PORTFOLIO RECOVERY ASSOCIATES INC
Form 10-K/A
December 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2009

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

For the transition period from __________ to __________
Commission File Number: 000-50058

Portfolio Recovery Associates, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: (888) 772-7326

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.01 par value per share
(Title of Class)
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. YES o NO þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment of this Form 10-K. o

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2009 was $579,094,043 based on the $38.73 closing price as reported on the NASDAQ Global Stock Market.

The number of shares of the registrant s Common Stock outstanding as of February 9, 2010 was 15,520,235.

Documents incorporated by reference: Portions of the Proxy Statement filed on April 23, 2010 for our 2010 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 13 and 14 of Part III of this Form 10-K/A.

EXPLANATORY NOTE

The purpose of this Annual Report on Form 10-K/A is to amend Part I, Items 1A and 3, the Supplemental Performance Data section in Part II, Item 7, Part III, Items 10, 11, 13 and 14, and Part IV Item 15 (together, the Amended Items) of our Annual Report on Form 10-K for the period ended December 31, 2009, which was filed with the Securities and Exchange Commission (the SEC) on February 16, 2010 (the Original 10-K).

The Amended Items have been amended and restated to respond to comments issued by the Staff of the Securities and Exchange Commission and to supplement and clarify previous disclosures. Except as stated herein, this Form 10-K/A does not reflect events occurring after the filing of the Original 10-K on February 16, 2010 and no attempt has been made in this Annual Report on Form 10-K/A to modify or update other disclosures as presented in the Original 10-K. Accordingly, this Form 10-K/A should be read in conjunction with the Original 10-K and our filings with the SEC subsequent to the filing of the Original 10-K.

Pursuant to the rules of the Securities and Exchange Commission, we have also included currently dated certifications from our principal executive and principal financial officers, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, attached as Exhibits 31.1, 31.2 and 32.1 to this report.

No other changes have been made to the Original 10-K.

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PART I

Item 1A. Risk Factors.

The following are risks related to our business.

A deterioration in the economic or inflationary environment in the United States may have an adverse effect on our collections, results of operations, revenue and stock price

Our performance may be affected by economic or inflationary conditions in the United States. If the United States economy deteriorates or if there is a significant rise in inflation, personal bankruptcy filings may increase, and the ability of consumers to pay their debts could be adversely affected. This may in turn adversely impact our financial condition, results of operations, revenue and stock price. Other factors associated with the economy that could influence our performance include the financial stability of the lenders on our line of credit, our access to credit, and financial factors affecting consumers.

The recent financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate, go out of business or be taken over by the federal government have resulted in a tightening in credit markets. There could be a number of follow-on effects from the credit crisis and/or the federal government s response to the credit crisis on our business, including a decrease in the value of our financial investments, the insolvency of lending institutions, including the lenders on our line of credit, resulting in our inability to obtain credit and the inability of our customers to obtain credit to re-finance their obligations with us. These and other economic factors could have a material adverse effect on our financial condition and results of operations.

We may not be able to purchase defaulted consumer receivables at appropriate prices, and a decrease in our ability to purchase portfolios of receivables could adversely affect our ability to generate revenue

If we are unable to purchase defaulted receivables from debt owners at appropriate prices, or one or more debt owners stop selling defaulted receivables to us, we could lose a potential source of income and our business may be harmed.

The availability of receivables portfolios at prices which generate an appropriate return on our investment depends on a number of factors both within and outside of our control, including the following:

- the continuation of current growth trends in the levels of consumer obligations;
- sales of receivables portfolios by debt owners; and
- competitive factors affecting potential purchasers and credit originators of receivables.

Because of the length of time involved in collecting defaulted consumer receivables on acquired portfolios and the volatility in the timing of our collections, we may not be able to identify trends and make changes in our purchasing strategies in a timely manner.

We may be unable to obtain account documents for some of the accounts that we purchase. Our inability to provide account documents may negatively impact the liquidation rate on such accounts that are subject to judicial collections, or located in states in which, by law, no collection activity may proceed without account documents

When we collect accounts judicially, courts in certain jurisdictions require that a copy of the account statements or applications be attached to the pleadings in order to obtain a judgment against the account debtors. If we are unable to produce account documents, these courts will deny our claims. Additionally, our ability to collect non-judicially may be impacted by state laws which require that certain types of account documentation be in our possession prior to the institution of any collection activities.

We may not be able to collect sufficient amounts on our defaulted consumer receivables to fund our operations

Our business primarily consists of acquiring and servicing receivables that consumers have failed to pay and that the credit originator has deemed uncollectible and has generally charged-off. The debt owners generally make numerous attempts to recover on their defaulted consumer receivables, often using a combination of in-house recovery efforts and third-party collection agencies. These defaulted consumer receivables are difficult to collect and we may not collect a sufficient amount to cover our investment associated with purchasing the defaulted consumer receivables and the costs of running our business.

Our work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs

Currently, none of our employees are represented by unions. However, our employees have the right at any time under the National Labor Relations Act to form or affiliate with a union. If some or all of our workforce were to become unionized and the terms of the collective bargaining agreement were significantly different from our current compensation arrangements, it could adversely affect the stability of our work force and increase our costs. In 2007, the Employee Free Choice Act H.R. 800 (EFCA) was passed in the U.S. House of Representatives, and currently remains in the Senate. The EFCA aims to amend the National Labor Relations Act, by making it easier for workers to organize unions and increasing the penalties employers may incur if they engage in labor practices in violation of the National Labor Relations Act. The EFCA adds additional remedies for such violations, including back pay plus liquidated damages and civil penalties to be determined by the National Labor Relations Board not to exceed $20,000 per infraction. This bill or a variation of it could be enacted in the future and could have an adverse impact on our operations.

We experience high employee turnover rates and we may not be able to hire and retain enough sufficiently trained employees to support our operations

The accounts receivables management industry is very labor intensive and, similar to other companies in our industry, we typically experience a high rate of employee turnover. Our annual turnover rate in our collector workforce, excluding those employees that do not complete our multi-week training program was 57% in 2009. We compete for qualified personnel with companies in our industry and in other industries. Our growth requires that we continually hire and train new collectors. A higher turnover rate among our collectors will increase our recruiting and training costs and limit the number of experienced collection personnel available to service our defaulted consumer receivables. If this were to occur, we would not be able to service our defaulted consumer receivables effectively and this would reduce our ability to continue our growth and operate profitability.

We serve markets that are highly competitive, and we may be unable to compete with businesses that may have greater resources than we have

We face competition in both of the markets we serve owned portfolio and fee based accounts receivable management from new and existing providers of outsourced receivables management services, including other purchasers of defaulted consumer receivables portfolios, third-party contingent fee collection agencies and debt owners that manage their own defaulted consumer receivables rather than outsourcing them. The accounts receivable management industry is highly fragmented and competitive, consisting of approximately 6,500 consumer and commercial agencies, most of which compete in the contingent fee business.

We face bidding competition in our acquisition of defaulted consumer receivables and in our placement of fee based receivables, and we also compete on the basis of reputation, industry experience and performance. Some of our current competitors and possible new competitors may have substantially greater financial, personnel and other resources, greater adaptability to changing market needs, longer operating histories and more established relationships in our industry than we currently have. In the future, we may not have the resources or ability to compete successfully. As there are few significant barriers for entry to new providers of fee based receivables management services, there can be no assurance that additional competitors with greater resources than ours will not enter the market. Moreover, there can be no assurance that our existing or potential clients will continue to outsource their defaulted consumer receivables at recent levels or at all, or that we may continue to offer competitive bids for defaulted consumer receivables portfolios. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors are able to do, we may

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experience reduced access to defaulted consumer receivables portfolios at appropriate prices and reduced profitability.

We may not be successful at acquiring receivables of new asset types or in implementing a new pricing structure

We may pursue the acquisition of receivables portfolios of asset types in which we have little current experience. We may not be successful in completing any acquisitions of receivables of these asset types and our limited experience in these asset types may impair our ability to collect on these receivables. This may cause us to pay too much for these receivables and consequently, we may not generate a profit from these receivables portfolio acquisitions.

In addition, we may in the future provide a service to debt owners in which debt owners will place consumer receivables with us for a specific period of time for a flat fee. This fee may be based on the number of collectors assigned to the collection of these receivables, the amount of receivables placed or other bases. We may not be successful in determining and implementing the appropriate pricing for this pricing structure, which may cause us to be unable to generate a profit from this business.

Our collections may decrease if certain types of bankruptcy filings involving liquidations increase

Various economic trends and potential changes to existing legislation may contribute to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings a debtor s assets may be sold to repay creditors, but since the defaulted consumer receivables we service are generally unsecured we often would not be able to collect on those receivables. We cannot ensure that our collection experience would not decline with an increase in personal bankruptcy filings or a change in bankruptcy regulations or practices. If our actual collection experience with respect to a defaulted bankrupt consumer receivables portfolio is significantly lower than we projected when we purchased the portfolio, our financial condition and results of operations could deteriorate.

We may make acquisitions that prove unsuccessful or strain or divert our resources

We intend to consider acquisitions of other companies in our industry that could complement our business, including the acquisition of entities offering greater access and expertise in other asset types and markets that are related but that we do not currently serve. If we do acquire other businesses, we may not be able to successfully integrate these businesses with our own and we may be unable to maintain our standards, controls and policies. Further, acquisitions may place additional constraints on our resources by diverting the attention of our management from other business concerns. 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 or may result in the incurrence of additional debt and amortization expenses of related intangible assets, which could reduce our profitability and harm our business.

