount rate which reflects an acceptable rate of return adjusted for risks specific to the portfolio.

Securitizations. On December 30, 1998, MCM completed a securitization transaction of portfolio receivables. Midland Receivables 98-1 Corporation, a bankruptcy remote special purpose entity formed by MCM, issued nonrecourse notes in the amount of \$33.0 million bearing interest at 8.63% per annum. The notes are collateralized by the securitized charged-off receivables and a cash reserve account of approximately \$1.0 million, and are insured through a financial guaranty insurance policy. The securitized receivables had an original aggregate face amount of approximately \$1.3 billion (without giving effect to recoveries or settled balances) and a carrying value of \$33.8 million at the time of transfer.

For accounting purposes, the transaction was recorded as a sale under the provisions of Statement of Financial Accounting Standards No. 125 (SFAS 125). MCM recognized a pretax gain of \$9.3 million from the securitization transaction. The proceeds from the securitization were used by MCM to pay off the line of credit balance incurred in connection with the purchase of the receivables, to retire other debt and to pay transaction costs.

In connection with the securitization transaction, MCM recorded a retained interest in the securitized receivables and a servicing liability. MCM has projected that the total amount of recoveries from the securitized receivables will significantly exceed amounts owed to note holders, and we recorded our retained interest at an allocated basis of \$15.8 million, based on its relative fair value of \$24.0 million. In connection with servicing obligations, for which MCM receives a servicing fee of 20% of gross monthly recoveries, MCM recorded a servicing liability in the amount of \$3.6 million. In this regard, we do not expect the benefits of servicing the securitized receivables to fully compensate us for our

costs to perform the servicing. The servicing liability will be amortized to reduce servicing expense over the expected term of the securitization. See Note 1 of the consolidated financial statements for further discussion of MCM's accounting for the securitization transaction.

In determining the gain on the securitization, and to value our retained interest in the securitization, in accordance with SFAS 125, MCM assumed a discount rate of 30% for the retained interest and, based on historical performance, assumed that:

- recoveries will occur over a period of 48 to 60 months following closing; and
- total recoveries on the individual receivable portfolios will range from 2 to 3 times their original cost basis.

We cannot assure you that actual recoveries will match our estimates. Until the note holders have been paid in full, the income accreted each month will increase the carrying amount of the retained interest. As the carrying amount of the retained interest increases, the interest income attributable to the retained interest will also increase.

Consistent with the monitoring of the performance of our receivable portfolios, on a quarterly basis, MCM will evaluate the reasonableness of MCM's assumptions relating to the securitization in light of actual performance. In the event assumptions need to be adjusted, MCM will prospectively adjust the internal rate of return, and thus the income accrual. Additionally, each quarter, MCM will monitor impairment of the retained interest based on its fair value as compared to its carrying value. Provisions for losses are charged to earnings when it is determined that the retained interest's original allocated basis, adjusted for accrued interest and principal paydowns, is greater than the present value of expected future cash flows.

In the future, we intend to structure and account for our securitizations as financing transactions rather than sales. As a result, we will recognize income over the estimated life of the receivables rather than recognize a gain at the time of a securitization. In addition, the receivables and corresponding debt will remain on our balance sheet. This will result in lower income relative to income reflective of gain on sale accounting in the reporting period in which the securitization occurs, as there will be no gain recorded at the time of the securitization.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues. Total revenues for the year ended December 31, 1998 were \$26.9 million compared to total revenues of \$5.2 million for the year ended December 31, 1997, an increase of \$21.7 million or 415%. The increase in revenues was principally the result of an increase in income from receivable portfolios of \$12.8 million resulting from MCM's significant acquisitions of receivable portfolios in late 1997 and 1998, and the gain of \$9.3 million from the December 30, 1998 securitization transaction. During the year ended December 31, 1998, MCM acquired receivable portfolios at a cost of \$24.8 million with an aggregate face value amount of \$722.6 million, and during the year ended December 31, 1997, MCM acquired receivable portfolios at a cost of \$18.2 million with an aggregate face value of \$653.9 million. Additionally, in connection with the December 30, 1998 securitization transaction, MCM recognized \$105,000 of servicing income for the year ended December 31, 1998, representing the servicing fees for the last two days of the year.

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Total Expenses (not including Interest and Other Expenses). Total expenses increased to \$11.4 million for the year ended December 31, 1998 from \$3.0 million for the year ended December 31, 1997, representing an increase of \$8.4 million or 274%. Total expenses as a percentage of revenues were 42% for 1998 compared to 58% for 1997. While total expenses increased by 274% during 1998 as a result of establishing and staffing the Phoenix facility, total revenues increased by 415%. As a result, total expenses as a percentage of total revenues decreased for 1998. The increase in revenues reflects a \$9.3 million gain relating to MCM's first securitization transaction. Because we intend to structure and account for our securitizations in the future as financings rather than sales, we will not recognize gains at the time of a securitization in the future.

Salaries and employee benefits increased by \$5.4 million or 262% from \$2.1 million in the year ended December 31, 1997 to \$7.5 million in the year ended

December 31, 1998 as a result of an increase in total employees from 72 employees at December 31, 1997 to 446 employees at December 31, 1998, related primarily to the staffing of MCM's Phoenix facility, which opened in February 1998. The increase in salaries and benefits can be attributed to MCM's investment in the following areas:

- the hiring of experienced account managers for the Phoenix recovery facility;
- the hiring of senior management and middle management to supervise the growth in recovery personnel and receivable portfolios, and the hiring of skip tracers to support recovery efforts;
- investment in data processing and computer systems and related professionals to enhance and manage MCM's proprietary account management system; and
- investment in full time training and compliance personnel to provide ongoing education, quality control and support for the recovery personnel.

Other operating expenses, such as telephone, postage and credit bureau reporting, increased by \$1.9 million or 551% from \$0.3 million in 1997 to \$2.2 million in 1998, consistent with the increase in receivable portfolios and recovery personnel.

General and administrative expenses increased by \$0.8 million or 163% from \$0.5 million in 1997 to \$1.3 million in 1998 primarily as a result of an increase in rent expense and other occupancy costs associated with the Phoenix operation.

Interest and Other Expenses. Total interest and other expenses increased by \$2.1 million or 252% to \$2.9 million in 1998, as compared to \$0.8 million in 1997. Interest expense increased from \$0.7 million in 1997 to \$3.0 million in 1998 as a result of increased borrowings to finance the significant growth in acquisitions of receivable portfolios during 1998 and the last four months of 1997. During 1998, prior to the December 30 securitization transaction, we increased our investment in receivable portfolios by \$21.0 million or 136%. In addition, we acquired \$13.0 million of receivable portfolios during the fourth quarter of 1997, representing 72% of total 1997 acquisitions. To finance these acquisitions of receivable portfolios, MCM's borrowings increased during 1998. MCM had average monthly borrowings of \$23.7 million during 1998, as compared to \$6.9 million during 1997, resulting in a 313% increase in interest expense. A significant portion of the debt from acquisitions of receivable portfolios was retired with the proceeds from the securitization transaction.

Provision For Income Taxes. Income taxes for the year ended December 31, 1998 were \$5.1 million, reflecting an effective tax rate of 40.2%, and for the year ended December 31, 1997 were \$0.5 million, reflecting an effective tax rate of 40.1%. Deferred tax liabilities

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were \$8.2 million at December 31, 1998, which includes \$3.7 million relating to the gain on the securitization transaction and \$3.3 million relating to the unrealized gain on the retained interest in securitized receivables. See Note 6 to the consolidated financial statements for further discussion of income taxes.

Extraordinary Charge. In connection with the early extinguishment of debt under one of MCM's previous line of credit agreements, in 1998 MCM recognized an extraordinary charge for prepayment fees and penalties, net of income tax benefit, of \$0.2 million.

Net Income. Net income for the year ended December 31, 1998 was \$7.4 million compared to \$0.8 million for the year ended December 31, 1997, an increase of 812%.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Revenues. Total revenues for the year ended December 31, 1997 were \$5.2 million compared to total revenues of \$3.4 million for the year ended December 31, 1996, an increase of \$1.8 million or 54%. The increase in revenues was principally the result of an increase in income from receivable portfolios of \$0.8 million and an increase in the gains on individual sales of receivable portfolios of \$1.0

million. During the year ended December 31, 1997, MCM acquired receivable portfolios at a cost of \$18.2 million with an aggregate face value of \$653.9 million, and during the year ended December 31, 1996, MCM acquired receivable portfolios at a cost of \$4.2 million with an aggregate face value of \$142.4 million.

Total Expenses (not including Interest and Other Expenses). Total expenses were \$3.0 million during 1997 compared to \$2.3 million during 1996. Total expenses as a percentage of revenues were 59% for the year ended December 31, 1997 and 67% for the year ended December 31, 1996. The dollar increase in total expenses can be attributed to an increase in salaries and employee benefits, in turn reflecting the growth in total employees to 72 as of December 31, 1997, compared to 56 as of December 31, 1996. Other operating expenses such as telephone, postage and credit bureau reports increased consistent with the increase in employees.

Interest and Other Expenses. Interest expense increased \$0.6 million from \$0.1 million in 1996 compared to \$0.7 million in 1997. MCM secured a line of credit agreement with a limit of \$10 million in September 1997 for the purpose of acquiring receivable portfolios.

Provision for Income Taxes. Income taxes for the year ended December 31, 1997 were \$0.5 million, reflecting an effective tax rate of 40.1%, and for the year ended December 31, 1996 were \$0.4 million, reflecting an effective tax rate of 39.7%.

Net Income. Net income for the year ended December 31, 1997 was \$0.8 million compared to \$0.6 million for the year ended December 31, 1996.

LIQUIDITY AND CAPITAL RESOURCES

Historically, MCM's cash flow has been provided by:

- recoveries on receivable portfolios;
- individual sales and securitization of receivable portfolios; and
- line of credit agreements and other borrowings.

At December 31, 1998, MCM had cash and cash equivalents of \$4.7 million, compared to \$0.5 million at December 31, 1997. The increase in cash can be attributed to the increase

in proceeds from recoveries on receivable portfolios, sales of receivable portfolios, and borrowings.

MCM had total recoveries on receivable portfolios of \$15.9 million during 1998 as compared to \$5.1 million during 1997. Total proceeds from sales of receivable portfolios during 1998 amounted to \$37.2 million, of which \$33.0 million was derived from the securitization transaction completed by MCM on December 30, 1998.

On March 31, 1999, MCM, through a bankruptcy remote subsidiary, entered into a securitized receivables acquisition facility (the "warehouse facility") allowing for a current maximum funding of up to \$20 million, which may increase to \$35 million if we identify additional investors or procure additional investments from the existing investors. As of March 31, 1999, we had not borrowed any amount under the warehouse facility. The warehouse facility has a two-year revolving funding period expiring April 15, 2001 (or earlier if an event occurs under the warehouse facility which enables the investors to discontinue the revolving portion of the facility). The warehouse facility converts to a five-year term loan starting at the end of the revolving funding period. The warehouse facility carries a floating interest rate of 80 basis points over LIBOR and is rated "AA" by Standard and Poor's Corporation. The warehouse facility is secured solely by a trust estate, primarily consisting of receivables acquired by MCM. Generally, the warehouse facility provides for funding of 90 to 95 percent of the acquisition cost of portfolio receivables, depending on the type of receivables acquired, and MCM is required to fund the remaining 5 to 10 percent of the purchase cost. MCM funded a payment of \$200,000 into a liquidity reserve account and is required to contribute to the reserve account to maintain a balance equal to 3% of the amount borrowed. The debt

service requirements of the warehouse facility will significantly increase liquidity requirements.

It is anticipated that the proceeds from this initial public offering will provide adequate working capital to fund operating costs and receivable portfolio acquisitions. MCM expects to perform additional securitizations in the future and use the proceeds from these transactions to repay the warehouse credit facility and provide working capital.

The warehouse facility contains a condition to borrowing that we further diversify our receivables suppliers for portfolios to be financed under the warehouse facility after June 29 of this year. Although there can be no assurances in this regard, we expect to meet this condition by June 29 and will need to meet this condition at each subsequent funding.

Historically, MCM has used lines of credit to fund receivable portfolio acquisitions, as well as operating and capital expenditures, as needed. MCM maintains a \$15.0 million revolving line of credit that extends through July 15, 1999. We use the line to fund receivable portfolio acquisitions and provide working capital. This line of credit has a floating interest rate based on the lender's prime rate. As of December 31, 1998, MCM had approximately \$8.0 million available under this line of credit. MCM anticipates that it will pay off the line of credit with the proceeds of this offering. We paid off another of our credit facilities with the proceeds from the December 30, 1998 securitization transaction.

Capital expenditures for fixed assets and capital leases were \$3.3 million during the year ended December 31, 1998, reflecting several significant capital expenditures for the Phoenix operation, including a mainframe computer, telephone equipment, a microwave telephone transmitter, a predictive dialer system, and individual workstations. During 1997, MCM spent \$167,000 for fixed assets and during 1996 spent \$478,000 for fixed assets. Fixed asset purchases during 1998 and 1997 were funded primarily from borrowings on

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lines of credit, recoveries on receivable portfolios and two capitalized lease agreements with a combined outstanding balance of \$506,000 as of December 31, 1998.

We plan to continue to expand our operations, which will include continued increases in acquisitions of receivable portfolios, expansion of recovery facilities, significant growth in personnel, and further increases in capital expenditures, such as computer and telephone equipment and system upgrades. MCM anticipates funding working capital needs and capital expenditures with the proceeds from the public offering, excess cash flows, and credit agreements. MCM has budgeted \$2.2 million for capital expenditures in 1999, assuming no new facilities are added.

Year 2000

MCM is preparing for the impact of the year 2000 on our business. The year 2000 problem is a phrase used to describe the problems created by systems that are unable to accurately interpret dates after December 31, 1999. These problems derive predominantly from the fact that many software programs have historically categorized the "year" in a two-digit format. The year 2000 problem creates potential risks for MCM, including potential problems in the information technology and non-IT systems used in MCM's business operations. MCM may also be exposed to risks from third parties with whom MCM interacts who fail to adequately address their own year 2000 problems.

In 1996, we commenced a review of our internal IT and non-IT systems to identify potential year 2000 problems. All software applications were reviewed and have been or are being revised to meet year 2000 standards using date routines that properly acknowledge the year 2000. MCM expects to complete this revision process by July 1999. The cost of the revisions has not been material and has been absorbed by MCM as part of our normal programming expense each year. Further, MCM has not deferred any IT projects due to year 2000 efforts.

In planning for growth, during 1998 we upgraded our mainframe computer hardware and our processing software. Based on representations from the manufacturers, all computer systems have been certified to be year 2000 ready. The telecommunications systems and services have been certified by their providers

to be year 2000 ready. We also replaced our accounting and financial system software during 1998 with a system that is year 2000 ready. While we believe that our systems will function without year 2000 problems, MCM will continue to review and, if necessary, replace systems or system components as necessary.

MCM is also dependent on third parties such as suppliers and service providers and other vendors. If these or other third parties fail to adequately address the year 2000 problem, MCM could experience a negative impact on our business operations or financial results. For example, the failure of some of MCM's principal suppliers to have year 2000 ready IT systems could impact MCM's ability to acquire and service receivable portfolios. MCM purchases receivable portfolios from some of the largest credit card originators in the United States. MCM expects these vendors to resolve the year 2000 problem successfully. The receivable portfolios acquired under MCM's forward flow agreements have been formatted by the originators and provided to MCM with a four-digit year that is year 2000 ready and MCM expects the data acquired in the future will conform to this format.

MCM has developed and implemented a general disaster recovery plan that addresses situations that may result if MCM or any material third parties encounter technological problems. Although we do not have a contingency plan specific to the year 2000 problem,

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we believe that this general disaster recovery plan could address some of the problems that could arise from a year 2000 failure.

We cannot assure you that we will be completely successful in our efforts to address the year 2000 problem. If some of MCM's or our vendors' systems are not year 2000 ready, MCM could suffer lost revenues or other negative consequences, including systems malfunctions, diversion of resources, incorrect or incomplete transaction processing, and litigation.

