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

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

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended September 30, 2010.

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)*

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

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

YES 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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. 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 number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 3, 2010
Common Stock, $0.01 par value	17,061,914

EXPLANATORY NOTE

The purpose of this Quarterly Report on Form 10-Q/A is to amend the Supplemental Performance Data section in Part I, Item 2, Part II, Items 1 and 1A and Item 5 of our Quarterly Report on Form 10-Q for the period ended September 30, 2010, which was filed with the Securities and Exchange Commission (the SEC) on November 9, 2010 (the Original 10-Q).

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-Q/A does not reflect events occurring after the filing of the Original 10-Q on November 9, 2010 and no attempt has been made in this Quarterly Report on Form 10-Q/A to modify or update other disclosures as presented in the Original 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with the Original 10-Q and our filings with the SEC subsequent to the filing of the Original 10-Q.

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-Q.

PORTFOLIO RECOVERY ASSOCIATES, INC.
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Part I. FINANCIAL INFORMATION
Item 2. 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), yields 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 estimated collection amounts and pace. Subsequent to the initial booking, as we gain collection experience and comfort with a pool of accounts, we continuously update ERC as time goes on. Since our inception, these processes have tended to cause the ratio of collections, including ERC, 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 were six years from purchase than say 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 yields, 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 increase. 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 continuing through all of 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.

Entire Portfolio ***($ in thousands)***

Purchase Period	Purchase Price[1]	Total Estimated Collections[2]	Unamortized Purchase Price Balance at September 30, 2010[3]	Life to Date Reserve Allowance[4]	Percentage of Reserve Allowance to Purchase Price[5]	Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance[6]	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections[7]	Total Estimated Collections to Purchase Price[8]
1996	$ 3,080	$ 10,094	$ 0	$ 0	0%	0%	$ 10,024	$ 70	328%
1997	$ 7,685	$ 25,244	$ 0	$ 0	0%	0%	$ 25,057	$ 187	328%
1998	$ 11,089	$ 36,913	$ 0	$ 0	0%	0%	$ 36,506	$ 407	333%
1999	$ 18,898	$ 68,282	$ 0	$ 0	0%	0%	$ 66,901	$ 1,381	361%
2000	$ 25,020	$ 113,442	$ 0	$ 0	0%	0%	$ 110,146	$ 3,296	453%
2001	$ 33,481	$ 169,035	$ 0	$ 0	0%	0%	$ 165,568	$ 3,467	505%
2002	$ 42,325	$ 187,309	$ 0	$ 0	0%	0%	$ 182,872	$ 4,437	443%
2003	$ 61,448	$ 248,438	$ 0	$ 0	0%	0%	$ 240,944	$ 7,494	404%
2004	$ 59,177	$ 184,196	$ 462	$ 1,225	2%	2%	$ 176,311	$ 7,885	311%
2005	$ 143,171	$ 309,500	$ 23,563	$ 15,985	11%	10%	$ 265,608	$ 43,892	216%
2006	$ 107,701	$ 218,553	$ 29,349	$ 17,695	16%	14%	$ 163,894	$ 54,659	203%
2007	$ 258,271	$ 505,819	$ 111,183	$ 17,165	7%	6%	$ 316,096	$ 189,723	196%
2008	$ 275,130	$ 538,306	$ 166,926	$ 18,895	7%	6%	$ 246,306	$ 292,000	196%
2009	$ 281,641	$ 713,656	$ 213,969	$ 0	0%	0%	$ 190,109	$ 523,547	253%
YTD 2010	$ 278,266	$ 585,030	$ 261,787	$ 0	0%	0%	$ 47,901	$ 537,129	210%
Total	$ 1,606,383	$ 3,913,817	$ 807,239	$ 70,965	4%	4%	$ 2,244,243	$ 1,669,574	244%