The loss of IGS, RDS or MuniServices customers could negatively affect our operations

With respect to the acquisitions of IGS, RDS and MuniServices, a significant portion of the valuation was tied to existing client and customer relationships. Our customers, in general, may terminate their relationship with us on 90 days prior notice. In the event a customer or customers terminate or significantly cut back any relationship with us, it could reduce our profitability and harm our business and could potentially give rise to an impairment charge related to an intangible asset specifically ascribed to existing client and customer relationships.

We may not be able to continually replace our defaulted consumer receivables with additional receivables portfolios sufficient to operate efficiently and profitably

To operate profitably, we must continually acquire and service a sufficient amount of defaulted consumer receivables to generate revenue that exceeds our expenses. Fixed costs such as salaries and lease or other facility costs constitute a significant portion of our overhead and, if we do not continually replace the defaulted consumer receivables portfolios we service with additional portfolios, we may have to reduce the number of our collection personnel. We would then have to rehire collection staff as we obtain additional defaulted consumer receivables portfolios. These practices could lead to:

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

Furthermore, heightened regulation of the credit card and consumer lending industry or changing credit origination strategies may result in decreased availability of credit to consumers, potentially leading to a future reduction in defaulted consumer receivables available for purchase from debt owners. We cannot predict how our ability to identify and purchase receivables and the quality of those receivables would be affected if there is a shift in consumer lending practices, whether caused by changes in the regulations or accounting practices applicable to debt owners, a sustained economic downturn or otherwise.

We may not be able to manage our growth effectively

We have expanded significantly since our formation and we intend to maintain our growth focus. However, our growth will place additional demands on our resources and we cannot ensure that we will be able to manage our growth effectively. In order to successfully manage our growth, we may need to:

- expand and enhance our administrative infrastructure;
- continue to improve our management, financial and information systems and controls; and
- recruit, train, manage and retain our employees effectively.

Continued growth could place a strain on our management, operations and financial resources. We cannot ensure that our infrastructure, facilities and personnel will be adequate to support our future operations or to effectively adapt to future growth. If we cannot manage our growth effectively, our results of operations may be adversely affected.

Our operations could suffer from telecommunications or technology downtime or increased costs

Our success depends in large part on sophisticated telecommunications and computer systems. The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty or operating malfunction, could disrupt our operations. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for our collection activities. Any failure of our information systems or software and our backup systems would interrupt our business operations and harm our business. Our headquarters are located in a region that is susceptible to hurricane damage, which may increase the risk of disruption of information systems and telephone service for sustained periods.

Further, our business depends heavily on services provided by various local and long distance telephone companies. A significant increase in telephone service costs or any significant interruption in telephone services could reduce our profitability or disrupt our operations and harm our business.

We may not be able to successfully anticipate, manage or adopt technological advances within our industry

Our business relies on computer and telecommunications technologies and our ability to integrate these technologies into our business is essential to our competitive position and our success. Computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis, which could reduce our profitability or disrupt our operations and harm 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 defaulted consumer receivables. We cannot ensure that adequate capital resources will be available to us at the appropriate time.

Our senior management team is important to our continued success and the loss of one or more members of senior management could negatively affect our operations

The loss of the services of one or more of our key executive officers or key employees could disrupt our operations. We have employment agreements with Steve Fredrickson, our president, chief executive officer and chairman of our board of directors, Kevin Stevenson, our executive vice president and chief financial and administrative officer, Craig Grube, our executive vice president of portfolio acquisitions, and most of our other senior executives. The current agreements contain non-compete provisions that survive termination of employment. However, these agreements do not and will not assure the continued services of these officers and we cannot ensure that the non-compete provisions will be enforceable. Our success depends on the continued service and performance of our key executive officers, and we cannot guarantee that we will be able to retain those individuals. The loss of the services of Mr. Fredrickson, Mr. Stevenson, Mr. Grube or other key executive officers could seriously impair our ability to continue to acquire or collect on defaulted consumer receivables and to manage and expand our business. Under one of our credit agreements, if both Mr. Fredrickson and Mr. Stevenson cease to be president and chief financial and administrative officer, respectively, it would constitute a default.

Our ability to recover and enforce our defaulted consumer receivables may be limited under federal and state laws

The businesses conducted by the Company s operating subsidiaries are subject to licensing and regulation by governmental and regulatory bodies in the many jurisdictions in which the Company operates and conducts its business. Federal and state laws may limit our ability to recover and enforce our defaulted consumer receivables regardless of any act or omission on our part. Some laws and regulations applicable to credit issuers may preclude us from collecting on defaulted consumer receivables we purchase if the credit issuer previously failed to comply with applicable laws in generating or servicing those receivables. Collection laws and regulations also directly apply to our business. Such laws and regulations are extensive and subject to change. Additional consumer protection and privacy protection laws may be enacted that would impose additional requirements on the enforcement of and collection on consumer credit receivables. Any new laws, rules or regulations that may be adopted, as well as existing consumer protection and privacy protection laws, may adversely affect our ability to collect on our defaulted consumer receivables and may harm our business. In addition, federal and state governmental bodies are considering, and may consider in the future, legislative proposals that would regulate the collection of our defaulted consumer receivables. Further, tax law changes such as Internal Revenue Code Section 6050P (requiring 1099-C returns to be filed on discharge of indebtedness in excess of $600) could negatively impact our ability to collect or cause us to incur additional expenses. Although we cannot predict if or how any future legislation would impact our business, our failure to comply with any current or future laws or regulations applicable to us could limit our ability to collect on our defaulted consumer receivables, which could reduce our profitability and harm our business.

Our ability to recover on portfolios of bankrupt consumer receivables may be impacted by changes in federal laws or changes in the administrative practices of the various bankruptcy courts

We recover on consumer receivables that have filed for bankruptcy protection under available U.S. bankruptcy laws. We recover on consumer receivables that have filed for bankruptcy protection after we acquired them, and we also purchase accounts that are currently in bankruptcy proceedings. Our ability to recover on portfolios of bankruptcy consumer receivables may be impacted by changes in federal laws or changes in administrative practices of the various bankruptcy courts.

We are subject to examinations and challenges by tax authorities

Our industry is relatively unique and as a result there is not a set of well defined laws or regulations for us to follow that match our particular facts and circumstances for some tax positions. Therefore, certain tax positions we take are based on industry practice, tax advice and drawing similarities of our facts and circumstances to those in case law. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base and apportionment. Challenges made by tax authorities to our application of tax rules may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions, as well as, inconsistent positions between different jurisdictions on similar matters. If any such challenges are made and are not resolved in our favor, they could have an adverse effect on our financial condition and result of operations.

We utilize the interest method of revenue recognition for determining our income recognized on finance receivables, which is based on an analysis of projected cash flows that may prove to be less than anticipated and could lead to reductions in future revenues or increases in valuation allowance charges

We utilize the interest method to determine income recognized on finance receivables. Under this method, static pools of receivables we acquire are modeled upon their projected cash flows. A yield is then established which, when applied to the unamortized purchase price of the receivables, results in the recognition of income at a constant yield relative to the remaining balance in the pool of defaulted consumer receivables. Each static pool is analyzed monthly to assess the actual performance compared to that expected by the model. If the accuracy of the modeling process deteriorates or there is a decline in anticipated cash flows, we would suffer reductions in future revenues or a decline in the carrying value of our receivables portfolios from increases in valuation allowance charges, which in any case would result in lower earnings in future periods and could negatively impact our stock price.

*We may be required to incur valuation allowance charges under the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (*ASC*) 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30)*

ASC 310-30 provides guidance on accounting for differences between contractual and expected cash flows from an investor s initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. Under ASC 310-30, static pools of accounts may be established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost, which includes certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30 requires that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of revenue or expense or on the balance sheet. ASC 310-30 initially freezes the internal rate of return, referred to as IRR, estimated when the accounts receivable are purchased as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio s remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Effective for fiscal years beginning after December 15, 2004 under ASC 310-30, rather than lowering the estimated IRR if the collection estimates are not received or projected to be received (as was permitted under the prior accounting guidance), the carrying value of a pool would be written down to maintain the then current IRR and is shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheet. Historically, under the guidance of ASC 310-30, for loans acquired prior to January 1, 2005, we have moved yields upward and downward as appropriate. However, under ASC 310-30, for loans acquired after January 1, 2005, guidance does not permit yields to be lowered which will increase the probability of us having to incur valuation allowance charges in the future, which could reduce our profitability in a given period and could negatively impact our stock price.

We incur increased costs as a result of enacted and proposed changes in laws and regulations

Enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules proposed by the SEC and by the NASDAQ Global Stock Market, have resulted in increased costs to us as we implement their requirements. We continue to evaluate and

monitor developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we will incur or the timing of such costs.

The continued future impact on us of Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder is unclear

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report by management on the company s internal control over financial reporting in their annual reports on Form 10-K. This report is required to contain an assessment by management of the effectiveness of such company s internal controls over financial reporting. In addition, the public accounting firm auditing a public company s financial statements must report on the effectiveness of the company s internal controls over financial reporting. In the future, if we are unable to continue to comply with the requirements of Section 404 in a timely manner, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our internal controls over financial reporting, which could cause the market price of our common stock to decline and make it more difficult for us to finance our operations.