INFLATION

MCM believes that inflation has not had a material impact on our results of operations for the three years ended December 31, 1996, 1997 and 1998 since inflation rates generally remained at relatively low levels.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) continues to issue amendments and interpretive guidance relating to SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." The FASB is currently drafting its Third Edition of its Questions and Answers Special Report ("Special Report") relating to SFAS 125. The impact, if any, of the FASB Special Report or any other future amendments or interpretive guidance on our consolidated financial statements is not known at this time.

The Accounting Standards Executive Committee of the AICPA issued a proposed statement of position ("SOP") dated January 6, 1998, "Accounting for Discounts Related to Credit Quality" which addresses the accounting for discounts on certain financial assets and debt securities when the discount is attributable to credit quality. The proposed SOP would limit the amount of discount that may be accreted to the excess of the estimate of undiscounted expected future principal and interest cash flows over the initial investment in the financial asset. It would relate subsequent impairment of the financial asset to the inability to collect all cash flows expected at acquisition. The proposed SOP would allow subsequent increases in expected cash flows to be recognized prospectively through adjustment of yield over the remaining life of the financial asset. The provisions of this proposed SOP would be effective for financial statements issued for fiscal years ending after June 15, 2000. The effect of applying the proposed SOP is not expected to be material to MCM's consolidated financial statements.

MARKET RISK DISCLOSURE

We accrue income on our retained interest and receivable portfolios based on the effective interest rate (i.e., internal rate of return) applied to the original cost basis, adjusted for accrued income and principal paydowns. Effective interest rates are determined based on assumptions regarding the timing and amounts of portfolio collections. Such assumptions may be affected by changes in

market interest rates. Accordingly, changes in market interest rates may affect our earnings.

If the annual effective interest rate for our retained interest averages 500 basis points more in 1999 (representing a 10% change) than the expected effective rate as of December 31, 1998, the income on our retained interest would be approximately \$392,000 higher. Comparatively, if the annual effective interest rate for our retained interest averages 500 basis points less in 1999 (representing a 10% change) than the expected effective rate as

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of December 31, 1998, the income on our retained interest would be approximately \$392,000 lower.

If the annual effective interest rate for MCM's receivable portfolios averages 900 basis points more in 1999 (representing a 10% change) than the expected effective rate as of December 31, 1998, our income from receivable portfolios, as well as income before income taxes, would be approximately \$135,000 higher, based on the balance of the receivable portfolios as of December 31, 1998 in the amount of \$2.1 million. Comparatively, if the annual effective interest rate for our receivable portfolios averages 900 basis points less in 1999 (representing a 10% change) than the expected effective rate as of December 31, 1998, our income from receivable portfolios, as well as income before income taxes, would be approximately \$135,000 lower, based on the balance of receivable portfolios as of December 31, 1998 in the amount of \$2.1 million. This analysis does not consider the effect of changes in the timing and amounts of future collections of the receivable portfolios collateralizing the retained interest or the receivables held by us. In addition, it does not consider the effect of acquisitions of additional receivable portfolios.

Changes in short-term interest rates also affect our earnings as a result of our borrowings under outstanding line of credit agreements. If market interest rates for line of credit agreements average 100 basis points more in 1999 (representing a 10% change) than they did during 1998, our interest expense would increase, and income before income taxes would decrease, by \$70,000 based on the amount of outstanding borrowings as of December 31, 1998, and by \$237,000, based upon average outstanding borrowings during 1998 of \$23.7 million. Comparatively, if market interest rates for line of credit agreements average 100 basis points less in 1999 (representing a 10% change) than they did during 1998, our interest expense would decrease, and income before income taxes would increase, by \$70,000, based on the amount of outstanding borrowings as of December 31, 1998, and by \$237,000, based upon average outstanding borrowings during 1998 of \$23.7 million.

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BUSINESS

AN OVERVIEW OF OUR BUSINESS

MCM is a growing receivables management company. We acquire and service charged-off receivables originated from a variety of sources. We currently focus on acquiring charged-off credit card receivables originated by major banks and private label merchants. Credit card issuers often sell a significant portion of their charged-off receivables to allow them to focus on their core businesses and to realize immediate cash proceeds and earnings. Because the credit card issuers have already attempted to recover the receivables, we are able to buy receivable portfolios at substantial discounts to their face amounts.

We have grown rapidly in recent periods. We opened a new servicing center in Phoenix, Arizona in 1998 and we added 430 recovery personnel at this facility through March 31, 1999. From January 1, 1994 through March 31, 1999, we acquired \$1.7 billion of receivable portfolios for \$53.3 million, of which we acquired \$722.6 million of receivable portfolios in 1998 for \$24.8 million. Through March 31, 1999, we recovered \$46.2 million on these receivable portfolios.

We have extensive experience in acquiring and servicing charged-off receivable portfolios. Prior to 1992, MCM served for over 30 years as a third-party collection agency, developing the servicing methods, personnel and systems required to operate a debt recovery business. In 1992, we began to focus on

acquiring and servicing receivable portfolios for our own account. In 1998, an investor group lead by Nelson Peltz, Peter May and Kerry F.B. Packer of Australia acquired a majority interest in MCM from Mr. Chandler and others. Senior management, including Mr. Chandler, continues to manage day-to-day operations and own a substantial interest in MCM.

We were incorporated in the State of Kansas in October 1990 and intend to reincorporate in Delaware prior to completion of this offering by merging into a newly formed and wholly-owned Delaware subsidiary. Our principal executive offices are located at 500 West First Street, Hutchinson, Kansas 67501. We operate through a wholly-owned subsidiary, Midland Credit Management, Inc., which was incorporated in the State of Kansas in September 1953.

AN OVERVIEW OF OUR INDUSTRY

The receivables management industry is growing rapidly, driven by increasing levels of consumer debt and increasing charge-offs of the underlying receivables by originating institutions. At December 31, 1997, consumer debt (the amount owed by individuals in the U.S.) totalled \$5.6 trillion. Consumer credit, which consists of installment and noninstallment loans, totalled \$1.3 trillion or 23% of consumer debt. Credit card debt is the fastest growing component of consumer credit, reaching \$560 billion in December 1997. Credit card debt accounted for 44% of total consumer credit in 1997, up from 30% in 1990, and is projected to reach 51% or \$950 billion by 2005. Despite generally sound economic conditions and historically low U.S. unemployment levels, credit card charge-offs rose to approximately 6.5%, or \$36.2 billion, of outstanding credit card receivables in 1997.

Historically, originating institutions have sought to manage exposure to credit losses by maintaining internal recovery infrastructures, outsourcing recovery activities to third-party collection agencies and, to a lesser extent, selling their charged-off receivables for immediate cash proceeds. From the originating institution's perspective, selling receivables to receivables management companies such as MCM yields immediate cash proceeds and

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earnings and represents a substantial reduction in the two to five year period typically required for traditional recovery efforts. It is estimated that sales of charged-off credit card debt have increased from \$2.2 billion in 1990 to \$16.5 billion in 1997 and will reach \$25.0 billion in 2000 as selling institutions utilize this recovery approach.

Secondary Market. In the secondary market, receivable portfolios are acquired at a discount to the balances due on the receivables, with the purchase price varying depending on the amount the buyer anticipates it can recover and the anticipated effort needed to recover that amount. The price the purchasers pay generally ranges from a high of \$0.13 per dollar before it has been charged-off, down to as little as \$0.001 per debt that three collection agencies have attempted to collect on a contingency basis or when bankruptcies are involved. Originating institutions have developed a variety of ways to sell their receivables. Some originating institutions pursue an auction type sales approach in which they obtain bids for specified portfolios from competing parties. These auctions are often orchestrated by brokers. Receivables are also sold in privately negotiated transactions between the originating institution and a purchaser. In addition, many originating institutions enter into "forward flow" contracts. Forward flow contracts commit an originating institution to sell all or a portion of its charge-offs periodically over a specified period of time, usually no less than one year.

Recent Developments. In 1998, a major participant in the debt recovery industry experienced significant financial difficulties. This development has created an opportunity for well-financed and well-managed receivables recovery firms such as MCM. We believe that this major participant who experienced difficulties in 1998 controlled a material portion of the market for charged-off credit card receivables. As a result of these financial difficulties, this segment of the market has opened up to other industry participants such as MCM.

We derived the statistical data set forth in the above "Overview of Our Industry" from The Nilson Report's May 1998 issue.

STRATEGY

Our goal is to become a leading acquiror and servicer of charged-off receivables. To achieve this goal, we have implemented a business strategy that emphasizes the following elements:

Hiring, Training and Retaining Qualified Personnel. One of our key objectives is to establish one of the largest, most highly trained, and stable employee bases in our industry. Consistent with this objective, over the past year we opened a new facility in Phoenix, Arizona and hired 430 recovery personnel to staff this facility as of March 31, 1999. Our account managers at our Phoenix facility undergo a four-week training course when they are hired. In addition, we provide ongoing training to our employees to keep them current on our policies and procedures and applicable law. We maintain competitive, incentive-based compensation programs to motivate our employees and promote stability. We intend to continue to add to the employee base at our Phoenix facility, which can accommodate up to 800 employees. We plan to continually evaluate other potential locations that have favorable employee and business climates for expansion.

Increasing Receivable Portfolio Acquisitions. We are continually pursuing portfolio acquisitions to expand our business. We are seeking to add new forward flow agreements with major credit card issuers and retailers and, although we cannot assure you, we believe we will be able to extend our current agreements at the end of this year. We continually

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evaluate individual portfolio purchases brought to us by brokers and credit card issuers. Our years of experience in the business and recent access to financing provide us with several competitive advantages in dealing with sellers of receivable portfolios:

- we are able to evaluate portfolios quickly;
- we are able to fund purchases promptly after a decision to buy; and
- we have the systems and personnel necessary to professionally resolve acquired receivable portfolios, generally without having to involve the seller after the purchase transaction closes.

Maintaining and Enhancing our Technology Platform. We support our recovery personnel by maintaining and continually enhancing our state-of-the-art technology platform. We use extensive databases and user-friendly proprietary software to facilitate our recovery efforts. Our system includes:

- a mainframe computer that can support 1,000 recovery personnel;
- a wide area network between our Phoenix and Kansas operations to facilitate real-time data sharing and back up and disaster recovery;
- a sophisticated predictive dialer to enhance productivity at our main Phoenix operations; and
- software upgrades, including enhancements to address year 2000 readiness.

Applying and Improving Our Proprietary Scoring Model. We have developed a proprietary scoring model that analyzes the recovery potential on each receivable portfolio. We have determined that a portfolio's value depends upon numerous characteristics, including the number of agencies that have previously attempted to collect the receivables, the average balances of the receivables and the locations of the customers. In evaluating portfolios, we compare this information to portfolios previously acquired by us to establish an appropriate purchase price. We recently engaged a major third-party software development and data processing company to enhance our model by comparing actual recoveries on previously acquired receivables to projected results on an individual receivable level. We believe that our enhanced modeling software will facilitate our growth by enabling us to evaluate portfolio purchases more rapidly and effectively.

Maintaining Funding Flexibility. We finance our operations through a variety of funding sources. We maintain a warehouse facility which provides funds to purchase receivables. We have and will continue to engage in securitization transactions to pay down our warehouse facility to make it available for further acquisitions, to fix our cost of funds for a given receivable portfolio and to mitigate interest rate risk. We intend to continue to explore various funding

alternatives to facilitate the planned expansion of our business.

Entering Other Charged-Off Receivables Markets. We currently emphasize acquiring and servicing charged-off credit card receivables. Historically, however, we have participated in a number of other markets, including student loans, consumer loans, and auto loans. We believe that our systems and recovery techniques can be applied to a broad range of consumer debt markets. We intend to pursue profitable opportunities in other markets as they arise to diversify our base of earning assets.

Pursuing Acquisitions of Complementary Companies. While the market for recovering charged-off debt is significant, it is highly fragmented. Additionally, in 1998, a major participant in the debt recovery industry experienced significant financial difficulties. In

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light of these market dynamics, we intend to consider the acquisition of complementary businesses with capital from this offering.

ACQUISITION OF RECEIVABLES

Sources of Receivable Portfolios. MCM identifies receivable portfolios from a number of sources, including current relationships with originators, direct solicitation of originators, and loan brokers. MCM purchases individual portfolios and also enters into forward flow agreements. Under a forward flow agreement, MCM agrees to purchase charged-off receivables from a third-party supplier on a periodic basis at a set price over a specified time period. Forward flow agreements provide MCM with a consistent source of receivables and provide the originator with a reliable source of revenue and a professional resolution of charged-off receivables. MCM's forward flow agreements require the credit card issuer to sell periodically to MCM a portion of its receivables meeting established criteria that were written-off during the applicable period. A typical receivable portfolio consists of \$20 million to \$30 million in face value and contains receivables from diverse geographic locations with average individual account balances of less than \$5,000.

In 1998 and in the first quarter of 1999, we acquired substantially all of our receivables under our two forward flow agreements which have annual terms and which expire in December 1999 unless renewed. We have been successful in renewing these agreements in the past. Our warehouse facility limits our sources of receivable portfolios by requiring that, for any borrowing after June 29, 1999, no single originator of receivables contribute 45% or more of the receivables funded by and subject to the facility. We expect to meet this condition by June 29. We cannot assure you, however, that we will meet this condition.

Our industry places receivables into categories depending on the number of collection agencies that have previously attempted to collect on the receivables. For example, "zero agency receivables" have had no previous third-party collection activity and "secondary agency receivables" have had two previous collection agency attempt to collect on the receivables. In 1998 and the first quarter of 1999, we acquired primarily zero and secondary agency receivables.

Pricing. We buy charged-off receivables at substantial discounts to the face amount of the receivable portfolio. We evaluate the purchase price of a portfolio using many factors, including the number of agencies which have previously attempted to collect the receivables in the portfolio, the average balance of the receivables, and the locations of the customers. Zero agency and primary agency receivables have higher purchase prices relative to their total charged-off balance. We expect, however, that these portfolios will result in more rapid and higher recoveries.

Once a receivable portfolio has been identified for potential purchase, we analyze the portfolio using our proprietary scoring model. Our scoring model analyzes the broad characteristics of the portfolio by comparing it to portfolios previously acquired and serviced by us to determine the recoverability of the portfolio. This yields our quantitative purchasing analysis. In addition, members of our management perform qualitative analyses on portfolios, including visiting the originator, reviewing the recovery policies of the originator and any third party collection agencies, and, if possible, their recovery efforts on the particular portfolio. With respect to forward flow

agreements, in addition to the procedures outlined above, we often obtain a small "test" portfolio to evaluate and compare the characteristics of the portfolio to the assumptions we developed in our

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recovery analysis. After these evaluations are completed, members of our management finalize the price at which MCM would purchase the portfolio.

RECOVERY OF RECEIVABLES

We focus on maximizing the recovery of an account balance over time. Unlike collection agencies which typically have only a specified period of time to recover a receivable, as the owner we have significantly more flexibility in establishing payment programs.

Once a portfolio has been acquired, we download all receivable information provided by the seller into our proprietary account management computer system and reconcile for accuracy to the information provided in the purchase contract. We send notification letters to obligors of eligible accounts explaining our new ownership and asking that the borrower contact us. In addition, we notify credit bureaus to reflect our new ownership. Receivables that do not meet the eligibility requirements described in our agreement with the seller are returned to the seller for either a refund or replacement.

To begin our recovery process, we immediately send receivables to third-party data verification sources to determine which receivables have accurate address or phone information and to update information if possible so our account managers can begin processing those accounts. Thereafter, management convenes an initial meeting with the relevant staff members to discuss the specifics of the receivable portfolio. These meetings serve to keep our staff informed regarding management expectations and any special characteristics of the portfolio.