Purchased Bankruptcy Portfolio ***($ in thousands)***

Purchase Period	Purchase Price[1]	Total Estimated Collections[2]	Unamortized Purchase Price Balance at September 30, 2010[3]	Life to Date Reserve Allowance[4]	Percentage of Reserve Allowance to Purchase Price[5]	Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance[6]	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections[7]	Total Estimated Collections to Purchase Price[8]

1996-2003	$ 0	$ 0	$ 0	$ 0	0%	0%	$ 0	$ 0	0%
2004	$ 7,469	$ 14,160	$ 13	$ 1,225	16%	14%	$ 14,113	$ 47	190%
2005	$ 29,302	$ 43,020	$ 340	$ 920	3%	3%	$ 42,577	$ 443	147%
2006	$ 17,643	$ 30,450	$ 269	$ 1,430	8%	7%	$ 28,321	$ 2,129	173%
2007	$ 78,933	$ 112,658	$ 31,286	$ 1,910	2%	2%	$ 74,210	$ 38,448	143%
2008	$ 108,603	$ 183,195	$ 72,428	$ 0	0%	0%	$ 78,709	$ 104,486	169%
2009	$ 156,094	$ 360,983	$ 132,970	$ 0	0%	0%	$ 75,372	$ 285,611	231%
YTD 2010	$ 172,703	$ 324,795	$ 167,846	$ 0	0%	0%	$ 21,327	$ 303,468	188%
Total	$ 570,747	$ 1,069,261	$ 405,152	$ 5,485	1%	1%	$ 334,629	$ 734,632	187%

Entire Portfolio Less Purchased Bankruptcy Portfolio ***($ in thousands)***

Purchase Period	Purchase Price[(1)]	Total Estimated Collections [(2)]	Unamortized Purchase Price Balance at September 30, 2010 [(3)]	Life to Date Reserve Allowance [(4)]	Percentage of Reserve Allowance to Purchase Price [(5)]	Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance [(6)]	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections [(7)]	Total Estimated Collections to Purchase Price [(8)]
1996	$ 3,080	$ 10,094	$ 0	$ 0	0%	0%	$ 10,024	$ 70	328%
1997	$ 7,685	$ 25,244	$ 0	$ 0	0%	0%	$ 25,057	$ 187	328%
1998	$ 11,089	$ 36,913	$ 0	$ 0	0%	0%	$ 36,506	$ 407	333%
1999	$ 18,898	$ 68,282	$ 0	$ 0	0%	0%	$ 66,901	$ 1,381	361%
2000	$ 25,020	$ 113,442	$ 0	$ 0	0%	0%	$ 110,146	$ 3,296	453%
2001	$ 33,481	$ 169,035	$ 0	$ 0	0%	0%	$ 165,568	$ 3,467	505%
2002	$ 42,325	$ 187,309	$ 0	$ 0	0%	0%	$ 182,872	$ 4,437	443%
2003	$ 61,448	$ 248,438	$ 0	$ 0	0%	0%	$ 240,944	$ 7,494	404%
2004	$ 51,708	$ 170,036	$ 449	$ 0	0%	0%	$ 162,198	$ 7,838	329%
2005	$ 113,869	$ 266,480	$ 23,223	$ 15,065	13%	12%	$ 223,032	$ 43,448	234%
2006	$ 90,058	$ 188,103	$ 29,080	$ 16,265	18%	15%	$ 135,572	$ 52,531	209%
2007	$ 179,338	$ 393,161	$ 79,897	$ 15,255	9%	8%	$ 241,887	$ 151,274	219%
2008	$ 166,527	$ 355,111	$ 94,498	$ 18,895	11%	10%	$ 167,597	$ 187,514	213%
2009	$ 125,547	$ 352,673	$ 80,999	$ 0	0%	0%	$ 114,737	$ 237,936	281%
YTD 2010	$ 105,563	$ 260,235	$ 93,941	$ 0	0%	0%	$ 26,573	$ 233,662	247%
Total	$ 1,035,636	$ 2,844,556	$ 402,087	$ 65,480	6%	6%	$ 1,909,614	$ 934,942	275%

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

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

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

(5) 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.