The market price of our shares of common stock could fluctuate significantly

Wide fluctuations in the trading price or volume of our shares of common stock could be caused by many factors, including factors relating to our company or to investor perception of our company (including changes in financial estimates and recommendations by research analysts), but also factors relating to (or relating to investor perception of) the accounts receivable management industry or the economy in general.

We may not be able to retain, renegotiate or replace our existing credit facility

If we are unable to retain, renegotiate or replace such facility, our growth could be adversely affected, which could negatively impact our business operations and the price of our common stock.

We may not be able to continue to satisfy the restrictive covenants in our debt agreements

All of our receivable portfolios are pledged to secure amounts owed to our lenders. Our debt agreements impose a number of restrictive covenants on how we operate our business. Failure to satisfy any one of these covenants could result in all or any of the following consequences, each of which could have a materially adverse effect on our ability to conduct business:

- acceleration of outstanding indebtedness;
- our inability to continue to purchase receivables needed to operate our business; or
- our inability to secure alternative financing on favorable terms, if at all.

Our hedging strategies may not be successful in mitigating our risks associated with changes in interest rates and could adversely affect our results of operations and financial condition, as could our failure to comply with hedge accounting principles and interpretations

We entered into an interest rate swap transaction in December 2008 to mitigate our interest rate risk on a portion of our credit facility. Our hedging strategies rely on assumptions and projections. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates, we may experience volatility in our earnings that could adversely affect our results of operations and financial condition.

In addition, hedge accounting in accordance with FASB ASC Topic 815 Derivatives and Hedging requires the application of significant subjective judgments to a body of accounting concepts that is complex and for which the interpretations have continued to evolve within the accounting profession and amongst the standard-setting bodies. Our failure to comply with hedge accounting principles and interpretations could result in the loss of the applicability of hedge accounting which could adversely affect our results of operations and financial condition.

Terrorist attacks, war and threats of attacks and war may adversely impact results of operations, revenue, and stock price

Terrorist attacks, war and the outcome of war and threats of attacks may adversely affect our results of operations, revenue and stock price. Any or all of these occurrences could have a material adverse effect on our results of operations, revenue and stock price.

Failure to comply with government regulation of the collections industry could result in the suspension or termination of our ability to conduct its business

The collections industry is governed by various U.S. federal and state laws and regulations. Many states require us to be a licensed debt collector. The Federal Trade Commission has the authority to investigate consumer complaints against debt collection companies and to recommend enforcement actions and seek monetary penalties. If we fail to comply with applicable laws and regulations, it could result in the suspension, or termination of our ability to conduct collections which would materially adversely affect us. In addition, new federal and state laws or regulations or changes in the ways these rules or laws are interpreted or enforced could limit our activities in the future or significantly increase the cost of compliance.

Changes in governmental laws and regulations could increase our costs and liabilities or impact our operations

Changes in laws and regulations and the manner in which they are interpreted or applied may alter our business environment. This could affect our results of operations or increase our liabilities. These negative impacts could result from changes in collection laws, laws related to credit reporting, consumer bankruptcy, accounting standards, taxation requirements, employment laws and communications laws, among others. It is possible that we could become subject to additional liabilities in the future resulting from changes in laws and regulations that could result in an adverse effect on our results of operations and financial condition. Specifically, we know that both federal and state governments are currently reviewing existing law related to debt collection, in order to determine if any changes are needed. In connection therewith, on December 16, 2009, the Federal Trade Commission issued an order to the nation s nine largest debt buyers, including us, to submit information about current practices in relation to buying and collecting consumer debt, which the FTC intends to use for a study of the debt-buying industry. We intend to work closely with the FTC in connection with its study, subject to applicable law.

Our certificate of incorporation, by-laws and Delaware law contain provisions that may prevent or delay a change of control or that may otherwise be in the best interest of our stockholders

Our certificate of incorporation and by-laws contain provisions that may make it more difficult, expensive or otherwise discourage a tender offer or a change in control or takeover attempt by a third-party, even if such a transaction would be beneficial to our stockholders. The existence of these provisions may have a negative impact on the price of our common stock by discouraging third-party investors from purchasing our common stock. In particular, our certificate of incorporation and by-laws include provisions that:

- classify our board of directors into three groups, each of which will serve for staggered three-year terms;
- permit a majority of the stockholders to remove our directors only for cause;
- permit our directors, and not our stockholders, to fill vacancies on our board of directors;
- require stockholders to give us advance notice to nominate candidates for election to our board of directors or to make stockholder proposals at a stockholders meeting;
- permit a special meeting of our stockholders be called only by approval of a majority of the directors, the chairman of the board of directors, the chief executive officer, the president or the written request of holders owning at least 30% of our common stock;

permit our board of directors to issue, without approval of our stockholders, preferred stock with such terms as our board of directors may determine;

permit the authorized number of directors to be changed only by a resolution of the board of directors; and

require the vote of the holders of a majority of our voting shares for stockholder amendments to our by-laws.

In addition, we are subject to Section 203 of the Delaware General Corporation Law which provides certain restrictions on business combinations between us and any party acquiring a 15% or greater interest in our voting stock other than in a transaction approved by our board of directors and, in certain cases, by our stockholders. These provisions of our certificate of incorporation and by-laws and Delaware law could delay or prevent a change in control, even if our stockholders support such proposals. Moreover, these provisions could diminish the opportunities for stockholders to participate in certain tender offers, including tender offers at prices above the then current market value of our common stock, and may also inhibit increases in the trading price of our common stock that could result from takeover attempts or speculation.

Item 3. Legal Proceedings.

We are from time to time subject to routine legal claims and proceedings, most of which are incidental to the ordinary course of our business. We initiate lawsuits against consumers and are occasionally countersued by them in such actions. Also, consumers, either individually, as members of a class action, or through a governmental entity on behalf of consumers, may initiate litigation against us, in which they allege that we have violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against us. While it is not expected that these or any other legal proceedings or claims in which we are involved will, either individually or in the aggregate, have a material adverse impact on our results of operations, liquidity or our financial condition, the matter described below falls outside of the normal parameters of our routine legal proceedings.

We are currently a defendant in a purported enforcement action brought by the Attorney General for the State of Missouri that is currently pending in the United States District Court for the Eastern District of Missouri. The action seeks relief for Missouri consumers that have allegedly been injured as a result of certain of our collection practices. It is not possible at this time to estimate the possible loss, if any. We have vehemently denied any wrongdoing herein and believe we have meritorious defenses to each allegation in the complaint.

PART II

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

Supplemental Performance Data

Owned Portfolio Performance:

The following tables show certain data related to our owned portfolio. These tables describe the purchase price, cash collections and related multiples. Further, these tables disclose our entire portfolio, the portfolio of purchased bankrupt accounts and our entire portfolio less the impact of our purchased bankrupt accounts. The accounts represented in the purchased bankruptcy tables are those portfolios of accounts that were bankrupt at the time of purchase. This contrasts with accounts that file bankruptcy after we purchase them.

The purchase price multiples for 2005 through 2008 described in the table below are lower than historical multiples in previous years. This trend is primarily, but not entirely related to pricing competition. When competition increases, and or supply decreases so that pricing becomes negatively impacted on a relative basis (total lifetime collections in relation to purchase price), internal rates of return (IRRs) tend to trend lower. This was the situation during 2005-2007 and this situation also extended into 2008 to the extent that deals purchased in 2008 were part of forward flow agreements priced in earlier periods.

Additionally, however, the way we initially book newly acquired pools of accounts and how we forecast future estimated collections for any given portfolio of accounts has evolved over the years due to a number of factors including the current economic situation. Since our revenue recognition under ASC 310-30 is driven by both the ultimate magnitude of estimated lifetime collections, as well as the timing of those collections, we have progressed towards booking new portfolio purchases using a higher confidence level for both collection amount and pace. Subsequent to the initial booking, as we gain collection experience and comfort with a pool of accounts, we continuously update estimated remaining collections (ERC) as time goes on. Since our inception, these processes have tended to cause the ratio of collections to purchase price multiple for any given year of buying to gradually increase over time. As a result, our estimate of lifetime collections to purchase price has shown relatively steady increases as pools have aged. Thus, all factors being equal in terms of pricing, one would naturally tend to see a higher collection to purchase price ratio from a pool of accounts that was six years from purchase than a pool that was just two years from purchase.

To the extent that lower purchase price multiples are the ultimate result of more competitive pricing and lower IRRs, this will generally lead to higher amortization rates (payments applied to principal as a percentage of cash collections), lower operating margins and ultimately lower profitability. As portfolio pricing becomes more favorable on a relative basis, our profitability will tend to expand. It is important to consider, however, that to the extent we can improve our collection operations by extracting additional cash from a discreet quantity and quality of accounts, and/or by extracting cash at a lower cost structure, we can put upward pressure on the collection to purchase price ratio and also on our operating margins. During 2008 and 2009, we made significant enhancements in our analytical abilities, management personnel and automated dialing capabilities, all with the intent to collect more cash at lower cost.