Skip Tracing. When a receivable is placed in our account management system, our customized dialing system tests the telephone number associated with the receivable to determine whether the telephone number is still valid. If the telephone number is not valid, or if there is no telephone number associated with a receivable, the receivable is immediately transferred into our skip tracing department to determine the location of the customer. In the skip tracing department, an in-house skip tracer works to locate the customer using a variety of resources. Our skip tracing department attempts to locate customers through electronic skip tracing means, including information from credit bureaus, the Internet, the various state Departments of Motor Vehicles, publicly available databases and third-party skip tracing services. We also use manual skip tracing techniques, including using telephone directories and contacting relatives, neighbors and utility companies.

Because obtaining accurate data on customers is critical to the recovery process, MCM has historically maintained a significant ratio of skip tracers to account managers. At March 31, 1999, MCM employed 164 skip tracers and 314 account managers.

Recoveries. We assign accounts with valid information to the recovery department. The recovery department is divided into teams, each consisting of a team leader and seven to ten account managers. Based upon their experience and ability, we classify account managers as master account representatives, senior account representatives, account representatives, junior account representatives and rookies.

We assign new accounts on an ongoing basis to account managers who are responsible for all contact with a customer. Team leaders are in constant communication with management regarding account manager performance. We perform random audits of each account manager's activity, including reviewing files, recovery comments, and settlement agreements. Each account manager is equipped with a computer terminal and telephone which, at our Phoenix facility, is connected to our predictive dialing system. The predictive

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dialer forwards calls to the account managers once a connection is made. Similarly, our Hutchinson facility uses a managed dialing system through which

account managers can place calls using their computer terminals. The account manager is able to access all of the account's pertinent credit information via several user-friendly, customized screens contained within our computer network.

During initial calls, account managers seek to confirm the debt owed, and the ability and willingness of the customer to pay. Account managers are trained to use a friendly, but firm approach. They attempt to work with customers to evaluate sources and means of repayment to achieve a full or negotiated lump sum settlement or develop payment programs customized to the individual's ability to pay. For example, MCM may extend payments over several months and provide for semi-monthly payments coinciding with a customer's paycheck. In some cases, account managers will advise the customer of alternatives to secure financing to pay off their consumer debt, such as home equity lines of credit or automobile loans. In cases where a payment plan is developed, account managers encourage customers to pay through auto-payment arrangements, which consist of debiting a customer's account automatically on a monthly basis. Account managers are also authorized to negotiate lump sum settlements within preestablished ranges. Management must approve any settlements below these limits. Once a settlement or payment agreement is reached, the account manager monitors the account until it is paid off. To facilitate payments, in addition to auto-payments, MCM accepts a variety of payment methods including checks, the Western Union quick collect (R) system, and wire transfers.

If, after the initial effort, an account manager determines that the customer is willing but financially unable to pay his or her debt at that time, we suspend our recovery efforts, typically for 90 days. At the end of this period, a new account manager will again seek to determine the ability and willingness of the customer to pay his or her account. We give these "re-work" account managers greater flexibility in settling accounts for which previous recovery attempts have been made. If the customer is still unable to make payments on the debt owed, recovery efforts are again deferred, typically for 90 days, before further efforts are made to recover on the account. If unsuccessful, this contact typically concludes our recovery efforts. If, during the recovery process, we determine that a customer is able to pay, but unwilling to do so, we refer the account to MCM's legal department for handling. See "Legal Department."

When we have completed the process described above and determined the amount is not recoverable, we place the account in a portfolio with other similar accounts and sell the portfolio to interested third parties. Sales of receivables that have been securitized or that are subject to our warehouse facility are subject to contractual restrictions.

Hiring and Training. In recent periods, MCM has pursued an aggressive hiring program. In 1998, we opened a new facility in Phoenix, which can accommodate up to 800 employees including 700 recovery personnel. As of March 31, 1999, MCM had hired 495 employees to work at this facility, of which 430 were recovery personnel.

New account managers at our Phoenix facility undergo a four-week training program. The first week of the program involves classroom training, which features education on MCM's policies and procedures and federal and state laws pertaining to debt recovery and computer training. After classroom training, trainees go through three weeks of hands-on training, engaging in live sessions with customers. These sessions give account managers hands-on experience in a controlled environment. Account managers are trained in MCM's friendly, but firm approach to the recovery process. They learn how to elicit information from customers about their ability to pay off their receivables. In addition, our account

managers learn how to structure immediate pay offs or payment plans, and to follow up with customers who fall behind in their payments to encourage them to rehabilitate their account status.

Skip tracers undergo a similar two-week training program. Skip tracers are specifically trained in locating customers through a variety of internal and external databases and services.

Formal training continues on an ongoing basis. Calls by skip tracers and account managers are randomly monitored to ensure compliance with our policies and procedures, and applicable law. In addition, we provide ongoing seminars on changes in our policies and applicable law.

Technology Platform. To facilitate recovery efforts, MCM has developed an extensive technology platform that includes:

- a mainframe computer that can support 1,000 recovery personnel;
- a wide area network between our Phoenix and Kansas operations to facilitate real-time data sharing and back up and disaster recovery;
- a sophisticated predictive dialer to enhance productivity at our main Phoenix facility; and
- software upgrades, including enhancements to address year 2000 readiness.

MCM uses a mainframe computer that has the capacity to service 1,000 recovery personnel. MCM's database includes relevant account information about customers that our account managers need to facilitate their recovery efforts. The database can be updated by account managers in real time while discussing the account with the customer. Updates are backed up to an offsite storage server instantly and daily back ups are completed and stored in a fireproof vault off site. For skip tracing, we use CD-rom stored national databases of information, the Internet, other online resources and our own customized databases. Our skip tracing database server is backed up daily.

Our telephone system provides predictive dialing capabilities at our Phoenix operations and managed dialing capabilities in Hutchinson. Through our predictive dialing system, computerized phone calls are made to customers and, once a connection is made, account information and the phone call is immediately transferred to an appropriate account manager for handling. The managed dialing system allows account managers to place calls using their computer terminals. Our current telephone system has the capacity to accommodate over 4,000 lines for skip tracers and account managers.

LEGAL DEPARTMENT

The legal department manages corporate legal matters, assists with training staff, and pursues legal action against customers. The group consists of two full-time attorneys, two legal managers, two full-time account managers and one full-time support staff person.

The legal department distributes guidelines and procedures for recovery personnel to follow when communicating with a customer or third party during our recovery efforts. The department provides employees with extensive training on the Fair Debt Collection Practices Act (the "FDCPA") and other relevant laws. In addition, the legal department researches and provides recovery personnel with summaries of state statutes so that they are aware of applicable time frames and laws when tracing or servicing an account. It

meets monthly with the recovery and skip trace departments to provide legal updates and to address any practical issues uncovered in its review of files referred to the department.

The legal department generally handles accounts involving substantial disputes, refusals to pay, and refusals to negotiate. If the account involved is small and the legal account managers are not able to settle the account, we will typically package it for sale with other similar accounts. For larger accounts with customers able but unwilling to pay, the department may pursue a number of courses of action, including appropriate correspondence, follow up phone calls by the department's specially trained account managers and, if necessary, litigation. In some cases, we may pursue a garnishment of wages or other remedies to satisfy a judgment.

In an effort to ensure compliance with the FDCPA and applicable state laws regulating our recovery activities, the legal department supervises our compliance officers, whose sole responsibility is to monitor the recovery personnel. Our compliance officers randomly monitor customer files and telephone conversations with customers. If we discover a possible violation of law or policy, we investigate and take appropriate corrective action.

In several states we must maintain licenses to perform debt recovery services and must satisfy related bonding requirements. We believe that we have satisfied

all material licensing and bonding requirements.

COMPETITION

The consumer credit recoveries industry is highly competitive. We compete with a wide range of third-party collection companies and other financial services companies, which may have substantially greater personnel and financial resources than we do. In addition, some of our competitors may have signed forward flow contracts under which originating institutions have agreed to transfer charged-off receivables to them in the future, which could restrict those originating institutions from selling receivables to us. Competitive pressures affect the availability and pricing of receivable portfolios, as well as the availability and cost of qualified recovery personnel. We believe our major competitors include companies focused primarily on the purchase of charged-off receivable portfolios, such as Creditrust Corporation, Commercial Financial Services, Inc. and West Capital Corporation. In addition to competition within the industry, traditional recovery agencies and in-house recovery departments remain the primary recovery methods used by issuers. We compete primarily on the basis of the price paid for receivable portfolios, the reliability of funding for our portfolios and the quality of services that we provide.

TRADE SECRETS AND PROPRIETARY INFORMATION

We believe several components of our computer software are proprietary to our business. Although we have neither registered the software as copyrighted software nor attempted to obtain a patent related to the software, we believe that the software is protected as our trade secret. We have taken actions to establish the software as a trade secret, including informing employees that the software is a trade secret and making the underlying software code unavailable except on an as needed basis. In addition, those persons who have access to information we consider proprietary must sign agreements with confidentiality provisions that prevent disclosure of confidential information to third parties.

GOVERNMENT REGULATION

The FDCPA and comparable state statutes establish specific guidelines and procedures which debt collectors must follow when communicating with consumer customers,

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including the time, place and manner of the communications. It is our policy to comply with the provisions of the FDCPA and comparable state statutes in all of our recovery activities, even though we may not be specifically subject to these laws. Our failure to comply with these laws could have a material adverse effect on us if they apply to some or all of our recovery activities. The relationship between a customer and a credit card issuer is extensively regulated by federal and state consumer protection and related laws and regulations. While we are not a credit card issuer, some of our operations are affected by these laws because our receivables were originated through credit card transactions. Significant federal laws applicable to our business include the following:

- Truth-In-Lending Act;
- Fair Credit Billing Act;
- Equal Credit Opportunity Act;
- Fair Credit Reporting Act;
- Electronic Funds Transfer Act; and
- regulations which relate to these acts.

Additionally, there are comparable statutes in those states in which customers reside or in which the originating institutions are located. State laws may also limit the interest rate and the fees that a credit card issuer may impose on its customers. The laws and regulations applicable to credit card issuers, among other things, impose disclosure requirements when a credit card account is advertised, when it is applied for and when it is opened, at the end of monthly billing cycles, and at year end. Federal law requires, among other things, that credit card issuers disclose to consumers the interest rates, fees, grace

periods, and balance calculation methods associated with their credit card accounts. Customers are entitled under current laws to have payments and credits applied to their credit card accounts promptly, to receive prescribed notices, and to require billing errors to be resolved promptly. Some laws prohibit discriminatory practices in connection with the extension of credit. If the originating institution fails to comply with applicable statutes, rules, and regulations, it could create claims and rights for the customers that would reduce or eliminate their obligations under their receivables, and have a possible material adverse effect on us. When we acquire receivables, we require the originating institution to contractually indemnify us against losses caused by its failure to comply with applicable statutes, rules, and regulations relating to the receivables before they are sold to us.

The laws described above, among others, may limit our ability to recover amounts owing with respect to the receivables regardless of any act or omission on our part. For example, under the Federal Fair Credit Billing Act, a credit card issuer (but not a merchant card issuer) is subject to all claims (other than tort claims) and defenses arising out of certain transactions in which a credit card is used. Claims or defenses become subject to the Act, with some exceptions, when the obligor has made a good faith attempt to obtain satisfactory resolution of a disagreement or problem relative to the transaction, the amount of the initial transaction exceeds \$50.00, and the place where the initial transaction occurred was in the same state as the customer's billing address or within 100 miles of that address. As a purchaser of credit card receivables, we may acquire receivables subject to legitimate defenses on the part of the customer. The statutes further provide that, in some cases, customers cannot be held liable for, or their liability is limited with respect to, charges to the credit card account that were a result of an unauthorized use of the credit card. We cannot assure you that some of the receivables were not established as a result of

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unauthorized use of a credit card, and, accordingly, we could not recover the amount of the receivables.

Additional consumer protection laws may be enacted that would impose requirements on the enforcement of and recovery on consumer credit card or installment accounts. Any new laws, rules, or regulations that may be adopted, as well as existing consumer protection laws, may adversely affect our ability to recover the receivables. In addition, our failure to comply with these requirements could adversely affect our ability to enforce the receivables.

PROPERTIES

We service our portfolios out of two servicing centers. Our main servicing facility is located in Phoenix, Arizona. Designed to accommodate up to 800 employees, at March 31, 1999, the facility housed 495 employees, including 430 recovery personnel. We lease the Phoenix facility, which is approximately 62,000 square feet. The lease is scheduled to expire in 2003. We own our headquarters facility located in Hutchinson, Kansas. Our headquarters facility is approximately 17,000 square feet and houses the executive offices and recovery operations for approximately 88 employees, including 48 recovery personnel.

EMPLOYEES

As of March 31, 1999, we had 583 full-time employees. Of these employees, there were 8 department heads, 24 department managers, 314 account managers, 164 skip tracers and 73 support clerks and administrative personnel. We maintain health insurance, 401(k), vacation and sick leave programs for our employees. None of our employees are represented by a labor union. We believe that our relations with our employees are good.

LEGAL PROCEEDINGS

On July 22, 1998 in the United States District Court for the Southern District of Texas, Houston Division, Varmint Investments Group, LLC and Panagora Partners, LLC filed suit against our subsidiary, Midland Credit Management, Inc. The plaintiffs allege securities fraud, common law fraud, and fraudulent inducement based upon the sale of receivables by Midland Credit Management, Inc. to the plaintiffs in 1997. The plaintiffs seek recovery of the purchase prices for the receivables, or approximately \$1.3 million and, in addition, other damages, including exemplary or punitive damages, attorneys' fees, expenses, and

court costs. Discovery is ongoing and the trial is set for November 8, 1999. We have denied the allegations and are vigorously defending this suit. We believe that the ultimate resolution of the suit will not have a material adverse effect on our business or our financial condition.

The FDCPA and comparable state statutes may result in class action lawsuits which can be material to our business due to the remedies available under these statutes, including punitive damages. We have not been subject to a class action lawsuit to date.

We are also subject to routine litigation in the ordinary course of business, including contract and recoveries litigation. We do not believe that these routine matters, individually or in the aggregate, are material to our business or financial condition.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

This table sets forth information concerning each of the executive officers and directors of MCM.

| NAME - ---- | AGE --- | POSITION ----- |
|---------------------------|------------|---|
| Frank I. Chandler..... | 64 | Director, President, and Chief Executive Officer |
| Ronald W. Bretches..... | 42 | Senior Vice President, Finance |
| John A. Chandler..... | 37 | Senior Vice President, Marketing |
| Bradley E. Hochstein..... | 39 | Senior Vice President, Recovery |
| Gregory G. Meredith..... | 37 | Senior Vice President, General Counsel, and Secretary |
| Todd B. Miller..... | 34 | Senior Vice President, Human Resources |
| Gary D. Patton..... | 43 | Senior Vice President, Information Systems |
| Eric D. Kogan..... | 35 | Chairman of the Board of Directors |
| Peter W. May..... | 56 | Director |
| James D. Packer..... | 31 | Director |
| Nelson Peltz..... | 56 | Director |
| Robert M. Whyte..... | 55 | Director |
| John Willinge..... | 32 | Director |

FRANK I. CHANDLER, DIRECTOR, PRESIDENT AND CHIEF EXECUTIVE OFFICER. Mr. Chandler has been the President and Chief Executive Officer of MCM since 1992 and a director since 1990. Prior to MCM, from 1987 to 1990, Mr. Chandler was President of Kids International, a children's storybook and video producing company. From 1982 to 1987, he worked as an investment broker with A.G. Edwards & Sons. For the thirteen years between 1970 and 1982, he served in management, strategic product planning and price management positions at the Hesston Corporation, a worldwide manufacturer of farm and oil production equipment. Mr. Chandler received a Bachelor's Degree in Business from the University of Southern Mississippi. Mr. Chandler is the father of John Chandler, Senior Vice President, Marketing.