(6) Percentage of reserve allowance to unamortized purchase price and reserve allowance refers to the total amount of allowance charges incurred on our owned portfolios net of any reversals, divided by the sum of the unamortized purchase price and the life to date reserve allowance.

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

(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)

	Purchase Period								Allowance Charge as
Allowance Period [1]	1996-2003	2004	2005	2006	2007	2008	2009-2010	Total	% of NFR [2]
Q1 05	$	$	$	$	$	$	$	$	0.0%
Q2 05									0.0%
Q3 05									0.0%
Q4 05	200							200	0.1%
Q1 06			175					175	0.1%
Q2 06	75		125					200	0.1%
Q3 06	200		75					275	0.1%
Q4 06			450					450	0.2%
Q1 07	(245)		610					365	0.1%
Q2 07	90							90	0.0%
Q3 07	200	320	660					1,180	0.4%
Q4 07	190	150	615	340				1,295	0.3%
Q1 08	120	650	910	1,105				2,785	0.6%
Q2 08	260	720		2,330	650			3,960	0.8%
Q3 08	(90)	60	325	1,135	2,350			3,780	0.7%
Q4 08	(400)	(140)	1,805	2,600	4,380	620		8,865	1.6%
Q1 09	(225)	35	1,150	910	2,300	2,050		6,220	1.1%
Q2 09	(230)	(220)	495	765	685	2,425		3,920	0.6%
Q3 09	(25)	(190)	1,170	1,965	340	4,750		8,010	1.2%
Q4 09	(120)		1,375	1,220	110	6,900		9,485	1.4%
Q1 10			2,795	1,175	2,900			6,870	0.9%
Q2 10		(80)	1,600	2,100	700	2,000		6,320	0.8%

Q3 10		(80)	1,650	2,050	2,750	150		6,520	0.8%
Total	$	$ 1,225	$ 15,985	$ 17,695	$ 17,165	$ 18,895	$	$ 70,965	
Portfolio Purchases, net	$203,026	$59,177	$143,171	$107,701	$258,271	$275,130	$559,907	$1,606,383	

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

(2) NFR refers to total net finance receivables as of the end of the allowance period presented.

The following graph shows the purchase price of our owned portfolios by year and includes the year to date acquisition amount for the nine months ended September 30, 2010. 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 the third quarter of 2010.

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 and 2010, 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 pools of receivables. This approach has historically caused us to realize significant cash collections and revenues from purchased pools of finance receivables years after they are originally acquired. As a result, we have in the past been able to reduce our level of current period acquisitions without a corresponding negative current period impact on cash collections and revenue.

The following table, which excludes any proceeds from cash sales of finance receivables, demonstrates our ability to realize significant multi-year cash collection streams on our owned pools:

Cash Collections By Year, By Year of Purchase Entire Portfolio

($in thousands)

Purchase Price	Cash Collection Period 1996-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
$ 3,080	$ 7,295	$ 730	$ 496	$ 398	$ 285	$ 210	$ 237	$ 102	$ 83	$ 78	$ 48
7,685	15,138	2,630	1,829	1,324	1,022	860	597	437	346	215	151
11,089	16,981	5,152	3,948	2,797	2,200	1,811	1,415	882	616	397	281
18,898	18,207	12,090	9,598	7,336	5,615	4,352	3,032	2,243	1,533	1,328	875
25,020	6,894	19,498	19,478	16,628	14,098	10,924	8,067	5,202	3,604	3,198	2,093
33,481		13,048	28,831	28,003	26,717	22,639	16,048	10,011	6,164	5,299	3,317
42,325			15,073	36,258	35,742	32,497	24,729	16,527	9,772	7,444	4,819
61,448				24,308	49,706	52,640	43,728	30,695	18,818	13,135	7,915
59,177					18,019	46,475	40,424	30,750	19,339	13,677	7,622
143,171						18,968	75,145	69,862	49,576	33,366	18,691
107,701							22,971	53,192	40,560	29,749	17,422
258,271								42,263	115,011	94,805	64,017
275,130									61,277	107,974	77,055
281,641										57,338	132,771
278,266											47,901
$1,606,383	$64,515	$53,148	$79,253	$117,052	$153,404	$191,376	$236,393	$262,166	$326,699	$368,003	$384,978