Information about our owned portfolios as of December 31, 2009 is as follows:

Entire Portfolio ($ in thousands)

Purchase Period	Purchase Price(1)	Life to Date Reserve Allowance (2)	Percentage of Reserve Allowance to Purchase Price (3)	Unamortized Purchase Price Balance at December 31, 2009 (4)	Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance (5)	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections (6)	Total Estimated Collections (7)	Total Estimated Collections to Purchase Price (8)
1996	$ 3,080	$ 0	0%	$ 0	0%	$ 9,976	$ 80	$ 10,056	326%
1997	$ 7,685	$ 0	0%	$ 0	0%	$ 24,905	$ 211	$ 25,116	327%
1998	$ 11,089	$ 0	0%	$ 0	0%	$ 36,226	$ 511	$ 36,737	331%
1999	$ 18,898	$ 0	0%	$ 0	0%	$ 66,026	$ 1,465	$ 67,491	357%
2000	$ 25,020	$ 0	0%	$ 3	0%	$108,053	$ 3,445	$111,498	446%
2001	$ 33,481	$ 0	0%	$ 0	0%	$162,251	$ 2,264	$164,515	491%
2002	$ 42,325	$ 0	0%	$ 0	0%	$178,053	$ 3,411	$181,464	429%
2003	$ 61,449	$ 0	0%	$ 236	0%	$233,029	$ 7,845	$240,874	392%
2004	$ 59,179	$ 1,385	2%	$ 1,246	53%	$168,689	$ 12,508	$181,197	306%
2005	$143,173	$ 9,940	7%	$ 36,278	22%	$246,918	$ 70,759	$317,677	222%
2006	$107,743	$12,370	11%	$ 40,522	23%	$146,473	$ 76,853	$223,326	207%
2007	$258,357	$10,815	4%	$ 149,434	7%	$252,079	$262,028	$514,107	199%
2008	$275,213	$16,745	6%	$ 199,519	8%	$169,253	$372,034	$541,287	197%
2009	$285,834	$ 0	0%	$ 266,224	0%	$ 57,339	$602,032	$659,371	231%

Purchased Bankruptcy Portfolio ($ in thousands)

		Life to Date	Percentage of Reserve	Unamortized Purchase Price	Percentage of Reserve Allowance to	Actual Cash Collections	Estimated		Total Estimated

Purchase Period	Purchase Price (1)	Reserve Allowance (2)	Allowance to Purchase Price (3)	Balance at December 31, 2009 (4)	Unamortized Purchase Price and Reserve Allowance (5)	Including Cash Sales	Remaining Collections (6)	Total Estimated Collections (7)	Collections to Purchase Price (8)
1996	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
1997	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
1998	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
1999	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
2000	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
2001	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
2002	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
2003	$ 0	$ 0	0%	$ 0	0%	$ 0	$ 0	$ 0	0%
2004	$ 7,469	$ 1,285	17%	$ 31	98%	$ 13,981	$ 91	$ 14,072	188%
2005	$ 29,302	$ 800	3%	$ 1,323	38%	$ 41,373	$ 1,821	$ 43,194	147%
2006	$ 17,643	$ 1,480	8%	$ 911	62%	$ 25,983	$ 3,153	$ 29,136	165%
2007	$ 78,933	$ 110	0%	$ 45,658	0%	$ 56,451	$ 59,821	$ 116,272	147%
2008	$ 108,614	$ 0	0%	$ 86,353	0%	$ 49,919	$ 133,126	$ 183,045	169%
2009	$ 159,007	$ 0	0%	$ 155,754	0%	$ 16,635	$ 323,718	$ 340,353	214%

Entire Portfolio less Purchased Bankruptcy Portfolio ($ in thousands)

Purchase Period	Purchase Price(1)	Life to Date Reserve Allowance (2)	Percentage of Reserve Allowance to Purchase Price (3)	Unamortized Purchase Price Balance at December 31, 2009 (4)	Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance (5)	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections (6)	Total Estimated Collections (7)	Total Estimated Collections to Purchase Price (8)
1996	$ 3,080	$ 0	0%	$ 0	0%	$ 9,976	$ 80	$ 10,056	326%
1997	$ 7,685	$ 0	0%	$ 0	0%	$ 24,905	$ 211	$ 25,116	327%
1998	$ 11,089	$ 0	0%	$ 0	0%	$ 36,226	$ 511	$ 36,737	331%
1999	$ 18,898	$ 0	0%	$ 0	0%	$ 66,026	$ 1,465	$ 67,491	357%
2000	$ 25,020	$ 0	0%	$ 3	0%	$108,053	$ 3,445	$111,498	446%
2001	$ 33,481	$ 0	0%	$ 0	0%	$162,251	$ 2,264	$164,515	491%
2002	$ 42,325	$ 0	0%	$ 0	0%	$178,053	$ 3,411	$181,464	429%
2003	$ 61,449	$ 0	0%	$ 236	0%	$233,029	$ 7,845	$240,874	392%
2004	$ 51,710	$ 100	0%	$ 1,215	8%	$154,708	$ 12,417	$167,125	323%
2005	$113,871	$ 9,140	8%	$ 34,955	21%	$205,545	$ 68,938	$274,483	241%
2006	$ 90,100	$10,890	12%	$ 39,611	22%	$120,490	$ 73,700	$194,190	216%
2007	$179,424	$10,705	6%	$ 103,775	9%	$195,628	$202,207	$397,835	222%
2008	$166,599	$16,745	10%	$ 113,166	13%	$119,334	$238,908	$358,242	215%
2009	$126,827	$ 0	0%	$ 110,470	0%	$ 40,704	$278,314	$319,018	252%

(1) Purchase price refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized costs, less the purchase price refunded by the seller due to the return of non-compliant accounts (also defined as buybacks). Non-compliant refers to the contractual representations and warranties provided for in the purchase and sale contract between the seller and us. These representations and warranties from the sellers generally cover account holders death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or repurchase these accounts.

(2) Life to date reserve allowance refers to the total amount of allowance charges incurred on our owned portfolios net of any reversals.

(3) Percentage of reserve allowance to purchase price refers to the total amount of allowance charges incurred on our owned portfolios net of any reversals, divided by the purchase price.

(4) Unamortized purchase price balance refers to the purchase price less amortization over the life of the portfolio.

(5) Percentage of purchase price remaining unamortized refers to the amount of unamortized purchase price divided by the purchase price.

(6) Estimated remaining collections refers to the sum of all future projected cash collections on our owned portfolios.

(7)

Total estimated collections refers to the actual cash collections, including cash sales, plus estimated remaining collections.

(8) Total estimated collections to purchase price refers to the total estimated collections divided by the purchase price.

The following table shows our net valuation allowances booked since we began accounting for our investment in finance receivables under the guidance of ASC 310-30.
($ in thousands)

Allowance						**Purchase Period**					
Period(1)	**1996-2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**Total**
Q1 05	$	$	$	$	$	$	$	$	$	$	$
Q2 05											$
Q3 05											$
Q4 05		200									$ 200
Q1 06						175					$ 175
Q2 06		75				125					$ 200
Q3 06		200				75					$ 275
Q4 06						450					$ 450
Q1 07		(245)				610					$ 365
Q2 07		70		20							$ 90
Q3 07		50		150	320	660					$ 1,180
Q4 07				190	150	615	340				$ 1,295
Q1 08				120	650	910	1,105				$ 2,785
Q2 08		(140)		400	720		2,330	650			$ 3,960
Q3 08		(30)		(60)	60	325	1,135	2,350			$ 3,780
Q4 08		(75)		(325)	(140)	1,805	2,600	4,380	620		$ 8,865
Q1 09		(105)		(120)	35	1,150	910	2,300	2,050		$ 6,220
Q2 09				(230)	(220)	495	765	685	2,425		$ 3,920
Q3 09				(25)	(190)	1,170	1,965	340	4,750		$ 8,010
Q4 09				(120)		1,375	1,220	110	6,900		$ 9,485
Total	$	$	$	$	$ 1,385	$ 9,940	$ 12,370	$ 10,815	$ 16,745	$	$ 51,255
Purchase Price	$65,772	$33,481	$42,325	$61,449	$59,179	$143,173	$107,743	$258,357	$275,213	$285,834	$1,332,525

(1) Allowance period represents the quarter in which we recorded valuation allowances, net of any (reversals).

The following graph shows the purchase price of our owned portfolios by year beginning in 1996. The purchase price number represents the cash paid to the seller to acquire defaulted consumer receivables, plus certain capitalized costs, less the purchase price refunded by the seller due to the return of non-compliant accounts.

As shown in the above chart, the composition of our purchased portfolios has shifted in favor of bankrupt accounts in recent years. We began buying bankrupt accounts during 2004 and slowly increased the volume of accounts we acquired through 2006 as we tested our models, refined our processes and proved out our operating assumptions. After observing a high level of modeling confidence in our early purchases, we began increasing our level of purchases more dramatically during the period from 2007 through 2009.

Our ability to profitably purchase and liquidate pools of bankrupt accounts provides diversity to our distressed asset acquisition business. Although we generally buy bankrupt assets from many of the same consumer lenders from whom we acquire charged off (Core) consumer accounts, the volumes and pricing characteristics as well as the competitors are different. Based upon market dynamics, the profitability of pools purchased in the bankrupt and Core markets may differ over time. We have found periods when bankrupt accounts were more profitable and other times when Core accounts were more profitable. From 2004 through 2008, our bankruptcy buying fluctuated between 13% and 39% of our total portfolio purchasing in those years. In 2009, for the first time in our history, bankruptcy purchasing exceeded that of our Core buying, finishing at 55% of total portfolio purchasing for the year. This occurred as severe dislocations in the financial markets, coupled with legislative uncertainty, caused pricing in the bankruptcy market to decline substantially thereby driving our strategy to make advantageous bankruptcy portfolio acquisitions during this period.