RONALD W. BRETCHES, CPA, SENIOR VICE PRESIDENT/FINANCE. Mr. Bretches joined MCM in May 1998 as Senior Vice President, Finance. From 1997 to 1998, Mr. Bretches was Managing Vice President of Allen, Gibbs, Houlik L.L.C., a public accounting firm. From 1993 to 1996, he was a tax and finance consultant, and was involved in the initial public offering of a manufacturing company, the financial management, reporting and accounting for a \$50 million real estate development company, and numerous project assignments in accounting, debt structuring and negotiations. From 1985 to 1993, Mr. Bretches was CFO of a private investment group and from 1979 to 1985 was an accountant with Peat, Marwick, Mitchell & Co. Mr. Bretches received a Bachelor of Science degree in Business with a major in accounting from Emporia State University in Kansas and is a Certified Public Accountant.

JOHN A. CHANDLER, SENIOR VICE PRESIDENT/MARKETING. Mr. Chandler joined MCM in 1992 as Vice President of Finance and Accounting and was named Senior Vice President of Marketing in November 1998. Prior to joining MCM, Mr. Chandler was

Manager of a four-state region for North River Homes, a manufactured housing concern based out of Atlanta, Georgia, from 1989 to 1992. From 1984 through 1989, he served in various marketing capacities for the Maytag Company. Mr. Chandler received a Bachelor of Science degree in Marketing from Kansas State University. Mr. Chandler is the son of Frank Chandler, President and Chief Executive Officer.

BRADLEY E. HOCHSTEIN, SENIOR VICE PRESIDENT/RECOVERY. Mr. Hochstein joined MCM as a junior account manager in 1982 and progressed to senior account manager, and then recovery supervisor with both MCM and later The National Bureau of Collections in Oklahoma City. In 1986, he returned to MCM as the Recovery Manager and was named Vice President of Recoveries in 1992. Mr. Hochstein was named Senior Vice President of Recoveries in November 1998 and his current responsibilities include overseeing the recovery, training, recruiting and skiptracing efforts. In addition, he is actively involved in the acquisition of new portfolios. Mr. Hochstein attended Northeast Community College in Norfolk, Nebraska.

GREGORY G. MEREDITH, SENIOR VICE PRESIDENT, GENERAL COUNSEL, AND SECRETARY. Mr. Meredith joined MCM in 1995 as Vice President and General Counsel and was named Senior Vice President in November 1998. Prior to joining MCM, Mr. Meredith was in private general practice with the law firm of Reynolds, Forker, Berkeley, Suter, Rose and Dower in Hutchinson, Kansas from September 1993 through early 1995, and from 1988 to September 1993, with another firm, during which time he gained extensive recovery experience working with numerous banks and private companies, including MCM. Mr. Meredith graduated from Pittsburg State University and received his Juris Doctorate Degree with Honors from Washburn University.

TODD B. MILLER, SENIOR VICE PRESIDENT/HUMAN RESOURCES. Mr. Miller joined MCM in 1992 as Vice President of Personnel and became Senior Vice President/Human Resources in November 1998. Prior to joining MCM, he was a Sales Representative for Russ Berrie & Company, a gift distributor, from 1988 through 1992. From 1986 through 1988 he worked for Bank IV, based in Wichita, Kansas in their trust department as a Securities Investment Assistant and a Directed Business Coordinator. Mr. Miller received a Bachelor of Business Administration degree in Management from Wichita State University.

GARY D. PATTON, SENIOR VICE PRESIDENT/INFORMATION SYSTEMS. Mr. Patton joined MCM in 1988 as the Management Information Systems ("MIS") Manager, was named Vice President of Information Systems in 1992 and was named Senior Vice President of Information Systems in November 1998. He has been responsible for the design and implementation of MCM's proprietary systems. Mr. Patton has extensive software and hardware training as well as sixteen years of professional experience in the banking, insurance, and recovery industries. He has specialized in designing proprietary programming for operations and management. His prior positions include head of MIS at Consolidated Farmers Mutual Insurance and programmer for Statdata & Associates. Mr. Patton attended Ardmore Higher Education Center, an institution affiliated with Oklahoma University and Murray State College.

ERIC D. KOGAN, CHAIRMAN OF THE BOARD OF DIRECTORS. Mr. Kogan has served since March 1998 as Executive Vice President, Corporate Development for Triarc Companies, Inc. ("Triarc"), a consumer products company. Prior thereto, Mr. Kogan had been Senior Vice President, Corporate Development from March 1995 to March 1998 and Vice President Corporate Development from April 1993 to March 1995. Before joining Triarc, Mr. Kogan was a Vice President of Triarc Group, L.P. from September 1991 to April 1993 and an associate in the mergers and acquisitions group of Farley Industries, an industrial

holding company, from 1989 to August 1991. From 1985 to 1987, Mr. Kogan was an analyst in the mergers and acquisitions department of Oppenheimer & Co. Mr. Kogan received his undergraduate degree from the Wharton School of the University of Pennsylvania, and an MBA from the University of Chicago. Mr. Kogan has served as a director of MCM since February 1998.

PETER W. MAY, DIRECTOR. Mr. May has served since April 1993 as the President and Chief Operating Officer of Triarc. Prior to 1993, Mr. May was President and Chief Operating Officer of Triangle Industries, Inc. from 1983 until December 1988, when that company was acquired by Pechiney, S.A., a leading international metals and packaging company. Mr. May has also been a director of National Propane Corporation, the managing general partner of National Propane Partners, L.P., since April 1993. Mr. May holds BA and MBA degrees from the University of Chicago and is a Certified Public Accountant. Mr. May has served as a director of MCM since February 1998.

JAMES D. PACKER, DIRECTOR. Mr. Packer has served since 1998 as the Managing Director of Consolidated Press Holdings Limited ("CPH"), the private holding company of the Packer family of Australia. In May 1998, Mr. Packer also became Executive Chairman of Publishing and Broadcasting Limited, having previously served as its Chief Executive Officer since 1996. Prior to that time, Mr. Packer held numerous positions at affiliates of CPH and Publishing and Broadcasting Limited. Mr. Packer is also a director of Australian Consolidated Press Limited, Nine Network Australia Limited and the Huntsman Petrochemical Corporation. Mr. Packer holds a Higher School certificate from Cranbrook. Mr. Packer has served as a director of MCM since February 1998.

NELSON PELTZ, DIRECTOR. Mr. Peltz has served since April 1993 as the Chairman and Chief Executive Officer of Triarc. Prior to 1993, Mr. Peltz was Chairman and Chief Executive Officer of Triangle Industries, Inc. from 1983 until December 1988, when that company was acquired by Pechiney, S.A., a leading international metals and packaging company. Mr. Peltz has also been a director of National Propane Corporation, the managing general partner of National Propane Partners, L.P., since April 1993. Mr. Peltz attended the University of Pennsylvania, Wharton School. Mr. Peltz has served as a director of MCM since February 1998.

ROBERT M. WHYTE, DIRECTOR. Mr. Whyte has served since 1986 as an investment banker with Audant Investments Pty. Limited, most recently in the capacity of Executive Chairman. Since 1997, Mr. Whyte has been a director of Publishing and Broadcasting Limited, and also serves on the boards of various other companies. From 1992 to 1997, Mr. Whyte held non-executive directorships of Advance Bank Australia Limited and The Ten Group Limited. Mr. Whyte holds a Bachelor's degree from the University of Sydney. Mr. Whyte has served as a director of MCM since February 1998.

JOHN WILLINGE, DIRECTOR. Mr. Willinge has served since January 1998 as an Executive Director of CPH. Prior to joining CPH, Mr. Willinge held various management positions in the mining and oil and gas industries. He later worked in the merchant banking group of Rothschild Australia Limited and the investment banking division of Goldman Sachs & Co. Mr. Willinge holds a Bachelor of Applied Science degree in mining engineering from the West Australian School of Mines, a Bachelor of Commerce degree in accounting and finance from the University of Western Australia, and a Masters in Business Administration from Harvard Business School. Mr. Willinge has served as a director of MCM since February 1998.

In connection with the purchase of shares from MCM's existing stockholders in February 1998, MCM Holding Company LLC ("MHC"), C.P. International Investments Limited ("CP"), Franklin Chandler and his family limited partnership and the other stockholders of MCM entered into a stockholders' agreement. Among other things, the stockholders' agreement provided that MCM would have seven directors, three to be designated by MHC, three to be designated by CP, and one to be designated by Mr. Chandler. Under this agreement, the Chandler director is Mr. Chandler; the directors designated by MHC are Nelson Peltz, Peter W. May, and Eric D. Kogan; and the directors designated by CP are James D. Packer, Robert M. Whyte, and John Willinger. Each stockholder party to the agreement agreed to vote his stock for the designated directors.

Each of Messrs. Peltz, May and Kogan and Triarc own, directly or indirectly, interests in MHC. CP is indirectly owned by CPH.

The stockholders' agreement has been amended so that following the offering described in this prospectus, directors will no longer be designated by MHC, CP and Mr. Chandler. See "Certain Transactions" for a description of the amended stockholders' agreement.

MCM's officers are elected annually by, and serve at the discretion of, the

board of directors. At each annual meeting of stockholders, directors are elected to serve until the next annual meeting of stockholders, until their successors have been elected and qualified or until retirement, resignation or removal.

COMPENSATION OF DIRECTORS

BOARD OF DIRECTORS' MEETINGS, AUDIT, COMPENSATION, AND NOMINATING COMMITTEES.

Our board of directors maintains a standing Audit Committee, Compensation Committee, and Nominating Committee. Directors currently receive no annual retainer fees or fees for attendance at board or committee meetings. Directors are, however, reimbursed for their out-of-pocket expenses incurred in attending board or committee meetings.

The Audit Committee is responsible for recommending to the full board of directors the appointment of our independent accountants and reviews with those accountants the scope of their audit and their report. The Audit Committee also reviews and evaluates our accounting principles, system of internal accounting controls, and code of conduct. The Audit Committee consists of Messrs. Kogan and Whyte.

The Compensation Committee acts on matters relating to the compensation of directors, senior management, and key employees, including the granting of stock options and the approval of employment agreements. The Compensation Committee consists of Messrs. Kogan, May and Willinge.

The Nominating Committee is responsible for making recommendations to the full board of directors with respect to director nominees, officer appointments, and board committee members, and is responsible for reviewing any labor relations matters. The Nominating Committee consists of .

EXECUTIVE COMPENSATION

This table sets forth the compensation earned by our Chief Executive Officer and other executive officers whose compensation exceeded \$100,000 in 1998.

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | YEAR | ANNUAL COMPENSATION | | |
|---|------|---------------------|----------|------------------------|
| | | SALARY | BONUS | ALL OTHER COMPENSATION |
| Frank Chandler..... President and Chief Executive Officer | 1998 | \$190,417 | \$25,000 | \$2,560 (1) |
| Bradley E. Hochstein..... Senior Vice President Recovery | 1998 | 116,458 | 20,000 | 352 (2) |
| John Chandler..... Senior Vice President Marketing | 1998 | 90,763 | 10,000 | 1,864 (3) |

(1) Includes \$2,500 of 401(k) plan matching contributions and \$60 of term life insurance premiums paid by MCM.

(2) Includes \$291 of 401(k) plan matching contributions and \$60 of term life insurance premiums paid by MCM.

(3) Includes \$1,815 of 401(k) plan matching contributions and \$49 of term life insurance premiums paid by MCM.

EMPLOYMENT AGREEMENTS

Frank Chandler, MCM's President and Chief Executive Officer, works under an

employment agreement that expires on February 13, 2001. The term of the agreement will be automatically extended for one-year terms unless otherwise terminated by either party. Mr. Chandler's agreement provides for a base salary of \$200,000 per year, subject to increase if specific operating revenue targets are met. Mr. Chandler is eligible for an annual cash incentive bonus based on our annual cash incentive program. The agreement provides that Mr. Chandler is entitled to the continued use of a company automobile and certain other benefits. The agreement also contains confidentiality and noncompete covenants. If MCM terminates Mr. Chandler without cause, he would receive a severance package that would include one year's salary and a pro rata portion of his annual bonus.

John Chandler works under an employment agreement that expires on February 13, 2000. The term of the agreement will be automatically extended for one-year terms unless otherwise terminated by MCM or Mr. Chandler. The agreement provides for a base salary of \$90,000 per year. Mr. Chandler is eligible for an incentive bonus based on our annual cash incentive program. The agreement also contains confidentiality and noncompete covenants. If MCM terminates Mr. Chandler without cause, he would receive a severance package that would include one year's salary and a pro rata portion of his annual bonus.

Bradley Hochstein works under an employment agreement that expires on February 13, 2000. The term of the agreement will be automatically extended for one-year terms unless otherwise terminated by MCM or Mr. Hochstein. The agreement provides for a base salary of \$100,000 per year and a \$20,000 bonus payable in two installments in March and June of 1998. Mr. Hochstein is also eligible for an incentive bonus based on our annual cash incentive program. The agreement also contains confidentiality and noncompete covenants. If MCM terminates Mr. Hochstein without cause, he would receive a severance package that would include one year's salary and a pro rata portion of his annual bonus.

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COMPENSATION UNDER PLANS

1999 STOCK OPTION PLAN

The MCM 1999 Stock Option Plan will be adopted immediately before the closing of this offering. We believe that the Option Plan will promote our success and enhance our value by linking the personal interests of participants to those of our stockholders and providing an incentive for outstanding performance.

Under the Option Plan, we may grant nonqualified stock options to our officers, employees and consultants. The Option Plan will be administered by the board of directors or by a committee consisting of at least two nonemployee directors. The board or that committee will have authority to administer the Option Plan, including the power to determine eligibility, the types and sizes of options, the price and timing of options, and any vesting (and acceleration of vesting) of options.

An aggregate of 500,000 shares of our common stock are anticipated to be available for grant under the Option Plan, subject to a proportionate increase or decrease in the event of a stock split, reverse stock split, stock dividend, or other adjustment to our shares of common stock. Under the Option Plan, the maximum number of shares of common stock that may be granted to any participant during any fiscal year is . No awards have been granted under the Option Plan.

The board may terminate or amend the Option Plan to the extent stockholder approval is not required by law. Termination or amendment will not adversely affect options previously granted under the Option Plan.

401(k) PLAN

Under our 401(k) plan, adopted January 1995, as revised January 1998, eligible employees may direct that we withhold a portion of their compensation, up to a legally established maximum, and contribute it to their account. All 401(k) plan contributions are placed in a trust fund to be invested by the 401(k) plan's trustee. The 401(k) plan permits participants to direct the investment of their account balances among mutual or investment funds available under the plan. We may provide a matching contribution (up to 25%) of a participant's contributions under the plan. Amounts contributed to participants' accounts under the 401(k) plan and any accrued earnings or interest on the accounts are generally not

subject to federal income tax until distributed to the participant and generally may not be withdrawn until death, retirement or termination of employment.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

We are obligated in some situations, under our Certificate of Incorporation and Bylaws to indemnify each of our directors and officers to the fullest extent permitted by the Delaware General Corporation Law. We must indemnify our directors and officers with respect to all expenses, liability and losses reasonably incurred or suffered in any action, suit or proceeding in which the person was or is made or threatened to be made a party or is otherwise involved by reason of the fact that the person is or was our director or officer. We are obligated to pay the reasonable expenses of the directors or officers incurred in defending the proceedings if the indemnified party agrees to repay all amounts advanced by us if it is ultimately determined that the indemnified party is not entitled to indemnification. See "Description of Capital Stock -- Limitations on Liability of Officers and Directors." MCM also maintains customary insurance covering directors and officers.

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In 1998, MCM's board of directors or Frank Chandler, our President and Chief Executive Officer, made all compensation decisions relating to MCM officers and employees. The board of directors recently established a Compensation Committee, which consists of Messrs. Kogan, May and Willinge. Prior to February 1998, the board consisted of Mr. Chandler and Orvin Miller, who was then a stockholder of MCM and who was also the Chairman of the Board and Secretary of MCM. In February 1998, Mr. Miller sold all of his MCM stock and resigned from the board and his offices with MCM.

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PRINCIPAL AND SELLING STOCKHOLDERS

This table sets forth information regarding the beneficial ownership of common stock by

- each person known by us to be a beneficial owner of more than 5% of the outstanding shares of our common stock;
- each of our directors and named executive officers; and
- all of our directors and executive officers as a group.

The table also describes the shares being offered and shares beneficially owned after the offering by selling stockholders.