In order to collect our Core portfolios, we generally need to employ relatively higher amounts of labor and incur additional collection costs to generate each dollar of cash collections as compared with bankruptcy portfolios. In order to achieve acceptable levels of net return on investment (after direct expenses), we are generally targeting a total cash collections to purchase price multiple in the 2.5-3.0x range. On the other hand, bankrupt accounts generate the majority of cash collections through the efforts of the U.S. bankruptcy courts. In this process, cash is remitted to our Company with no corresponding cost other than the cost of filing claims at the time of purchase and general administrative costs for monitoring the progress of each account through the bankruptcy process. As a result, overall collection costs are much lower for us when liquidating a pool of bankrupt accounts as compared to a pool of Core accounts, but conversely the price we pay for bankrupt accounts is generally higher than Core accounts. We generally target similar returns on investment (measured after direct expenses) for bankrupt and Core portfolios at any given point in the market cycles. However, because of the lower related collection costs, we can pay more for bankrupt portfolios, which causes the estimated total cash collections to purchase price multiples of bankrupt pools to be in the 1.4-2.0x range generally. In summary, compared to a pool of Core accounts, to the extent both pools had identical targeted returns on investment (measured after direct expenses), the bankrupt pool would be expected to generate less revenue, a lower yield, less direct expenses, similar operating income, and a higher operating margin.

In addition, collections on younger, newly filed bankrupt accounts tend to be of a lower magnitude in the earlier months when compared to Core charge-off accounts. This lower level of early period collections is due to the fact that 1) we purchase primarily accounts that represent unsecured claims in bankruptcy, and 2) these unsecured claims are scheduled to begin paying out after the secured and priority claims. As a result of the administrative processes regarding payout priorities within the court-administered bankruptcy plans, unsecured creditors do not generally begin receiving meaningful collections on unsecured claims until 12 to 18 months after the bankruptcy filing date. Therefore, to the extent that we purchase portfolios with more recent bankruptcy filing dates, as we did to a significant extent in 2009, we would expect to experience a delay in cash collections compared with Core charged-off accounts.

We utilize a long-term approach to collecting our owned portfolios of receivables. This approach has historically caused us to realize significant cash collections and revenues from purchased portfolios of finance receivables years after they are originally acquired. As a result, we have in the past been able to temporarily reduce our level of current period acquisitions without a corresponding negative current period impact on cash collections and revenue.

The following tables, which exclude any proceeds from cash sales of finance receivables, demonstrates our ability to realize significant multi-year cash collection streams on our owned portfolios.

Cash Collections By Year, By Year of Purchase Entire Portfolio

Cash Collection Period												
1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
$ 548	$ 2,484	$ 1,890	$ 1,348	$ 1,025	$ 730	$ 496	$ 398	$ 285	$ 210	$ 237	$ 102	$ 83
	2,507	5,215	4,069	3,347	2,630	1,829	1,324	1,022	860	597	437	346
		3,776	6,807	6,398	5,152	3,948	2,797	2,200	1,811	1,415	882	616
			5,138	13,069	12,090	9,598	7,336	5,615	4,352	3,032	2,243	1,533
				6,894	19,498	19,478	16,628	14,098	10,924	8,067	5,202	3,604
					13,048	28,831	28,003	26,717	22,639	16,048	10,011	6,164
						15,073	36,258	35,742	32,497	24,729	16,527	9,772
							24,308	49,706	52,640	43,728	30,695	18,818
								18,019	46,475	40,424	30,750	19,339
									18,968	75,145	69,862	49,576
										22,971	53,192	40,560
											42,263	115,011
												61,277
$ 548	$ 4,991	$ 10,881	$ 17,362	$ 30,733	$ 53,148	$ 79,253	$ 117,052	$ 153,404	$ 191,376	$ 236,393	$ 262,166	$ 326,699

Cash Collections By Year, By Year of Purchase Purchased Bankruptcy Portfolio

($ in thousands)

Purchase Period	Purchase Price	Cash Collection Period 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
1996	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
1997																$
1998																$
1999																$
2000																$
2001																$
2002																$
2003																$
2004	7,469									743	4,554	3,956	2,777	1,455	496	$ 13,981
2005	29,302										3,777	15,500	11,934	6,845	3,318	$ 41,374
2006	17,643											5,608	9,455	6,522	4,398	$ 25,983
2007	78,933												2,850	27,972	25,630	$ 56,452
2008	108,614													14,024	35,894	$ 49,918
2009	159,007														16,635	$ 16,635
Total	$400,968	$	$	$	$	$	$	$	$	$743	$8,331	$25,064	$27,016	$56,818	$86,371	$204,343

Cash Collections By Year, By Year of Purchase Entire Portfolio less Purchased Bankruptcy Portfolio

Cash Collection Period												
996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
548	$2,484	$ 1,890	$ 1,348	$ 1,025	$ 730	$ 496	$ 398	$ 285	$ 210	$ 237	$ 102	$ 83
	2,507	5,215	4,069	3,347	2,630	1,829	1,324	1,022	860	597	437	346
		3,776	6,807	6,398	5,152	3,948	2,797	2,200	1,811	1,415	882	616
			5,138	13,069	12,090	9,598	7,336	5,615	4,352	3,032	2,243	1,533
				6,894	19,498	19,478	16,628	14,098	10,924	8,067	5,202	3,604
					13,048	28,831	28,003	26,717	22,639	16,048	10,011	6,164
						15,073	36,258	35,742	32,497	24,729	16,527	9,772
							24,308	49,706	52,640	43,728	30,695	18,818
								17,276	41,921	36,468	27,973	17,884
									15,191	59,645	57,928	42,731
										17,363	43,737	34,038
											39,413	87,039
												47,253
548	$4,991	$10,881	$17,362	$30,733	$53,148	$79,253	$117,052	$152,661	$183,045	$211,329	$235,150	$269,881

When we acquire a new pool of finance receivables, our estimates typically result in an 84 96 month projection of cash collections. The following chart shows our historical cash collections (including cash sales of finance receivables) in relation to the aggregate of the total estimated collection projections made at the time of each respective pool purchase, adjusted for buybacks.

Actual Cash Collections and Cash Sales vs. Original Projections ($ in millions)

Primarily as a result of the downturn in the economy, the decline in the availability of consumer credit, our efforts to help customers establish reasonable payment plans, and improvements in our collections capabilities which have allowed us to profitably collect on accounts with lower balances or lower quality, our average payment size has decreased over the past several years. However, due to improved scoring and segmentation, together with enhanced productivity, we have been able to generate increased amounts of cash collections by generating enough incremental payments to overcome the decrease in payment size.

Owned Portfolio Personnel Performance:

We measure the productivity of each collector each month, breaking results into groups of similarly tenured collectors. The following tables display various productivity measures that we track.

Collector by Tenure

Tenure at:	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**
One year +[(1)]	327	340	327	452	638
Less than one year [(2)]	364	375	553	739	676
Total[(2)]	691	715	880	1191	1314

(1) Calculated based on actual employees (collectors) with one year of service or more.

(2) Calculated using total hours worked by all collectors, including those in training to produce a full time equivalent FTE.

Cash Collections per Hour Paid [(1)]

Average performance	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**
Total cash collections	$133.39	$146.03	$135.77	$131.29	$145.44
Non-legal cash collections[(2)]	$ 89.25	$ 99.06	$ 91.93	$ 96.95	$119.16
Non-bk cash collections[(3)]	$128.02	$132.15	$123.10	$109.82	$113.42
Non-bk/legal cash collections[(4)]	$ 83.88	$ 85.18	$ 79.26	$ 75.47	$ 87.13

(1) Cash collections (assigned and unassigned) divided by total hours paid (including holiday, vacation and sick time) to all collectors (including those in training).

(2) Represents total cash collections less external legal cash collections.

(3) Represents total cash collections less purchased bankruptcy cash collections from trustee-administered accounts. The 2008 statistics are slightly different than those reported previously as a result of a change in the computation methodology.

(4) Represents total cash collections less external legal cash collections and less purchased bankruptcy cash collections from trustee- administered accounts.

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

Cash Collections vs. Income Recognized on Finance Receivables, net

Seasonality

We depend on the ability to collect on our owned and serviced defaulted consumer receivables. Collections tend to be higher in the first and second quarters of the year and lower in the third and fourth quarters of the year, due to consumer payment patterns in connection with seasonal employment trends, income tax refunds and holiday spending habits. Historically, our growth has partially masked the impact of this seasonality.

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

Cash Collection Source ($ in thousands)	Q42009	Q32009	Q22009	Q12009	Q42008	Q32008	Q22008	Q12008
Call Center & Other Collections	$45,365	$48,590	$50,052	$50,914	$41,268	$43,949	$46,892	$44,883
External Legal Collections	15,496	15,330	16,527	17,790	18,424	21,590	22,471	21,880
Internal Legal Collections	7,570	6,196	4,263	3,539	2,652	2,106	1,947	1,819
Purchased Bankruptcy Collections	26,855	22,251	19,637	17,628	16,904	15,362	13,732	10,820

The following table shows the components of legal and agency fees and costs for the years ended December 31, 2009, 2008 and 2007 (amounts in thousands):

	2009	2008	2007
Legal fees and costs (1)	$ 31,333	$ 36,805	$ 30,720
Agency fees (2)	15,645	16,064	9,467
	$ 46,978	$ 52,869	$ 40,187

(1) Legal fees and costs represent legal fees and costs incurred by both our in-house attorneys and outside contingent fee attorneys.