Unless otherwise indicated, each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned, and the address of each of the listed stockholders is 500 West First Street, Hutchinson, KS 67501. We describe material relationships between the selling stockholders and us below under "Certain Transactions." As of April 30, 1999, MCM had ten stockholders of record.

| NAME AND ADDRESS OF BENEFICIAL OWNER | SHARES BENEFICIALLY OWNED | | SHARES BEING OFFERED | SHARES BENEFICIALLY OWNED AFTER THE OFFERING | |
|---|------------------------------|------------|----------------------------|---|----------------|
| | NUMBER | PERCENTAGE | | NUMBER | PERCENTAGE (1) |
| MCM Holding Company LLC(2)..... 280 Park Avenue, 41st Floor New York, NY 10017 | 3,437,000 | 35.00% | | | |
| C.P. International Investments Limited(3) (4)..... | 3,437,000 | 35.00% | | | |

| | | |
|--|-----------|--------|
| 2nd Floor, Block A Russel Court Street Stephen's Green, Dublin, Ireland | | |
| Frank Chandler(5)..... | 1,988,550 | 20.25% |
| Madison West Associates Corp.(2)..... | | |
| | 1,200,004 | 12.22% |
| 280 Park Avenue New York, NY 10017 | | |
| Peter Stewart Nigel Frazer(4)..... | | |
| | 687,400 | 7.00% |
| Zetland Plantation Nevis, West Indies | | |
| Bradley Hochstein..... | 122,750 | 1.25% |
| John Chandler(5)..... | 196,400 | 2.00% |
| Eric D. Kogan(2)..... | 196,400 | 2.00% |
| Peter W. May(2)..... | 577,416 | 5.88% |
| James D. Packer(3)..... | -- | (6) |
| Nelson Peltz(2)..... | 1,154,832 | 11.76% |
| Robert M. Whyte(7)..... | -- | (6) |

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| NAME AND ADDRESS OF BENEFICIAL OWNER | SHARES BENEFICIALLY OWNED | | SHARES BEING OFFERED | SHARES BENEFICIALLY OWNED AFTER THE OFFERING | |
|---|------------------------------|------------|----------------------------|---|----------------|
| | NUMBER | PERCENTAGE | | NUMBER | PERCENTAGE (1) |
| John Willinge..... | -- | (6) | | | |
| All directors and officers as a group (12 persons) (8).... | 4,744,042 | 48.31% | | | |

(1) Assumes no exercise of the underwriters' over-allotment option. If the underwriters fully exercise the over-allotment option, then the percentage ownership would be as follows: MCM Holding Company LLC (%); C.P. International Investments Limited (%); Mr. Frank Chandler (%); Madison West Associates Corp. (%); Mr. Frazer (%); Mr. Hochstein (%); Mr. John Chandler (%); Mr. Kogan (%); Mr. May (%); Mr. Packer (%); Mr. Peltz (%); Mr. Whyte (%); Mr. Willinge (%); and all directors and offices as a group (%).

(2) MCM Holding Company LLC ("MHC") is the record owner of the listed shares. Immediately following the offering, MHC will distribute the shares to its members. Members who will receive in excess of 5% of our common stock and members who are our directors are listed separately in this table and include Madison West Associates Corp. (a wholly-owned subsidiary of Triarc), Nelson Peltz and Peter W. May, each through family trusts, and Eric D. Kogan. Prior to the distribution, these persons may be deemed to be the beneficial owner of the aggregate number of shares held by MHC and to share voting and investment power with respect to the shares.

(3) C.P. International Investments Limited is owned through a series of subsidiaries by Consolidated Press International Holdings Limited. Kerry F.B. Packer and his family directly or indirectly beneficially own Consolidated Press International Holdings Limited. Mr. James D. Packer, a director of MCM, is the son of Mr. Kerry F.B. Packer. Mr. James D. Packer has no voting or investment power over the shares.

(4) Includes 687,400 shares owned by C.P. International Investments Limited as nominee of Peter Stewart Nigel Frazer. Mr. Frazer has granted voting and investment power over his shares to C.P. International Investments Limited, to be exercised in the same manner and to the same proportionate extent as applies to shares beneficially owned by C.P. International Investments Limited. Mr. Frazer is the father-in-law of Mr. Robert M. Whyte, a director of MCM. Mr. Whyte does not have voting or investment power over the shares.

(5) Frank Chandler holds 24,550 shares directly and 1,964,000 shares through the

Chandler Family Limited Partnership. Mr. Chandler is the sole general partner of the partnership and has sole investment and voting power over the shares held by it. John Chandler, Mr. Chandler's son, is a limited partner of the partnership, but has no investment or voting power over the shares held by the partnership, and therefore none of those shares are included in John Chandler's holdings.

(6) Less than one percent.

(7) See note (4) above.

(8) See notes (2) and (4), above. This amount does not include the aggregate amount of shares held by MCM Holding Company LLC. Includes options to purchase 65,466 shares exercisable within 60 days.

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CERTAIN TRANSACTIONS

STOCKHOLDERS' AGREEMENTS

In connection with the purchase of shares from MCM's existing stockholders in February 1998, MCM and its stockholders (including MHC, CP and Frank Chandler and his family limited partnership) entered into a series of interrelated agreements. The agreements contained restrictions and requirements relating to the transfer of shares by the stockholders and various rights among MCM and the stockholders to buy one another's shares in specified instances, provided for the election of directors designated by certain stockholders, provided for other corporate governance procedures, and required that we indemnify our directors and obtain director insurance. The agreements have been amended in connection with this offering to eliminate the provisions described above. Under the amended agreement, MHC and CP have agreed that, if either of them sells shares, under certain circumstances, the other will have the right to join in the sale, and MCM has granted demand and piggyback registration rights in favor of MHC and CP to facilitate resale of their stock.

RELATIONSHIP WITH NATIONSBANK, N.A.

We have entered into a facility with Nationsbank, N.A. for a revolving line of credit of up to \$15 million. Some of MCM's directors, stockholders and affiliates have guaranteed the Nationsbank facility, including Messrs. May, Chandler, Peltz and Kogan, directors of MCM, the Chandler Family Limited Partnership, a stockholder, Triarc Companies, Inc., an affiliate of MCM Holding Company LLC, a stockholder, and Consolidated Press Holdings Ltd. and Peter Stewart Nigel Frazer, affiliates of C.P. International Investments Ltd., a stockholder. We expect to repay this facility with the proceeds of this offering and to have the related guarantees released.

OTHER RELATIONSHIPS WITH FINANCING INSTITUTIONS

We entered into a \$28 million line of credit in 1998 with Nomura Asset Capital Corporation. The line of credit was guaranteed up to \$1 million by Messrs. Chandler, Peltz and May, directors of MCM, and Triarc, an affiliate of MCM Holding Company LLC, a stockholder. This line of credit was repaid in full in 1998 and these guarantees were released.

In addition our revolving loans through Bank of Kansas up to a maximum of \$655,000 are guaranteed by Mr. Chandler. We expect to repay all outstanding amounts with the proceeds of this offering and to have the related guarantee released.

LOAN FROM CHIEF EXECUTIVE OFFICER

MCM borrowed \$200,000 from Mr. Chandler, MCM's Chief Executive Officer, in 1992. MCM repaid this loan in full in February 1998.

DESCRIPTION OF CAPITAL STOCK

GENERAL

We are authorized to issue 50,000,000 shares of common stock, \$.01 par value and 5,000,000 shares of preferred stock, \$.01 par value. Upon completion of the offering, we will have _____ shares of common stock outstanding and no

stock outstanding. The following description of our capital stock is qualified in its entirety by reference to our Certificate of Incorporation, a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part. Of the total shares of common stock authorized, 696,400 shares of common stock are reserved for issuance to fulfill obligations under options and for future grants under an employee stock incentive plan. See "Management -- Compensation Under Plans."

COMMON STOCK

Holders of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders generally. Stockholders have no right to cumulate their votes in the election of directors. Accordingly, holders of a majority of the outstanding shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. We do not intend to declare or pay any dividends on our shares of common stock in the near future. See "Dividend Policy." Our Certificate of Incorporation gives the holders of common stock no preemptive or other subscription or conversion rights, and there are no redemption provisions with respect to the shares. All outstanding shares of common stock are, and the shares offered hereby will be, when issued and paid for, fully paid and non-assessable.

PREFERRED STOCK

The board of directors may, without further action of MCM's stockholders, issue shares of preferred stock in one or more series and fix or alter the rights or preferences thereof, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation preferences, conversion rights, and any other rights, preferences, privileges, and restrictions of any wholly unissued series of preferred stock. The rights of holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. No shares of preferred stock are outstanding, and we have no present plans to issue any preferred stock shares. The issuance of shares of preferred stock could adversely affect the voting power of holders of common stock and could have the effect of delaying, deferring, or preventing a change in our control or other corporate action.

OPTIONS

In May 1998 we granted an option to our Senior Vice President, Finance, to purchase 196,400 shares of common stock at an exercise price of \$1.53 per share. The options vest as follows: 65,466 on May 18, 1999; 65,467 on May 18, 2000; and 65,467 on May 18, 2001. His options expire on May 18, 2008 and are subject to customary anti-dilution adjustments upon dividends and distributions on the common stock, subdivisions or reclassifications of common stock, and combinations and reclassifications of common stock.

We will adopt the MCM 1999 Stock Option Plan immediately before the closing of this offering and reserve 500,000 authorized shares of common stock for issuance under that plan. Under this plan we may grant nonqualified stock options to our officers, employees and consultants. No awards have been granted under this plan.

LIMITATIONS ON LIABILITY OF OFFICERS AND DIRECTORS

Our Certificate of Incorporation and Bylaws provide for indemnification of our officers and directors to the fullest extent permitted by the Delaware General Corporation Law, including some instances in which indemnification is otherwise discretionary under the law.

The Certificate of Incorporation provides that we are not required to indemnify directors or officers or former directors or officers with respect to matters as to which the director or officer is adjudged in any action, suit or proceeding to be liable for his own negligence or misconduct in the performance of his

duties. We believe that these provisions are essential to attracting and retaining qualified persons as directors and officers.

There is no pending litigation or proceeding involving any of our directors or officers as to which indemnification is being sought. In addition, we are not aware of any threatened litigation that may result in claims for indemnification by any officer or director.

ANTI-TAKEOVER PROVISIONS OF DELAWARE LAW

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, this statute prohibits under certain circumstances, a Delaware corporation whose stock is publicly traded or held of record by more than 2,000 stockholders, from engaging in a "business combination" with an "interested stockholder" for a period of 3 years after the date of the transaction in which the person became an interested stockholder, unless one of the following occurs:

- the corporation has elected in its certificate of incorporation or bylaws not to be governed by this Delaware law (MCM has not made this election);
- prior to the time the stockholder became an interested stockholder, the board of directors approved either the business combination or the transaction which resulted in the person becoming an interested stockholder;
- the stockholder owned at least 85% of the outstanding voting stock of the corporation (excluding shares held by directors who were also officers or held in certain employee stock plans) upon consummation of the transaction which resulted in a stockholder becoming an interested stockholder; or
- the business combination was approved by the board of directors and by two-thirds of the outstanding voting stock of the corporation (excluding shares held by the interested stockholder).

An interested stockholder is a person who, together with affiliates and associates, owns (or, if the stockholder is an affiliate or associate of the corporation, any time within the prior three years did own) 15% or more of the corporation's outstanding voting stock. A business combination is defined generally to include mergers, consolidations, stock sales, asset-based transactions, and other transactions resulting in a financial benefit to the interested stockholder.

CERTAIN BYLAW PROVISIONS

Our Bylaws require that, subject to certain exceptions, any stockholder desiring to propose business or nominate a person to the board of directors at a stockholders meeting must give notice of any proposals or nominations within a specified time frame. In addition, the Bylaws provide that we will hold a special meeting of stockholders only if our board of directors calls the meeting or if the holders of a majority of the votes entitled to be cast at the meeting make a written demand for the meeting. These provisions may have the effect of precluding a nomination for the election of directors or the conduct of business at a particular annual meeting if the proper procedures are not followed or may discourage or deter a third party from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of MCM, even if the conduct of such solicitation or such attempt might be beneficial to us and our stockholders. For us to

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include a proposal in our annual proxy statement, the proponent and the proposal must comply with the proxy proposal submission rules of the Securities and Exchange Commission.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is .

SHARES ELIGIBLE FOR FUTURE SALE

MCM will have _____ shares of common stock outstanding after the offering (_____ shares if the underwriters' overallotment is exercised in full). Of those shares, the _____ shares of common stock sold in the offering (_____ shares if the underwriters' over-allotment option is exercised in full) will be freely transferable without restriction, unless purchased by persons deemed to be our "affiliates" (as that term is defined in Rule 144 under the Securities Act). The remaining _____ shares of common stock to be outstanding immediately following the offering are "restricted" which means they were originally sold in certain types of offerings that were not subject to a registration statement filed with the Securities and Exchange Commission. These restricted shares may only be sold through registration under the Securities Act or under an available exemption from registration, such as provided through Rule 144 promulgated under the Securities Act. In general, under Rule 144 a person (or persons whose shares are aggregated) including an affiliate, who has beneficially owned the shares for one year or more, may sell in the open market within any three-month period a number of shares that does not exceed the greater of

- 1% of the then outstanding shares of our common stock (approximately _____ shares immediately after the offering), or
- the average weekly trading volume in the common stock on the Nasdaq during the four calendar weeks preceding the sale.

Sales under Rule 144 are also subject to limitations on the manner of sale, notice requirements, and the availability of our current public information. A person (or persons whose shares are aggregated) who is deemed not to have been our affiliate at any time during the three months preceding a sale by him and who has beneficially owned his shares for at least two years, may sell the shares in the public market under Rule 144(k) without regard to the volume limitations, manner of sale provisions, notice requirements, or the availability of current information we refer to above. Under Rule 144, all of the restricted shares may be sold 90 days after the closing of the offering. After restricted shares are properly sold in reliance upon Rule 144, they will be freely tradeable without restrictions or registration under the Securities Act, unless thereafter held by one of our affiliates.

We have reserved an aggregate of 500,000 shares of common stock for issuance under the MCM 1999 Stock Option Plan and have granted an executive officer an option to purchase 196,400 shares of common stock apart from that plan. We intend to register the shares subject to the plan and the option on a Form S-8 Registration Statement following the offering. Subject to restrictions imposed under the plan, and the executive officer's option agreement, shares of common stock issued under the plan or the executive officer's option agreement after the effective date of any Registration Statement on Form S-8 will be available for sale in the public market without restriction to the extent they are held by persons who are not affiliates of MCM, and by affiliates under Rule 144.

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In addition, we have granted MHC and CP demand and piggyback registration rights with respect to their shares of our common stock.

The holders of _____ shares of common stock have agreed to a 180-day "lock-up" with respect to these shares. This generally means they cannot sell these shares during the 180 days following the date of this prospectus. See "Underwriting" for additional details. After the 180-day lock-up period, these shares may be sold in accordance with Rule 144.

No trading market for the common stock existed prior to the offering. No prediction can be made as to the effect, if any, that future sales of shares under Rule 144 or otherwise will have on the market price prevailing from time to time. Sales of substantial amounts of common stock into the public market following the offering, or the perception that these sales could occur, could adversely affect the then prevailing market price.

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UNDERWRITING

MCM and the selling stockholders have entered into an underwriting agreement

with the underwriters named below. CIBC Oppenheimer Corp. and U.S. Bancorp Piper Jaffray Inc. are acting as representatives of the underwriters.

The underwriting agreement provides for the purchase of a specific number of shares of common stock by each of the underwriters. The underwriters' obligations are several, which means that each underwriter is required to purchase a specified number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase the number of shares of common stock set forth opposite its name below:

| UNDERWRITER ----- | NUMBER OF SHARES ----- |
|--------------------------------------|---------------------------|
| CIBC Oppenheimer Corp. | |
| U.S. Bancorp Piper Jaffray Inc. | |
| | ----- |
| Total..... | ===== |

This is a firm commitment underwriting. This means that the underwriters have agreed to purchase all of the shares offered by this prospectus (other than those covered by the over-allotment option described below) if any are purchased. Under the underwriting agreement, if an underwriter defaults in its commitment to purchase shares, the commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated, depending on the circumstances.