(2) Agency fees are primarily incurred by our IGS skip tracing business.

The following table shows the changes in finance receivables, including the amounts paid to acquire new portfolios, for the years ended December 31, 2009, 2008 and 2007 (amounts in thousands):

	2009	2008	2007
Balance at beginning of year	$ 563,830	$ 410,297	$ 226,448
Acquisitions of finance receivables, net of buybacks (1)	282,023	273,746	261,310
Cash collections applied to principal on finance receivables (2)	(152,391)	(120,213)	(77,461)
Balance at end of year	$ 693,462	$ 563,830	$ 410,297
Estimated Remaining Collections (ERC(3))	$ 1,415,446	$ 1,115,565	$ 902,565

(1) Agreements to purchase receivables typically include general representations and warranties from the sellers covering account holders death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or repurchase these accounts. We refer to repurchased accounts as buybacks. We also capitalize certain acquisition related costs.

(2) Cash collections applied to principal (also referred to as amortization) on finance receivables consists of cash collections less income recognized on finance receivables, net of allowance charges.

(3) Estimated Remaining Collections refers to the sum of all future projected cash collections on our owned portfolios. ERC is not a balance sheet item, however, it is provided here for informational purposes.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth certain information as of February 1, 2010 about the Company s directors and executive officers.

Name	Position	Age
Steven D. Fredrickson	President, Chief Executive Officer and Chairman of the Board	50
Kevin P. Stevenson	Executive Vice President, Chief Financial and Administrative Officer, Treasurer and Assistant Secretary	45
Craig A. Grube	Executive Vice President Acquisitions	49
Judith S. Scott	Executive Vice President, General Counsel and Secretary	64
William P. Brophey	Director*	72
Penelope W. Kyle	Director	62
David N. Roberts	Director	47
Scott M. Tabakin	Director*	51
James M. Voss	Director*	67

* Member of the Company s audit committee (the Audit Committee), which has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. In the opinion of the Board, Mr. Voss and Mr. Tabakin are independent directors who qualify as audit committee financial experts, pursuant to Section 401(h) of Regulations S-K.

Steven D. Fredrickson, President, Chief Executive Officer and Chairman of the Board. Mr. Fredrickson has been the Chief Executive Officer of Portfolio Recovery Associates since its inception. Prior to co-founding Portfolio Recovery Associates in 1996, Mr. Fredrickson was Vice President, Director of Household Recovery Services Corporation s (HRSC) Portfolio Services Group from late 1993 until February 1996. At HRSC Mr. Fredrickson was ultimately responsible for HRSC s portfolio sale and purchase programs, finance and accounting, as well as other functional areas. Prior to joining HRSC, he spent five years with Household Commercial Financial Services managing a national commercial real estate workout team and five years with Continental Bank of Chicago as a member of the FDIC workout department, specializing in corporate and real estate workouts. With his extensive prior experience, Mr. Fredrickson brings to the Board an in-depth knowledge of our business and the financial services industry. In his role as our Chief Executive Officer for approximately fifteen years, Mr. Fredrickson gained critical insights into managing a complex financial services business in a complex and dynamic environment. He received a B.S. degree from the University of Denver and a M.B.A. degree from the University of Illinois. He is a past board member of the American Asset Buyers Association.

Kevin P. Stevenson, Executive Vice President, Chief Financial and Administrative Officer, Treasurer and Assistant Secretary. Prior to co-founding Portfolio Recovery Associates in 1996, Mr. Stevenson served as Controller and Department Manager of Financial Control and Operations Support at HRSC from June 1994 to March 1996, supervising a department of approximately 30 employees. Prior to joining HRSC, he served as Controller of Household Bank s Regional Processing Center in Worthington, Ohio where he also managed the collections, technology, research and ATM departments. While at Household Bank, Mr. Stevenson participated in eight bank acquisitions and numerous branch acquisitions or divestitures. He is a certified public accountant and received his B.S.B.A. with a major in accounting from the Ohio State University.

Craig A. Grube, Executive Vice President, Acquisitions. Prior to joining Portfolio Recovery Associates in March 1998, Mr. Grube was a senior officer and director of Anchor Fence, Inc., a manufacturing and distribution business from 1989 to March 1997, when the company was sold. Between the time of the sale and March 1998, Mr. Grube continued to work for Anchor Fence. Prior to joining Anchor Fence, he managed distressed corporate debt for the FDIC at Continental Illinois National Bank for five years. He received his B.A. degree from Boston College and his M.B.A. degree from the University of Illinois.

Judith S. Scott, Executive Vice President, General Counsel and Secretary. Prior to joining Portfolio Recovery Associates in March 1998, Ms. Scott held senior positions, from 1991 to March 1998, with Old Dominion

University as Director of its Virginia Peninsula campus; from 1985 to 1991, as General Counsel of a computer manufacturing firm; as Senior Counsel in the Office of the Governor of Virginia from 1982 to 1985; as Senior Counsel for the Virginia Housing Development Authority from 1976 to 1982, and as Assistant Attorney General for the Commonwealth of Virginia from 1975 to 1976. Ms. Scott received her B.S. in business administration from Virginia State University, a post baccalaureate degree in economics from Swarthmore College, and a J.D. from the Catholic University School of Law.

William P. Brophey, Director. Mr. Brophey was appointed as a director of Portfolio Recovery Associates in 2002 and was subsequently elected at the Company s next Annual Meeting of Stockholders. Currently retired, Mr. Brophey has more than 35 years of experience as president and chief executive officer of Brad Ragan, Inc., a (formerly) publicly traded automotive product and service retailer and as a senior executive at The Goodyear Tire and Rubber Company. Throughout his career, he held numerous field and corporate positions at Goodyear in the areas of wholesale, retail, credit, and sales and marketing, including general marketing manager, commercial tire products. He served as president and chief executive officer and a member of the board of directors of Brad Ragan, Inc. (a 75% owned public subsidiary of Goodyear) from 1988 to 1996, and vice chairman of the board of directors from 1994 to 1996, when he was named vice president, original equipment tire sales world-wide at Goodyear. From 1998 until his retirement in 2000, he was again elected president and chief executive officer and vice chairman of the board of directors of Brad Ragan, Inc., demonstrating that he is an experienced leader with a keen business understanding. Mr. Brophey s many years of executive experience, his key leadership roles in major corporations, and his service on the board of directors of Brad Ragan, Inc. were all factors in our conclusion that Mr. Brophey should serve on our Board of Directors. Mr. Brophey has a business degree from Ohio Valley College and attended advanced management programs at Kent State University, Northwestern University, Morehouse College and Columbia University.

Penelope W. Kyle, Director. Mrs. Kyle was appointed as a director of Portfolio Recovery Associates in 2005 and subsequently elected at the Company s next Annual Meeting of Stockholders. Mrs. Kyle is a highly respected educational leader with a proven record of accomplishment. Mrs. Kyle presently serves as President of Radford University. Prior to her appointment as President of Radford University in June 2005, she had served since 1994 as Director of the Virginia Lottery, where she served for ten years under three Virginia Governors. Earlier in her career, Mrs. Kyle worked as an attorney at the law firm McGuire, Woods, Battle and Boothe, in Richmond, Virginia. She was later employed at CSX Corporation, where during a 13-year career she became the company s first female officer and a vice president in the finance department. Mrs. Kyle also has prior service as a director and chairman of the audit committee of a publicly traded company. She currently serves on the Board of Directors of the Foundation for Educational Exchange, a joint bi-national organization which administers the Canada-U.S. Fulbright program. Mrs. Kyle brings a unique and valuable perspective to our Board based on her distinctive background in business, academia and government, particularly with respect to matters relating to law and corporate governance. These were all factors in our conclusion that Mrs. Kyle should serve on our Board of Directors. She earned an MBA at the College of William and Mary and a law degree from the University of Virginia.

David N. Roberts, Director. Mr. Roberts has been a director of Portfolio Recovery Associates since its formation in 1996. Mr. Roberts joined Angelo, Gordon & Company, L.P. in 1993, where he founded the firm s opportunistic real estate area and manages the firm s private equity and special situations area. Mr. Roberts helped to guide us through our transition from a small private company to a larger publicly traded company. He currently serves as Lead Director of our Board of Directors and as Chair of the Compensation Committee. Mr. Roberts has invested in a wide variety of real estate, corporate and special situations transactions. Prior to joining Angelo, Gordon Mr. Roberts was a principal at Gordon Investment Corporation, a Canadian merchant bank from 1989 to 1993, where he participated in a wide variety of principal transactions including investments in the real estate, mortgage banking and food industries. Prior to joining Gordon Investment Corporation, he worked in the Corporate Finance Department of L.F. Rothschild where he specialized in mergers and acquisitions. Mr. Roberts qualifications to serve on our Board include his extensive knowledge of our company, his financial expertise in business development, operations and strategic planning. Mr. Roberts is also intimately familiar with and has a deep understanding of the industry in which we do business. These were all factors in our conclusion that Mr. Roberts should serve on our Board of Directors. Mr. Roberts has a B.S. degree in economics from the Wharton School of the University of Pennsylvania.

Scott M. Tabakin, Director. Mr. Tabakin was appointed as a director of Portfolio Recovery Associates in 2004 and subsequently elected at the Company s next Annual Meeting of Stockholders. Mr. Tabakin serves on the

Audit Committee of our Board. He is a certified public accountant with more than 20 years of public-company experience. Mr. Tabakin has served as Executive Vice President and Chief Financial Officer of Bravo Health, Inc., a privately owned Medicare managed health care company since 2006. Early in his career, Mr. Tabakin was an executive with the accounting firm of Ernst & Young. Prior to May 2001, Mr. Tabakin was Executive Vice President and CFO of Beverly Enterprises, Inc., then the nation s largest provider of long-term health care. He served as Executive Vice President and CFO of AMERIGROUP Corporation, a managed health-care company, from May 2001 until October 2003. From November 2003 until July 2006, Mr. Tabakin was an independent financial consultant. These experiences, plus his experience as a senior financial officer of large public companies, provide Mr. Tabakin with a comprehensive understanding of the complex financial and legal issues facing public companies and were all factors in our conclusion that Mr. Tabakin should serve on our Board of Directors. Mr. Tabakin received a B.S. degree in accounting from the University of Illinois.

James M. Voss, Director. Mr. Voss was appointed as a director of Portfolio Recovery Associates in 2002 and subsequently elected at the Company s next Annual Meeting of Stockholders. Mr. Voss has served as chair of the Audit Committee of our Board of Directors since his initial appointment. He has more than 35 years of experience as a senior finance executive. He currently heads Voss Consulting, Inc., serving as a consultant to community banks regarding policy, organization, credit risk management and strategic planning. From 1992 through 1998, he was with First Midwest Bank as executive vice president and chief credit officer. He served in a variety of senior executive roles during a 24 year career (1965-1989) with Continental Bank of Chicago, and was chief financial officer at Allied Products Corporation (1990-1991), a publicly traded (NYSE) diversified manufacturer. Currently, he serves on the board of Elgin State Bank, through which he has gained additional corporate governance experience. Mr. Voss combination of expertise in the areas of business and finance enables him to provide unique insight and perspective to our Board and to address complex financial issues which may be presented to our Board. These experiences were all factors in our conclusion that Mr. Voss should serve on our Board of Directors. Mr. Voss has both an MBA and Bachelor s Degree from Northwestern University.

Corporate Code of Ethics

The Company has adopted a Code of Ethics which is applicable to all directors, officers, and employees and which complies with the definition of a code of ethics set out in Section 406(c) of the Sarbanes-Oxley Act of 2002, and the requirement of a Code of Conduct prescribed by Section 4350(n) of the Marketplace Rules of the NASDAQ Global Stock Market, Inc. The Code of Ethics is available to the public, and will be provided by the Company at no charge to any requesting party. Interested parties may obtain a copy of the Code of Ethics by submitting a written request to Investor Relations, Portfolio Recovery Associates, Inc., 120 Corporate Boulevard, Suite 100, Norfolk, Virginia, 23502, or by email at info@portfoliorecovery.com. The Code of Ethics is also posted on the Company s website at www.portfoliorecovery.com.

Certain information required by Item 10 is incorporated herein by reference to the section labeled Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive Proxy Statement in connection with the Company s 2010 Annual Meeting of Stockholders.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated herein by reference to (a) the section labeled Compensation Discussion and Analysis in the Company s definitive Proxy Statement in connection with the Company s 2010 Annual Meeting of Stockholders except for the section labeled Executive Compensation Components of Executive Compensation 2. Annual Cash Bonus which has been revised from the Company s definitive Proxy Statement filed on April 23, 2010 and included below in its entirety; (b) the section labeled Director Compensation in the Company s definitive Proxy Statement in connection with the Company s 2010 Annual Meeting of Stockholders; and (c) the section labeled Compensation Committee Report in the Company s definitive Proxy Statement in connection with the Company s 2010 Annual Meeting of Stockholders, which section (and the report contained therein) shall be deemed to be furnished in this report and shall not be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 as a result of such furnishing in this Item 11.

Executive Compensation
Components of Executive Compensation

2. *Annual Cash Bonus.* The executive bonus structure was modified and incorporated in the 2009-2011 executive employment agreements which became effective January 1, 2009. The Company pays an annual cash bonus, if earned, to its executives each year based on the year s performance. Bonuses are calculated using a target bonus framework under which each executive has a bonus opportunity expressed as a percentage of base salary, based on annual bifurcated cash bonus targets for individual and financial performance. The Compensation Committee believes that these incentives diminish the potential for excessive risk taking while focusing executives on corporate growth and profitability, thereby driving shareholder value.

Establishment of Bonus Pool

Each year, the Compensation Committee establishes a cash bonus pool, the initial size of which is established based upon the total anticipated bonus payout, assuming that each executive s individual targets and the corporate financial performance targets are met. The Compensation Committee may adjust the bonus pool and the individual bonus amounts awarded, based on corporate and individual performance, both financial and non-financial. When corporate performance is strong, the Compensation Committee generally approves higher bonuses in the aggregate than it does when corporate performance is weaker. The Compensation Committee also takes into consideration mitigating factors affecting financial performance, and does not apply a strictly formulaic approach in determining either the individual or financial performance bonus award. For 2009, the initial size of the cash bonus pool for all executives was set at 6.6% of the Company s budgeted pre-tax net income before bonus expense.

Establishment of Bonus Targets

Individual bonus targets for each executive are set based upon the results of a compensation study using compensation comparables derived from the Company s Compensation Peer Group and the ability of the executive to influence the Company s financial results. The Compensation Committee sets bonus targets such that the executive s total cash compensation (base salary plus annual cash bonus) will be within a competitive range of total cash compensation (generally at the 50th to 75th percentile level for comparable executives) if individual and financial performance targets are met. Bonus targets are expressed as a percentage of the executive s total compensation. The amount of the individual portion of the annual cash bonus is determined based upon the extent to which each executive achieves his or her performance goals during the prior operating year. The individual portion of the cash bonus is paid if the executive s performance is in conformance with Company policy and with the executive s past levels of performance, and if the executive has met the performance expectations of the Compensation Committee. The financial achievement bonus will be paid to the extent that the Company achieves its net income goals set for the year. The financial portion of the annual cash bonus is determined based upon the extent to which the executive or the executive s department contributes to the Company s overall financial performance. If the executive s performance is determined to have met or exceeded expectations, the amount of the annual cash bonus is determined based on the degree to which results met or exceeded such goals, and the degree to which the executive contributed to the Company s superior performance results as determined in the discretion of the Compensation Committee. If the executive s performance is determined to have exceeded expectations, the amount of the bonus may be increased in recognition of the degree to which performance targets were exceeded, and the degree to which the executive met his or her individual goals and contributed to the Company s superior performance. If the Company fails to achieve stated goals or the executive s performance is determined not to have met expectations, then the amount, if any, of the bonus will be determined, in the discretion of the Compensation Committee, giving reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall.

The performance of each of the named executives against their goals is reviewed and evaluated using a management performance worksheet containing the rankings on the chart below.

Rating	Description	Individual Performance Award
4	Outstanding	131% to 150% of target
3	Exceeds Expectations	100% to 130% of target
2	Meets Expectations	50% to 99% of target
1	Below Expectations	1% to 49% of target
0	Unacceptable	0% of target

Individual Performance Factors

The Compensation Committee evaluates individual performance for the Company s executives using a mix of objective and subjective performance criteria, established at the beginning of the fiscal year, diversifying the risk associated with concentration on any single indicator of performance. Included among the considerations were the achievement of the individual performance goals that were set for the executives with respect to their areas of direct responsibility, their contributions to results of operations, EPS, expense reduction, successful implementation of growth strategies and strategic or departmental objectives. The goals for each of our named executives included the following:

Name	Individual Performance Goals
Steve Fredrickson	Objectives relating to overall leadership, success in implementing specific organizational changes and effectiveness in investor communications and other individual objectives
Kevin Stevenson	Objectives relating to capital adequacy, investment and management; budgeting; balance sheet management financial reporting and accounting; effectiveness in investor communications and other individual objectives
Michael Petit	Objectives relating to investments in bankrupt accounts, the executive s planning and execution, departmental leadership and other individual objectives
Craig Grube	Objectives relating to the executive s leadership, investments in consumer accounts, core debt buying and other individual objectives
Kent McCammon	Objectives related to effectiveness of strategic investments, subsidiary performance and profitability and other individual objectives
Judith Scott	Objectives relating to executive leadership, management of the Company s legal affairs, departmental organization, risk management, budgetary control and other individual objectives

In assessing overall executive performance during 2009, the Compensation Committee considered the executives performance against these objectives. The Compensation Committee does not place specific weightings on the considered objectives noted above but assigns a subjective individual performance modifier ranging from 0% to 150% of the bonus award based on a holistic and subjective assessment of each individual executive officer s performance against these criteria.