The representatives have advised MCM and the selling stockholders that the underwriters propose to offer the shares directly to the public at the public offering price that appears on the cover page of this prospectus. In addition, the representatives may offer some of the shares to certain securities dealers at the initial offering price less a concession of \$ per share. The underwriters may also allow, and the dealers may reallow, a concession not in excess of \$ per share to certain other dealers. After the shares are released for sale to the public, the representatives may change the offering price and other selling terms at various times.

MCM has granted the underwriters an over-allotment option. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase a maximum of additional shares from MCM to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the initial public offering price that appears on the cover page of this prospectus, less the underwriting discount. If this option is exercised in full, the total price to public will be \$ million and the total proceeds to MCM will be \$ million. The underwriters have severally agreed that, to the extent the over-allotment option is exercised, they will each purchase a number of additional shares proportionate to the underwriter's initial amount reflected in the foregoing table.

The following table provides information regarding the amount of the discount to be paid to the underwriters by MCM and the selling stockholders:

| | PER SHARE ----- | TOTAL WITHOUT EXERCISE OF OVER-ALLOTMENT OPTION ----- | TOTAL WITH FULL EXERCISE OF OVER-ALLOTMENT OPTION ----- |
|------------------------------|--------------------|---|---|
| MCM..... | \$ | \$ | \$ |
| Selling stockholders..... | \$ | \$ | \$ |
| | | ----- | ----- |
| Total..... | | \$ | \$ |

MCM and the selling stockholders estimate that their portions of the total expenses of the offering, excluding the underwriting discount, will be approximately \$ for MCM and \$ for the selling stockholders.

MCM and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

MCM, our officers and directors and certain other stockholders have agreed to a 180-day "lock up" with respect to shares of common stock and certain other MCM securities that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. This means that, subject to certain exceptions, for a period of 180 days following the date of this prospectus, MCM and these persons may not offer, sell, pledge or otherwise dispose of these MCM securities without the prior written consent of CIBC Oppenheimer Corp.

The representatives have informed MCM that they do not expect discretionary sales by the underwriters to exceed five percent of the shares offered by this prospectus.

The underwriters have reserved for sale up to shares for employees, directors and certain other persons associated with MCM. These reserved shares will be sold at the initial public offering price that appears on the cover page of this prospectus. The number of shares available for sale to the general public in the offering will be reduced to the extent reserved shares are purchased by these persons. The underwriters will offer to the general public, on the same terms as other shares offered by this prospectus, any reserved shares that are not purchased by these persons.

There is no established trading market for the shares. The offering price for the shares will be determined by MCM and the representatives, based on the following factors: prevailing market and general economic conditions; the market capitalizations, trading histories and states of development of other traded companies that MCM and the representatives believe to be comparable to MCM; MCM's results of operations in recent periods; MCM's current financial position; estimates of MCM's business potential; the present state of MCM's development; and the availability for sale in the market of a significant number of shares of common stock.

Rules of the Securities and Exchange Commission may limit the ability of the underwriters to bid for or purchase shares before the distribution of the shares is completed. However, the underwriters may engage in the following activities in accordance with the rules:

- Stabilizing transactions -- The representatives may make bids or purchases for the purpose of pegging, fixing or maintaining the price of the shares, so long as stabilizing bids do not exceed a specified maximum.

- Over-allotments and syndicate covering transactions -- The underwriters may create a short position in the shares by selling more shares than are set forth on the cover page of this prospectus. If a short position is created in connection with the offering, the representatives may engage in syndicate covering transactions by purchasing the shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the over-allotment option.
- Penalty bids -- If the representatives purchase shares in the open market in a stabilizing transaction or syndicate covering transaction, they may reclaim a selling concession from the underwriters and selling group members who sold those shares as part of this offering.

Stabilization and syndicate covering transactions may cause the price of the shares to be higher than it would be in the absence of these transactions. The imposition of a penalty bid might also have an effect on the price of the shares if it discourages resales of the shares.

Neither MCM nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of the

shares. These transactions may occur on the Nasdaq National Market or otherwise. If these transactions are commenced, they may be discontinued without notice at any time.

LEGAL MATTERS

Certain legal matters with respect to the validity of the shares of common stock are being passed upon for us by Snell & Wilmer L.L.P., Phoenix, Arizona. Certain legal matters will be passed upon for the underwriters by Gibson, Dunn, & Crutcher LLP, New York, New York.

EXPERTS

The consolidated financial statements of MCM Capital Group, Inc. at December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance on this report given on the authority of Ernst & Young LLP as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1 under the Securities Act with respect to the common stock offered hereby with the Securities and Exchange Commission. This prospectus, which is a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. Please see the registration statement and the exhibits and schedules filed as part of the registration statement for further information about us and our common stock. Statements contained in this prospectus concerning the provisions or contents of any contract, agreement or any other document referred to herein are not necessarily complete. With respect to each contract, agreement or document filed as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matters involved, and each statement will be deemed qualified in its entirety by reference to the copy of the applicable document filed with the Commission. A copy of the registration

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statement, including the exhibits and schedules thereto, and any other documents we file may be inspected without charge at the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the following Regional Offices of the Commission: New York Regional Office, 7 World Trade Center, 13th Floor, New York, New York 10048; and Chicago Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the registration statement and the exhibits and schedules thereto can be obtained from the Public Reference Section of the Commission upon payment of prescribed fees. Information about the operation of the Public Reference Section may be obtained by calling the Commission at 1-800-SEC-0330. The Commission maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the Commission. Our filings with the Commission are available to the public at that site which is <http://www.sec.gov>.

Prior to filing the registration statement of which this prospectus is a part, we were not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Upon effectiveness of the registration statement, we will become subject to the informational and periodic reporting requirements of the Exchange Act, and in accordance with the Exchange Act, will file periodic reports, proxy statements and other information with the Commission. Periodic reports, proxy statements and other information will be available for inspection and copying at the public reference facilities and other regional offices we refer to above. We intend to register the securities offered by the registration statement under the Exchange Act simultaneously with the effectiveness of the registration statement and to furnish our stockholders with annual reports containing financial statements examined and reported on by our independent public accountants, and quarterly reports for the first three fiscal quarters of each fiscal year containing unaudited interim financial information.

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
MCM Capital Group, Inc.

We have audited the accompanying consolidated statements of financial condition of MCM Capital Group, Inc. (formerly Midland Corporation of Kansas) and its subsidiaries (the Company) as of December 31, 1997 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of MCM Capital Group, Inc. at December 31, 1997 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Kansas City, Missouri
April 29, 1999, except for
Note 13 as to which the date
is , 1999

The foregoing report is in the form that will be signed upon completion of the change in the Company's capital stock and the 9.82-for-1 common stock split as described in Note 13 to the consolidated financial statements.

Ernst & Young LLP

Kansas City, Missouri
April 29, 1999

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | DECEMBER 31 | |
|---|--------------|--------------|
| | 1997 | 1998 |
| ASSETS | | |
| Cash..... | \$ 476,749 | \$ 4,657,822 |
| Investment in receivable portfolios (Note 2)..... | 15,410,835 | 2,052,421 |
| Retained interest in securitized receivables (Note 3)..... | -- | 23,985,898 |
| Property and equipment, net (Notes 4 and 5)..... | 1,008,547 | 3,852,287 |
| Other assets..... | 67,434 | 279,777 |
| Total assets..... | \$16,963,565 | \$34,828,205 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable and accrued liabilities..... | \$ 429,290 | \$ 1,607,808 |
| Servicing liability (Note 3)..... | -- | 3,607,476 |
| Notes payable and other borrowings (Note 5)..... | 14,774,468 | 7,005,302 |
| Capital lease obligations..... | -- | 505,844 |
| Put warrants (Note 9)..... | 206,000 | -- |
| Deferred income tax liability (Note 6)..... | -- | 8,179,926 |
| Total liabilities..... | 15,409,758 | 20,906,356 |
| Redeemable common stock (Note 12)..... | -- | -- |
| Commitments and contingencies (Note 10)..... | -- | -- |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized (Note 13)..... | -- | -- |
| Common stock, \$.01 par value, 50,000,000 shares authorized, 9,820,000 shares issued and outstanding (Note 13)..... | -- | 98,200 |
| Additional paid-in capital..... | 200,000 | 31,800 |
| Accumulated other comprehensive income (Note 3)... | -- | 4,882,883 |
| Retained earnings..... | 1,353,807 | 8,908,966 |
| Total stockholders' equity..... | 1,553,807 | 13,921,849 |
| Total liabilities and stockholders' equity..... | \$16,963,565 | \$34,828,205 |

See accompanying notes.

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

CONSOLIDATED STATEMENTS OF INCOME

| | YEAR ENDED DECEMBER 31 | | |
|--|------------------------|-------------|--------------|
| | 1996 | 1997 | 1998 |
| Revenues: | | | |
| Income from receivable portfolios..... | \$2,387,184 | \$3,200,492 | \$15,951,540 |
| Gain on sales of receivable portfolios (Note 3)..... | 994,884 | 2,013,660 | 10,818,135 |
| Servicing fees..... | -- | -- | 105,394 |
| | 3,382,068 | 5,214,152 | 26,875,069 |
| Expenses: | | | |

| | | | |
|--|------------|------------|--------------|
| Salaries and employee benefits..... | 1,649,634 | 2,064,379 | 7,471,937 |
| Other operating expenses..... | 199,506 | 338,034 | 2,200,045 |
| General and administrative expenses..... | 305,778 | 489,918 | 1,290,114 |
| Depreciation and amortization..... | 96,589 | 156,108 | 426,485 |
| Total expenses..... | 2,251,507 | 3,048,439 | 11,388,581 |
| | 1,130,561 | 2,165,713 | 15,486,488 |
| Other income and expense: | | | |
| Interest expense..... | 97,293 | 722,568 | 2,981,983 |
| Other (income) expense..... | 48,282 | 96,535 | (95,747) |
| Total other expense..... | 145,575 | 819,103 | 2,886,236 |
| Income before income taxes and extraordinary charge..... | 984,986 | 1,346,610 | 12,600,252 |
| Provision for income taxes (Note 6)..... | 390,566 | 539,953 | 5,065,460 |
| Income before extraordinary charge..... | 594,420 | 806,657 | 7,534,792 |
| Extraordinary charge, net of income tax benefit of \$114,847 (Note 8)..... | -- | -- | 179,633 |
| Net income..... | \$ 594,420 | \$ 806,657 | \$ 7,355,159 |
| Basic earnings per share (Note 13): | | | |
| Income before extraordinary charge..... | \$.06 | \$.08 | \$.77 |
| Extraordinary charge..... | -- | -- | .02 |
| Net income..... | \$.06 | \$.08 | \$.75 |
| Diluted earnings per share (Note 13): | | | |
| Income before extraordinary charge..... | \$.06 | \$.08 | \$.76 |
| Extraordinary charge..... | -- | -- | .02 |
| Net income..... | \$.06 | \$.08 | \$.74 |
| Shares used for computation (in thousands) (Note 13): | | | |
| Basic..... | 9,820 | 9,820 | 9,820 |
| Diluted..... | 9,820 | 9,820 | 9,931 |

See accompanying notes.

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS (DEFICIT) | ACCUMULATED OTHER COMPREHENSIVE INCOME | TOTAL |
|---|--------------|----------------------------|-----------------------------|--|-------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 1995..... | \$ -- | \$200,000 | \$ (47,270) | \$ -- | \$ 152,730 |
| Net income..... | -- | -- | 594,420 | -- | 594,420 |
| Balance at December 31, 1996..... | -- | 200,000 | 547,150 | -- | 747,150 |
| Net income..... | -- | -- | 806,657 | -- | 806,657 |
| Balance at December 31, 1997..... | -- | 200,000 | 1,353,807 | -- | 1,553,807 |
| Net income..... | -- | -- | 7,355,159 | -- | 7,355,159 |
| Unrealized gain (Note 3)..... | -- | -- | -- | 4,882,883 | 4,882,883 |
| Comprehensive income..... | | | | | 12,238,042 |
| Issuance of put options on redeemable common stock (Note 12)..... | -- | (200,000) | (3,649,203) | -- | (3,849,203) |
| Issuance of common stock warrants (Note 9)..... | -- | 130,000 | -- | -- | 130,000 |
| Repricing of put options on redeemable common stock | | | | | |

| | | | | | |
|--|----------|-----------|-------------|-------------|--------------|
| (Note 12)..... | -- | -- | 3,849,203 | -- | 3,849,203 |
| Recapitalization of Company's common stock (Note 13)..... | 98,200 | (98,200) | -- | -- | -- |
| Balance at December 31, 1998..... | \$98,200 | \$ 31,800 | \$8,908,966 | \$4,882,883 | \$13,921,849 |
| | ===== | ===== | ===== | ===== | ===== |

See accompanying notes.

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED DECEMBER 31 | | |
|---|------------------------|--------------|--------------|
| | 1996 | 1997 | 1998 |
| | ----- | ----- | ----- |
| OPERATING ACTIVITIES | | | |
| Net income..... | \$ 594,420 | \$ 806,657 | \$ 7,355,159 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization..... | 96,589 | 156,108 | 426,485 |
| Amortization of debt discount..... | -- | 68,000 | 268,000 |
| Gain on sales of receivable portfolios.... | (994,884) | (2,013,660) | (10,818,135) |
| Loss on sales of property and equipment.... | 182,478 | -- | 16,953 |
| Extraordinary loss on early extinguishment of debt..... | -- | -- | 179,633 |
| Deferred income tax expense..... | 8,566 | 8,566 | 5,106,951 |
| Increase in other assets..... | -- | -- | (279,777) |
| Increase (decrease) in accounts payable and accrued liabilities..... | 85,979 | (101,598) | 1,178,518 |
| Net cash provided by (used in) operating activities..... | (26,852) | (1,075,927) | 3,433,787 |
| INVESTING ACTIVITIES | | | |
| Proceeds from sales of receivable portfolios..... | 2,244,990 | 5,765,466 | 37,201,753 |
| Net (accretion) collections applied to principal of receivable portfolios..... | 786,288 | 1,926,379 | (503,031) |
| Purchases of receivable portfolios..... | (4,216,247) | (18,248,711) | (24,762,456) |
| Purchases of property and equipment..... | (478,199) | (166,577) | (2,813,563) |
| Proceeds from sales of property and equipment..... | 40,335 | -- | 32,229 |
| Net cash provided by (used in) investing activities..... | (1,622,833) | (10,723,443) | 9,154,932 |
| FINANCING ACTIVITIES | | | |
| Proceeds from notes payable and other borrowings..... | 1,907,548 | 12,440,680 | 23,573,831 |
| Repayment of notes payable and other borrowings..... | (287,819) | (284,213) | (31,480,997) |
| Payment on termination of put warrants..... | -- | -- | (206,000) |
| Prepayment fees and penalties on early extinguishment of debt..... | -- | -- | (294,480) |
| Net cash provided by (used in) financing activities..... | 1,619,729 | 12,156,467 | (8,407,646) |
| Net increase (decrease) in cash..... | (29,956) | 357,097 | 4,181,073 |
| Cash, beginning of year..... | 149,608 | 119,652 | 476,749 |
| Cash, end of year..... | \$ 119,652 | \$ 476,749 | \$ 4,657,822 |
| | ===== | ===== | ===== |

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

| | YEAR ENDED DECEMBER 31 | | |
|---|------------------------|-----------|--------------|
| | 1996 | 1997 | 1998 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash paid during the year for: | | | |
| Interest..... | \$ 97,293 | \$525,013 | \$ 2,670,254 |
| | ===== | ===== | ===== |
| Income taxes..... | \$172,297 | \$672,690 | \$ 50,038 |
| | ===== | ===== | ===== |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES | | | |
| Property and equipment acquired under capital leases..... | \$ -- | \$ -- | \$ 522,685 |
| | ===== | ===== | ===== |
| Recognition of servicing liability..... | \$ -- | \$ -- | \$ 3,607,476 |
| | ===== | ===== | ===== |
| Recognition of retained interest in securitized receivables..... | \$ -- | \$ -- | \$14,857,759 |
| | ===== | ===== | ===== |
| SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES | | | |
| Issuance of common stock warrants in connection with line-of-credit agreements..... | \$ -- | \$206,000 | \$ 130,000 |
| | ===== | ===== | ===== |
| Issuance of put options on redeemable common stock..... | \$ -- | \$ -- | \$ 3,849,203 |
| | ===== | ===== | ===== |

See accompanying notes.