Financial Performance Factors

The Compensation Committee evaluates the Company s performance against specific financial and strategic performance targets set at the beginning of the year and in 2009 modified the bonus payout from 0% to 150% of the financial performance target, in its discretion subject to the application of other modifiers. For 2009, the primary financial performance objective was the achievement of budgeted corporate net income of $51,800,000. In 2009 the Company achieved total net income of $44,306,000, or 86% of its budgeted financial target. The Company s executives were paid financial achievement bonuses ranging from 64% of targeted bonus to 120% of targeted bonus, based on the Compensation Committee s assessment of their impact on the final net income of the Company in 2009, a subjective determination of their contribution to risk and loss mitigation, and other related factors.

Name	2009 Actual Net Income as % of Goal	Financial Achievement Bonus Paid as a % of Goal
	86%	
Steve Fredrickson		64%
Kevin Stevenson		64%
Craig Grube		48%
Judith Scott		100%
Michael Petit		120%
Kent McCammon		91%

The Compensation Committee selected net income as a metric for overall financial corporate bonus funding because it aligned with the business strategy for 2009. While total net income was a factor in determining the financial performance component of executives bonuses, the Committee also considered other factors. In addition to overall Company net income, the Compensation Committee reviewed departmental performance results, as applicable, taking into consideration the role that each department was expected to play in contributing to overall Company performance for 2009. The financial performance bonuses paid to Mr. Fredrickson, Mr. Stevenson and Mr. Grube were significantly below target. This was primarily due to the Compensation Committee s assessment of their general responsibility for the Company s overall financial results and their ultimate accountability for the Company s failure to meet its budgeted net income target. With respect to Mr. Grube, there was a further reduction of his target bonus, reflecting his primary role in the portfolio acquisitions which incurred larger than budgeted allowance charges during 2009. Ms. Scott achieved 100% of her financial bonus target due to her success in departmental budget management and in recognition of the fact that her position is less likely to directly impact net income. Mr. Petit s financial bonus award exceeded his 2009 target bonus, in recognition of his department s outstanding portfolio performance in 2009 and the management of his department. Mr. McCammon s bonus award was at 91% of his 2009 target, reflecting both his success with the development and integration and of corporate subsidiaries and the extent to which they contributed to the Company s total net income. Although there were no specific numerical weightings applied by the Committee in the determination of the bonuses awarded, the bonuses awarded recognized the executives, as appropriate, for exceptional departmental financial performance in light of the deep economic recession in which they were operating.

The inclusion of objective and subjective factors in determining executive bonuses allows the Compensation Committee to consider and weigh all issues that it may deem relevant to an executive s contribution to the Company s performance in a particular period, which may differ from period to period, and from person to person. The Compensation Committee took into account the fact that the Company s primary business consists of the purchase of distressed consumer receivables, and was acutely aware of the potential link between excessive risk taking and a strict formulaic approach to determining bonuses. The Compensation Committee has long been of the opinion that a strict formulaic approach to bonus determination could potentially encourage greater risk taking and skew the focus of executives toward shorter-term financial performance at the expense of prudently building the business and the organization for the long term, and that a more flexible approach helps to ensure that executives are not provided incentives to take inappropriate risks in order to meet short-term financial objectives. Additionally, the Compensation Committee believes that a strict formulaic approach might provide a disincentive for executives to change course or reallocate resources where necessary to respond to unforeseen opportunities, because they may be reluctant to either pursue or to stop pursuing any initiatives if the financial portion of their performance would be impacted.

The Company does not publicly disclose the specific business plans or goals of its departments because that information is considered confidential business information and is not material in this context due to the subjective nature of the overall bonus determination. Due to the subjective factors which constitute a significant portion of the actual bonuses awarded, the disclosure of specific departmental performance goals would not enable the investing public to calculate with certainty any of the Company s executives bonuses by applying a specific formula. Further, departmental performance goals are not disclosed because they are based on business plans that, if publicly disclosed, would provide competitors and other third parties with insights into the Company s planning process and strategies, and because the disclosure of this information would significantly impair the Company s ability to compete effectively in the marketplace.

Other Performance Factors

The determination of the percentage of the target bonus that was awarded to a particular executive was not strictly formulaic. Instead, the Compensation Committee awarded bonuses that were in some instances greater than, less than, or equal to target, depending on the nature of the individual s overall performance during the year and the Company s assessment of the Company s or an executive s financial performance and the external factors which may have influenced it. The Compensation Committee noted that, overall, the Company performed comparatively well in difficult economic conditions, and on a relative basis in comparison to the industry as a whole, although the Company s financial results did not fully meet its internal performance targets. In this regard, the Compensation Committee took into consideration the following performance indicators during 2009, which were achieved by the executives despite a very difficult economic environment:

- The Company achieved a 6.8% increase in revenue over the prior year and approximately 13% growth in cash collections.

- The increase in cash collections included a record $86.4 million in cash collections from purchased bankrupt accounts, representing a 52.0% increase over 2008.

- Collector productivity per hour paid increased approximately 11% over that of the prior year.

- The Company achieved a 26% year-over-year improvement in cash collected on fully amortized portfolios.

- The Company made significant investments in purchases of both charged-off and bankrupt accounts, which are expected to produce additional significant growth in cash collections and earnings over the next several years.

- The Company maintained its status as a leader in the debt collection industry, with a stock price increase of 33%, exceeding all of its publicly traded competitors, and the 23% increase of the S&P 500 in 2009.

The Company made strategic investments in 2009 to position the Company well for the long term.

2009 Targeted and Earned Bonuses

The bonus targets for the named executives, and bonuses earned by them in 2009 were as shown in the table below. The financial achievement cash bonus targets were based largely on the extent to which the executive s business has the ability to contribute to the attainment of the Company s financial performance. Because the CEO and the CFO have broad roles with accountability for the Company s overall financial results, the Compensation Committee generally sets their bonus targets higher than those of the other executives of the Company and penalized them more than the other executives for failure to meet the Company s budgeted financial target. The executives named in the table below, in the aggregate, received financial achievement bonus awards in 2009 equal to 82.5% of their total aggregate financial bonus targets.

		Bonus Targets $/% of Base Pay		2009 Target Bonus Earned			
				Individual	Financial	Total	Total
Name	**Base Salary $**	**Individual**	**Financial**	**%**	**%**	**%**	**$**
Steve Fredrickson	$500,000	$250,000/50%	$550,000/110%	100%	64%	75%	$600,000
Kevin Stevenson	$300,000	$150,000/50%	$350,000/117%	117%*	64%	80%	$ 400,00
Craig Grube	$270,000	$130,000/48%	$ 250,000/93%	100%*	48%	67%	$255,000
Judith Scott	$245,000	$ 90,000/37%	$ 140,000/57%	100%	100%	100%	$230,000
Kent McCammon	$220,000	$125,000/57%	$280,000/127%	100%	87%	91%	$370,000
Michael Petit	$235,000	$150,000/64%	$265,000/113%	100%	132%*	120%*	$500,000

* The individual achievement bonus and the individual and financial achievement bonuses awarded reflect the extent to which these executives met or exceeded their individual and financial achievement targets.

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 is incorporated herein by reference to the section labeled Review and Approval of Related Party Transactions in the Company s definitive Proxy Statement in connection with the Company s 2010 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services.

The aggregate fees billed or expected to be billed by KPMG LLP for the years ended December 31, 2009 and 2008, respectively, are presented in the table below:

	2009	2008
Audit Fees	$ 568,500	$ 551,500
Audit-Related Fees (1)	15,000	
Tax Fees (2)	30,000	14,550
All Other Fees (3)	2,100	1,500
Total Accountant Fees	$ 615,600	$ 567,550

(1) Audit-Related Fees represent fees paid to KPMG LLP for services performed in conjunction with the Company s Form S-3 Registration Statement dated September 30, 2009.

(2) Tax fees represent fees paid to KPMG LLP for services performed in connection with the preparation of the Company s federal and state tax return filings in 2009 and for tax consulting services in 2008.

(3) All Other Fees represent fees paid to KPMG LLP for an annual subscription to their proprietary research tool.

The Audit Committee s charter provides that the Audit Committee will:

Approve the fees and other significant compensation to be paid to auditors.

Review the non-audit services to determine whether they are permissible under current law.

Pre-approve the provision of all audit services and any permissible non-audit services by the independent auditors and the related fees of the independent auditors therefore.

Consider whether the provision of these other non-audit services is compatible with maintaining the auditors independence.

All the services performed by and fees paid to KPMG LLP were pre-approved by the Audit Committee.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(b) **Exhibits.**

31.1 Section 302 Certifications of Chief Executive Officer

31.2 Section 302 Certifications of Chief Financial Officer

32.1 Section 906 Certifications of Chief Executive Officer and Chief Financial Officer

SIGNATURES

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

Portfolio Recovery Associates, Inc.
(Registrant)

Dated: December 17, 2010

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

Dated: December 17, 2010

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

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

Dated: December 17, 2010

By: /s/ Steven D. Fredrickson
Steven D. Fredrickson
President and Chief Executive Officer
(Principal Executive Officer)

Dated: December 17, 2010

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

Dated: December 17, 2010

By: *
William P. Brophey
Director

Dated: December 17, 2010

By: *
Penelope W. Kyle
Director

Dated: December 17, 2010	By: * David N. Roberts Director

Dated: December 17, 2010	By: * Scott M. Tabakin Director
Dated: December 17, 2010	By: * James M. Voss Director

*By: /s/ Steven D. Fredrickson

Steven D. Fredrickson
Attorney in fact