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, 1997 AND 1998

1. SIGNIFICANT ACCOUNTING POLICIES

OWNERSHIP AND DESCRIPTION OF BUSINESS

MCM Capital Group, Inc. (MCM Capital), formerly Midland Corporation of Kansas, is a holding company whose principal asset is its investment in its wholly-owned subsidiary, Midland Credit Management Inc. (Midland Credit) (collectively referred to herein as the Company). The Company is a financial services company specializing in the recovery, restructuring, resale and securitization of receivable portfolios acquired at deep discounts. The Company's receivable portfolios consist primarily of charged-off domestic credit card receivables purchased from national financial institutions and major retail corporations. Acquisitions of receivable portfolios are financed by operations and borrowings from third parties.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include MCM Capital and its wholly-owned subsidiary, Midland Credit. All material intercompany transactions and balances have been eliminated.

INVESTMENT IN RECEIVABLE PORTFOLIOS

The Company accounts for its investment in receivable portfolios on the accrual basis of accounting in accordance with the provisions of the AICPA's Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans." Static pools are established with accounts having similar attributes, based on specific seller and timing of acquisition. Once a static pool is established, the receivables are permanently assigned to the pool. The discount (i.e., the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded since the Company expects to collect a relatively small percentage of each static pool's contractual receivable balance. As a result, each static pool is initially recorded at cost.

The Company accounts for each static pool as a unit for the economic life of the pool (similar to one loan) for recognition of income from receivable portfolios, for collections applied to principal of receivable portfolios and for provision for loss or impairment. Income from receivable portfolios is accrued based on the effective interest rate determined for each pool applied to each pool's original cost basis, adjusted for unpaid accrued income and principal paydowns. The effective interest rate is the internal rate of return determined based on the timing and amounts of anticipated future cash flow projections for each pool.

The Company monitors impairment of receivable portfolios based on discounted projected future cash flows of each portfolio compared to each portfolio's carrying amount. The discount rate is based on an acceptable rate of return adjusted for specific risk factors. The receivable portfolios are evaluated for impairment periodically by management based on current market and cash flow assumptions. Provisions for losses are charged to earnings when it is determined that the investment in a receivable portfolio is greater than the

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

present value of expected future cash flows. No provision for losses was recorded as of December 31, 1998, 1997 or 1996.

SECURITIZATION ACCOUNTING

Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered. The basis of securitized financial assets is allocated to the receivables sold, the servicing asset or liability and retained interest based on their relative fair values at the transfer date in determining the gain on the securitization transaction.

RETAINED INTEREST IN SECURITIZED RECEIVABLES

The retained interest is treated as a debt security classified as available-for-sale in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and is carried at fair value. At the time of securitization, the retained interest is initially recorded at the basis allocated in accordance with SFAS No. 125. This original cost basis is adjusted to fair value, which is based on the discounted anticipated future cash flows on a "cash out" basis, with such adjustment (net of related deferred income taxes) recorded as a component of other comprehensive income. The cash out method projects cash collections to be received only after all amounts owed to investors have been remitted.

Income on the retained interest is accrued based on the effective interest rate applied to its original cost basis, adjusted for accrued interest and principal paydowns. The effective interest rate is the internal rate of return determined based on the timing and amounts of anticipated future cash flow projections for the underlying pool of securitized receivables.

The Company monitors impairment of the retained interest based on discounted anticipated future cash flows of the underlying receivables on a cash out basis

compared to the original cost basis of the retained interest, adjusted for accrued interest and principal paydowns. The discount rate is based on an acceptable rate of return adjusted for specific risk factors. The retained interest is evaluated for impairment by management quarterly based on current market and cash flow assumptions applied to the underlying receivables. Provisions for losses are charged to earnings when it is determined that the retained interest's original cost basis, adjusted for accrued interest and principal paydowns, is greater than the present value of expected future cash flows. No provision for losses was recorded as of December 31, 1998.

The retained interest is held by a wholly-owned, bankruptcy remote, special purpose subsidiary of the Company. The value of the retained interest, and its associated cash flows, would not be available to satisfy claims of creditors of the Company.

SERVICING LIABILITY

The Company records a servicing liability related to its obligation to service securitized receivables. The servicing liability will be amortized to reduce servicing expense in

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

proportion to and over the estimated period of servicing for third-party acquirers of securitized receivables. The sufficiency of the servicing liability is assessed based on the fair value of the servicing contract as compared to the carrying amount of the servicing liability. Fair value is estimated by discounting anticipated future net servicing revenues or losses using assumptions the Company believes market participants would use in their estimates of future servicing income and expense.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, less accumulated depreciation. Provision for depreciation is computed using the straight-line or an accelerated method over the estimated useful lives of the assets as follows:

| | |
|-------------------------------------|----------------|
| Buildings and equipment..... | 15 to 25 years |
| Furniture and fixtures..... | 7 years |
| Computer hardware and software..... | 3 to 5 years |
| Transportation vehicles..... | 5 years |

Maintenance and repairs are charged to expense in the year incurred. Expenditures for major renewals that extend the useful lives of fixed assets are capitalized and depreciated over the useful lives of such assets.

INCOME TAXES

Deferred income taxes are provided on temporary differences between the financial reporting bases and income tax bases of the Company's assets and liabilities.

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock options rather than the alternative fair value accounting provided for under SFAS No. 123, "Accounting and Disclosure for Stock-Based Compensation." In accordance with APB 25, compensation cost relating to stock options granted by the Company is measured as the excess, if any, of the market price of the Company's stock at the date of grant over the exercise price of the stock options.

COMPREHENSIVE INCOME

In 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income,"

which establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Company's net income or shareholders' equity. SFAS No. 130 requires unrealized gains or losses on available-for-sale securities to be included in other comprehensive income. Adoption of this statement had no effect on prior year financial statements, as the Company held no components of comprehensive income.

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments:

Investment in receivable portfolios: Investment in receivable portfolios is recorded at cost. The fair value is estimated based on recent acquisitions of similar receivable portfolios or discounted expected future cash flows. The discount rate is based on an acceptable rate of return adjusted for specific risk factors. The carrying value of the investment in receivable portfolios reported in the statements of financial condition approximates fair value.

Retained interest in securitized receivables: Fair value is estimated by discounting anticipated future cash flows using a discount rate based on specific risk factors. The anticipated future cash flows are projected on a cash out basis to reflect the restriction of cash flows until the investors have been fully paid. The retained interest in securitized receivables is recorded at fair value in the accompanying statements of financial condition.

Notes payable and other borrowings: The carrying amount reported in the statements of financial position approximates fair value for notes payable which are of a short-term nature. For other borrowings, fair value is estimated by discounting anticipated future cash flows using market rates of debt instruments with similar terms and remaining maturities. The carrying amount of other borrowings approximates fair value.

USE OF ESTIMATES

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

Significant estimates have been made by management with respect to the timing and amount of collection of future cash flows from receivable portfolios, as well as the estimated costs to service securitized receivables. Actual results are likely to differ from these estimates making it reasonably possible that a change in these estimates could occur within one year. On a quarterly basis, management reviews the estimate of future collections, and it is reasonably possible that its assessment of collectibility may change based on actual results and other factors.

CONCENTRATIONS OF RISK

During 1998, all of the Company's purchases of receivable portfolios were from two companies. These companies each have a significant presence in the retail credit card industry and process a substantial volume of transactions. If the Company was unable to continue to purchase receivable portfolios from these companies or they were unable to provide adequate volume to the Company, the Company would need to establish relationships with other retail credit card issuers and institutions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

EARNINGS PER SHARE

In accordance with the provisions of SFAS No. 128, "Earnings Per Share," the dilutive effect of stock options and certain common stock warrants are excluded from basic earnings per share but included in diluted earnings per share. See Notes 9 and 11 regarding discussion of stock options and common stock warrants, respectively, at December 31, 1998.

2. INVESTMENT IN RECEIVABLE PORTFOLIOS

The following summarizes the changes in the balance of the investment in receivable portfolios for the years ended December 31:

| | 1996 | 1997 | 1998 |
|--|--------------|--------------|---------------|
| | ----- | ----- | ----- |
| BALANCE, BEGINNING OF YEAR..... | \$ 660,456 | \$ 2,840,309 | \$ 15,410,835 |
| Purchase of receivable portfolios..... | 4,216,247 | 18,248,711 | 24,762,456 |
| Securitization of receivable portfolios..... | -- | -- | (33,848,409) |
| Cost of receivable portfolios sold..... | (1,250,106) | (3,751,806) | (4,775,492) |
| Net accretion (collections) applied to principal of receivable portfolios..... | (786,288) | (1,926,379) | 503,031 |
| | ----- | ----- | ----- |
| BALANCE, END OF YEAR..... | \$ 2,840,309 | \$15,410,835 | \$ 2,052,421 |
| | ===== | ===== | ===== |

3. SECURITIZATION OF RECEIVABLE PORTFOLIOS

On December 30, 1998, Midland Receivables 98-1 Corporation, a qualified special-purpose entity formed by the Company, issued securitization notes in the principal amount of \$33 million, which bear a fixed rate of interest of 8.63%. The notes are collateralized by the credit card receivables securitized by the Company with a carrying amount of \$33.8 million at the time of transfer. The transaction was accounted for as a sale under the provisions of SFAS No. 125. As a result, the Company recorded a retained interest and servicing liability and recognized a pretax gain of \$9.3 million.

In connection with the securitization, the Company receives a servicing fee equal to 20% of the gross monthly collections of the securitized receivables. The benefits of servicing the securitized receivables are not expected to adequately compensate the Company for performing the servicing; therefore, the Company has recorded a servicing liability of \$3,607,476 in accordance with SFAS No. 125. The Company recorded no amortization of this servicing liability during 1998 since the transaction closed on December 30, 1998.

As a result of the securitization transaction, the Company recorded a retained interest in securitized receivables. The retained interest is collateralized by the credit card receivables that were securitized, adjusted for amounts owed to the noteholders. At the time of the transaction, the Company recorded the retained interest at an allocated basis in the amount of \$15,847,759 based on its relative fair value, as discussed in Note 1. The allocated basis amount was adjusted to a fair value of \$23,985,898. The adjustment, net of deferred income taxes of \$3,255,256, was recorded as a separate component of shareholders' equity and reported as other comprehensive income.

In estimating the fair value of the retained interest, the Company has estimated

net cash flows, after repayment of notes, related interest and other fees, based on the Company's historical collection results for similar receivables and discounted at 30%.

In accordance with the terms of securitization, the Company deposited \$990,000 with the securitization trustee to be used as a reserve for the benefit of securitization investors. This amount, less any portion required to satisfy obligations of the securitization, will be returned to the Company upon payment of amounts due to securitization investors. This amount is included in the \$23,985,898 retained interest in securitized receivables recorded in the accompanying statements of financial condition.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

| | 1997 | 1998 |
|--|-------------|--------------|
| | ----- | ----- |
| Land and buildings..... | \$ 762,387 | \$ 822,978 |
| Furniture and fixtures..... | 724,458 | 1,288,858 |
| Computer equipment and software..... | 282,089 | 2,171,327 |
| Transportation vehicles..... | 135,148 | 76,149 |
| Telephone equipment..... | -- | 802,479 |
| | ----- | ----- |
| | 1,904,082 | 5,161,791 |
| Accumulated depreciation and amortization..... | (895,535) | (1,309,504) |
| | ----- | ----- |
| | \$1,008,547 | \$ 3,852,287 |
| | ===== | ===== |

5. NOTES PAYABLE AND OTHER BORROWINGS

At December 31, 1997 and 1998, the Company had available unused lines of credit in the amount of \$1,090,780 and \$8,438,180, respectively. The Company is obligated under the following borrowings:

| | 1997 | 1998 |
|--|--------------|-------------|
| | ----- | ----- |
| Revolving lines of credit, net of debt discount, fixed rates ranging from 10% to 12%..... | \$12,271,220 | \$ -- |
| Revolving line of credit, 7.75%, unsecured, due July 15, 1999..... | -- | 6,561,820 |
| Term note, 1% over prime rate (9.5%)..... | 1,656,460 | -- |
| Various installment obligations, 9%..... | 446,788 | 443,482 |
| Notes payable to shareholders, rates ranging from 10% to 12%..... | 400,000 | -- |
| | ----- | ----- |
| | \$14,774,468 | \$7,005,302 |
| | ===== | ===== |

Borrowings under the Company's revolving line of credit at December 31, 1998 are guaranteed by certain stockholders of MCM Capital.

6. INCOME TAXES

The provision for income taxes on income before extraordinary charge consists of the following for the years ended December 31:

| | 1996 | 1997 | 1998 |
|----------------------------|-----------|-----------|-------------|
| | ----- | ----- | ----- |
| Current expense (benefit): | | | |
| Federal..... | \$306,419 | \$422,096 | \$ -- |
| State..... | 75,581 | 109,291 | (41,491) |
| | ----- | ----- | ----- |
| | 382,000 | 531,387 | (41,491) |
| Deferred expense: | | | |
| Federal..... | 6,864 | 6,864 | 4,036,000 |
| State..... | 1,702 | 1,702 | 1,070,951 |
| | ----- | ----- | ----- |
| | 8,566 | 8,566 | 5,106,951 |
| | ----- | ----- | ----- |
| | \$390,566 | \$539,953 | \$5,065,460 |
| | ===== | ===== | ===== |

The Company has recorded a deferred income tax benefit in 1998 in the amount of \$114,847 pertaining to an extraordinary loss on the early extinguishment of debt, which has been reported in the net operating losses component of deferred tax assets in the following table.

Deferred tax expense for 1998 includes a benefit of \$694,239 related to a net operating loss carryforward. The Company has net operating loss carryforwards of \$1,892,356. The current year net operating loss of \$1,718,868 expires in the year 2018. The remaining balance expires in the year 2006. The Company has not recorded any valuation allowance against deferred income tax assets as of December 31, 1997 and 1998.

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The net deferred tax liability or asset consists of the following as of December 31:

| | 1997 | 1998 |
|---|-----------|----------------|
| | ----- | ----- |
| Deferred tax assets: | | |
| Net operating losses..... | \$ 67,434 | \$ 761,673 |
| Accrued expenses..... | -- | 126,844 |
| | ----- | ----- |
| | 67,434 | 888,517 |
| Deferred tax liabilities: | | |
| Gain on securitization of receivables..... | -- | 3,747,205 |
| Unrealized gain on retained interest in securitized receivables..... | -- | 3,255,256 |
| Difference in recognition of income from receivable portfolios..... | -- | 1,912,265 |
| Difference in basis of depreciable assets..... | -- | 153,717 |
| | ----- | ----- |
| | -- | 9,068,443 |
| | ----- | ----- |
| Net deferred tax asset (liability)..... | \$ 67,434 | \$ (8,179,926) |
| | ===== | ===== |

The securitization transaction qualified as a financing for income tax purposes; therefore, the Company recorded a deferred tax liability in the amount of \$3,747,205, as no gain was recorded for income tax purposes. The Company's deferred tax liability at December 31, 1998 includes \$3,255,256 related to the unrealized gain on retained interest reported as a separate component of shareholders' equity.

The differences between the total income tax expense and the income tax expense

computed using the applicable federal income tax rate were as follows for the years ended December 31:

| | 1996 | 1997 | 1998 |
|---|-----------|-----------|-------------|
| | ----- | ----- | ----- |
| Computed "expected" federal income taxes.... | \$334,895 | \$480,967 | \$4,410,088 |
| Increase (decrease) in income taxes resulting from: | | | |
| State income taxes, net..... | 47,782 | 68,622 | 669,149 |
| Other adjustments, net..... | 7,889 | (9,636) | (13,777) |
| | ----- | ----- | ----- |
| | \$390,566 | \$539,953 | \$5,065,460 |
| | ===== | ===== | ===== |

7. LEASES

In November 1997, the Company began leasing office facilities in Phoenix, Arizona to accommodate expansion of its collection operations. During 1998, the Company expanded its facilities under this lease. The lease is structured as an operating lease, and the Company incurred related rent expense in the amount of \$38,916 and \$197,550 during

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1997 and 1998, respectively. Commitments for future minimum rentals are presented below for the years ending December 31:

| | |
|-----------|-------------|
| 1999..... | \$ 529,504 |
| 2000..... | 536,504 |
| 2001..... | 566,315 |
| 2002..... | 569,578 |
| 2003..... | 380,387 |
| | ----- |
| | \$2,582,288 |
| | ===== |

The Company leases certain property and equipment through capital leases. These long-term leases are noncancelable and expire on varying dates through 2003. At December 31, 1998, the cost of assets under capital leases is \$522,685. The related amortization expense and accumulated amortization at December 31, 1998 and for the year then ended was \$30,256. Amortization of assets under capital leases is included in depreciation and amortization expense.

Future minimum lease payments under capital lease obligations consist of the following for the years ending December 31:

| | |
|--|-----------|
| 1999..... | \$173,368 |
| 2000..... | 185,592 |
| 2001..... | 185,592 |
| 2002..... | 38,904 |
| 2003..... | 26,165 |
| | ----- |
| | 609,621 |
| Less amount representing interest..... | 103,777 |
| | ----- |
| | \$505,844 |
| | ===== |

8. EXTRAORDINARY CHARGE

In connection with the early extinguishment of debt under one of the Company's previous bank credit agreements, the Company recognized an extraordinary loss in 1998 of \$179,633, net of income tax benefit of \$114,847, resulting from payment of prepayment fees and penalties.

9. COMMON STOCK WARRANTS

In November 1997, MCM Capital issued put warrants in connection with a three-month line-of-credit agreement entered into by the Company. In connection with the expiration of the line-of-credit agreement in February 1998, the holder of the warrants exercised its put option and the Company repurchased the warrants for \$206,000. As a result, the Company recorded a liability in 1997 for the put warrants in the amount of \$206,000, which was paid in 1998, and a corresponding debt discount in the same amount. The Company recognized

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

interest expense in the amount of \$68,000 and \$138,000 during 1997 and 1998, respectively, associated with the amortization of the related debt discount.

In September 1998, MCM Capital issued common stock warrants in connection with a three-month line-of-credit agreement entered into by the Company. The warrants were valued at \$130,000 on the date of issuance, which was recorded as debt discount and amortized to interest expense during 1998. In connection with the expiration of the line-of-credit agreement in December 1998, the warrants were returned to the Company at no cost.

10. PURCHASE COMMITMENT OBLIGATION

The Company is obligated under a credit card accounts sale agreement (the Agreement) with its largest supplier (the Seller) to purchase all accounts put to the Company by the Seller subject to certain restrictions as defined by the Agreement. Under the Agreement, the Seller is required to sell a minimum amount of the accounts available-for-sale to the Company each month at a set price.

11. STOCK-BASED COMPENSATION

During 1998, MCM Capital granted stock options to purchase 196,400 shares of its common stock for \$1.53 per share (representing the estimated market value of the Company's common stock on date of grant) in connection with an executive's employment agreement. These options will vest in equal increments over a period of three years from the date of grant and have a term of 10 years. No other options are outstanding at December 31, 1998. Since the exercise price of the stock options was equal to the estimated market value of the underlying common stock at the date of grant, no compensation expense was recognized in accordance with APB 25.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if MCM Capital had accounted for these stock options under the fair-value method of SFAS No. 123. The fair value for these options was estimated to be \$120,000 at the date of grant using the minimum-value method with the following assumptions for the year ended December 31, 1998: risk-free interest rate of 5.1%, dividend yield of 0%, an estimated market value of the Company's common stock on the date of grant of \$1.53 and an expected life of the options of 10 years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information for 1998 follows:

| | |
|-------------------------------|-------------|
| Pro forma net income..... | \$7,332,159 |
| Pro forma earnings per share: | |
| Basic..... | \$.75 |

Diluted..... \$.74

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MCM CAPITAL GROUP, INC.
(FORMERLY MIDLAND CORPORATION OF KANSAS)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

12. REDEEMABLE COMMON STOCK

The Company's Stockholders' Agreement (the Agreement) dated February 13, 1998 granted put options to certain minority stockholders, who collectively hold 30% of the Company's common stock. If exercised, the options obligate the Company to acquire the shares, for cash, at an amount based on operating results of the Company, as defined in the Agreement. Such options expire in the event the Company completes an initial public offering. The Company's obligation under the Agreement is reported outside of stockholders' equity with an offsetting charge to stockholders' equity.

The Company's obligation for the redeemable stock was recorded at \$3.8 million on the date of grant, as determined based on provisions of the Agreement. As of December 31, 1998, the carrying amount of the Company's obligation was adjusted to zero, as provided by the terms of the Agreement.

13. PENDING PUBLIC OFFERING OF COMMON STOCK

During 1999, MCM Capital intends to file a registration statement with the Securities and Exchange Commission for an underwritten initial public offering of its shares of common stock (the Offering). Immediately prior to the closing of the Offering, the Board of Directors and shareholders are expected to approve a change in MCM Capital's capital stock to authorize 50,000,000 shares of \$.01 par value common stock and 5,000,000 shares of \$.01 par value preferred stock and to effect a 9.82-for-1 common stock split in the form of a stock dividend. All share and per share information included in the accompanying consolidated financial statements has been adjusted to give retroactive effect to the common stock split.

Furthermore, immediately prior to the closing of the Offering, the Company intends to change its name from Midland Corporation of Kansas to MCM Capital Group, Inc. and such change is reflected in the accompanying consolidated financial statements.

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[LOGO]

MCM CAPITAL GROUP, INC.

SHARES

COMMON STOCK

PROSPECTUS

, 1999

CIBC WORLD MARKETS

U.S. BANCORP PIPER JAFFRAY

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. NO DEALER, SALESPERSON OR OTHER PERSON IS AUTHORIZED TO GIVE INFORMATION THAT IS NOT CONTAINED IN THIS PROSPECTUS. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR IS IT SEEKING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT

ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF THE DELIVERY OF THIS PROSPECTUS OR ANY SALE OF THESE SECURITIES.

UNTIL _____, 1999 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING), ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

This table sets forth the estimated expenses in connection with the distribution of the securities being registered hereunder, other than underwriting discounts and commissions:

| ITEM ---- | AMOUNT ----- |
|--|-----------------|
| Securities and Exchange Commission Fee..... | \$ 23,978 |
| NASD filing fee..... | 9,125 |
| * Blue Sky fees and expenses..... | |
| * Underwriters' non-accountable expense allowance..... | |
| * Printing and engraving expenses..... | |
| * Legal fees and expenses..... | |
| * Accounting fees and expenses..... | |
| * Transfer agent and registrar's fees..... | |
| * Miscellaneous expenses..... | |
| | ----- |
| Total..... | ===== |

- -----
* Estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Our Certificate of Incorporation provides that our directors shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for: (i) any breach of the director's duty of loyalty to us or our stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) liability for payments of dividends or stock purchases or redemptions in violation of Section 174 of the Delaware General Corporation Law; or (iv) any transaction from which the director derived an improper personal benefit. In addition, our Certificate of Incorporation provides that we will, to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than such law permitted the corporation to provide prior to such amendment), indemnify and hold harmless any person who was or is a party, or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that such person is or was our director or officer, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnitee") against expenses, liabilities and losses (including attorneys' fees, judgments, fines, excise taxes or penalties paid in connection with the Employee Retirement Income Security Act of 1974, as amended, and amounts paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith; provided, however, that except as otherwise provided with respect to proceedings to enforce rights to indemnification, we shall indemnify any such Indemnitee in connection with a proceeding (or part thereof)

initiated by such Indemnatee only if such proceeding or part thereof was authorized by our board of directors.

The right to indemnification set forth above includes the right for us to pay the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, an advancement of expenses incurred by an Indemnatee in his capacity as a director or officer (and not in any other capacity in which service was or is rendered by such Indemnatee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to us of an undertaking, by or on behalf of such Indemnatee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is not further right to appeal that such Indemnatee is not entitled to be indemnified for such expenses under this section or otherwise. The rights to indemnification and to the advancement of expenses conferred herewith are contract rights and continue as to an Indemnatee who has ceased to be a director, officer, employee or agent and inures to the benefit of the Indemnatee's heirs, executors and administrators.

The Delaware General Corporation Law provides that indemnification is permissible only when the director, officer, employee, or agent acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. The Delaware General Corporation Law also precludes indemnification in respect of any claim, issue, or matter as to which an officer, director, employee, or agent shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine that, despite such adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

We have agreed to indemnify the underwriters and their controlling persons, and the underwriters have agreed to indemnify us and our controlling persons, against certain liabilities, including liabilities under the Securities Act. Reference is made to the Underwriting Agreement filed as part of the Exhibits hereto.

See Item 17 for information regarding our undertaking to submit to adjudication the issue of indemnification for violation of the securities laws.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

On _____, 1999, MCM reincorporated from Kansas to Delaware by way of a merger of Midland Corporation of Kansas, a Kansas corporation, with and into MCM. In the merger, each share of Midland Corporation of Kansas' issued and outstanding common stock was exchanged for 9.82 shares of MCM's common stock and each option to purchase a share of Midland Corporation of Kansas' common stock was exchanged for an option to purchase 9.82 shares of MCM's common stock.

Exemption from registration for this transaction was claimed pursuant to Rule 145 under the Securities Act for transactions the sole purpose of which is to change the issuer's domicile within the United States.

On September 14, 1998, MCM issued to Nomura Asset Capital Corporation warrants to purchase 516,846 shares (post-split) of our common stock. The warrants were issued in consideration of Nomura extending the maturity date of a \$28 million loan that was outstanding to Midland Credit Management, Inc., a subsidiary of MCM. On

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December 31, 1998, the warrants were cancelled as part of the payoff of the loan. The warrants were issued under the private placement exemption in Section 4(2) of the Securities Act of 1933.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits:

| EXHIBIT NO. | DESCRIPTION |
|----------------|---|
| 1 | Form of Underwriting Agreement(1) |
| 3.1 | MCM's Certificate of Incorporation(1) |
| 3.2 | MCM's By-Laws(1) |
| 5 | Opinion of Snell & Wilmer L.L.P.(1) |
| 10.1 | Form of Indenture and Servicing Agreement relating to MCM's securitization program(1) |
| 10.2 | Form of Receivables Contribution Agreement relating to MCM's securitization program(1) |
| 10.3 | Form of Insurance and Reimbursement Agreement relating to MCM's securitization program(1) |
| 10.4 | Indenture and Servicing Agreement relating to the warehouse facility(1) |
| 10.5 | Receivables Contribution Agreement relating to the warehouse facility(1) |
| 10.6 | Insurance and Reimbursement Agreement relating to the warehouse facility(1) |
| 10.7 | MCM Stock Option Plan(1) |
| 10.8 | Employment Agreement between MCM and Frank Chandler(1) |
| 10.9 | Employment Agreement between MCM and John Chandler(1) |
| 10.10 | Employment Agreement between MCM and Bradley Hochstein(1) |
| 10.11 | Real Estate Mortgage on behalf of Bank of Kansas(1) |
| 10.12 | Net Industrial Building Lease by and between MCM and 4405 E. Baseline Road Limited Partnership for the property located at 4310 E. Broadway Road, Phoenix, Arizona (the "Office Lease") (1) |
| 10.13 | First Amendment to the Office Lease(1) |
| 10.14 | Second Amendment to the Office Lease(1) |
| 10.15 | Third Amendment to the Office Lease(1) |
| 10.16 | Fourth Amendment to the Office Lease(1) |
| 10.17 | Credit Card Accounts Sale Agreement among Midland Credit Management, Inc. and other parties(1) |
| 10.18 | First Amendment to Credit Card Accounts Sale Agreement(1) |
| 10.19 | Second Amendment to Credit Card Accounts Sale Agreement(1) |
| 10.20 | Receivable Purchase Agreement between Midland Credit Management, Inc. and other parties(1) |
| 10.21 | Amendment of Receivable Purchase Agreement(1) |
| 21 | List of Subsidiaries(1) |
| 23.1 | Consent of Ernst & Young LLP |

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| EXHIBIT NO. | DESCRIPTION |
|----------------|---|
| 23.2 | Consent of Snell & Wilmer L.L.P. (included in the opinion filed as Exhibit 5)(1) |
| 24 | Powers of Attorney (set forth on signature page included in registration statement) |
| 27 | Financial Data Schedule |

(1) To be filed by pre-effective amendment.

(b) Financial Statement Schedules:

None.

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to our directors, officers and

controlling persons under the provisions of our Certificate of Incorporation, Bylaws or laws of the State of Delaware or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake to provide to the underwriters at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

We undertake that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by us under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Under the requirements of the Securities Act of 1933, MCM CAPITAL GROUP, INC. has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Hutchinson, State of Kansas, on this 30th day of April, 1999.

MCM CAPITAL GROUP, INC.

By: /s/ FRANK CHANDLER

Name: Frank Chandler
Title: President and Chief
Executive Officer

POWER OF ATTORNEY

The Registrant and each person whose signature appears below constitutes and appoints Frank Chandler, Gregory G. Meredith and Eric D. Kogan, and any agent for service named in this Registration Statement and each of them, his, her, or its true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him, her, or it and in his, her, or its name, place and stead, in any and all capacities, to sign and file (i) any and all amendments (including post-effective amendments) to this Registration Statement, with all exhibits thereto, and other documents in connection therewith, and (ii) a registration statement, and any and all amendments thereto, relating to the offering covered hereby filed under Rule 462(b) under the Securities Act of 1933, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he, she, or it might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

UNDER THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION

STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

| NAME AND SIGNATURE ----- | TITLE ----- | DATE ---- |
|---|--|----------------|
| /s/ FRANK CHANDLER ----- Frank Chandler | President and Chief Executive Officer (Principal executive officer) | April 30, 1999 |
| /s/ RONALD W. BRETCHES ----- Ronald W. Bretches | Senior Vice President, Finance (Principal financing and accounting officer) | April 30, 1999 |
| /s/ ERIC D. KOGAN ----- Eric D. Kogan | Sole Director | April 30, 1999 |

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EXHIBIT INDEX

| EXHIBIT NO. ----- | DESCRIPTION ----- |
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EXHIBIT

NO.

DESCRIPTION

- - - - -

- - - - -

| | |
|-------|--|
| 10.21 | Amendment of Receivable Purchase Agreement(1) |
| 21 | List of Subsidiaries(1) |
| 23.1 | Consent of Ernst & Young LLP |
| 23.2 | Consent of Snell & Wilmer L.L.P. (included in the opinion filed as Exhibit 5)(1) |
| 24 | Powers of Attorney (set forth on signature page included in registration statement) |
| 27 | Financial Data Schedule |

- - - - -

(1) To be filed by pre-effective amendment.

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the captions "Selected Financial Data" and "Experts" and to the use of our report dated April 29, 1999 (except for Note 13 as to which the date is , 1999) in the Registration Statement (Form S-1) and related Prospectus of MCM Capital Group, Inc. (formerly Midland Corporation of Kansas) dated April 30, 1999.

Ernst & Young LLP

Kansas City, Missouri

The foregoing consent is in the form that will be signed upon the completion of the restatement of capital accounts and the change of name described in Note 13 to the consolidated financial statements.

/s/ Ernst & Young LLP

Kansas City, Missouri
April 29, 1999

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