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

($in thousands)

Purchase	Purchase	Cash Collection Period

Period	Price	1996-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010	Total
2004	$ 7,469	$	$	$	$	$743	$4,554	$ 3,956	$ 2,777	$ 1,455	$ 496	$ 132	$ 14,113
2005	29,302						3,777	15,500	11,934	6,845	3,318	1,203	42,577
2006	17,643							5,608	9,455	6,522	4,398	2,338	28,321
2007	78,933								2,850	27,972	25,630	17,758	74,210
2008	108,603									14,024	35,894	28,791	78,709
2009	156,094										16,635	58,737	75,372
YTD 2010	172,703											21,327	21,327
Total	$570,747	$	$	$	$	$743	$8,331	$25,064	$27,016	$56,818	$86,371	$130,286	$334,629

Cash Collections By Year, By Year of Purchase Entire Portfolio less Purchased Bankruptcy Portfolio
($ in thousands)

Purchase Price	Cash Collection Period										
	1996-2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**YTD 2010**
3,080	$ 7,295	$ 730	$ 496	$ 398	$ 285	$ 210	$ 237	$ 102	$ 83	$ 78	$ 48
7,685	15,138	2,630	1,829	1,324	1,022	860	597	437	346	215	151
11,089	16,981	5,152	3,948	2,797	2,200	1,811	1,415	882	616	397	281
18,898	18,207	12,090	9,598	7,336	5,615	4,352	3,032	2,243	1,533	1,328	875
25,020	6,894	19,498	19,478	16,628	14,098	10,924	8,067	5,202	3,604	3,198	2,093
33,481		13,048	28,831	28,003	26,717	22,639	16,048	10,011	6,164	5,299	3,317
42,325			15,073	36,258	35,742	32,497	24,729	16,527	9,772	7,444	4,819
61,448				24,308	49,706	52,640	43,728	30,695	18,818	13,135	7,915
51,708					17,276	41,921	36,468	27,973	17,884	13,181	7,490
113,869						15,191	59,645	57,928	42,731	30,048	17,489
90,058							17,363	43,737	34,038	25,351	15,083
179,338								39,413	87,039	69,175	46,260
166,527									47,253	72,080	48,264
125,547										40,703	74,034
105,563											26,573
1,035,636	$64,515	$53,148	$79,253	$117,052	$152,661	$183,045	$211,329	$235,150	$269,881	$281,632	$254,692

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.

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.

Number of Collectors by Tenure

	One year + (1)					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Q1	319	331	340	314	488	690
Q2	319	342	360	348	587	711
Q3	324	324	397	410	604	742
Q4	327	340	327	452	638	

	Less than one year (2)					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Q1	345	360	435	688	621	686
Q2	330	372	481	744	612	681
Q3	268	402	475	631	585	642
Q4	364	375	553	739	676	

	Total (2)					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Q1	664	691	775	1,002	1,109	1,376
Q2	649	714	841	1,092	1,199	1,392
Q3	592	726	872	1,041	1,189	1384
Q4	691	715	880	1,191	1,314	

(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.

The tables below contain our past five years of collector productivity metrics as defined by calendar quarter.

QTD Cash Collections per Hour Paid (1)

	Total cash collections					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Q1	$136	$152	$156	$133	$147	$182
Q2	$138	$146	$142	$136	$143	$188
Q3	$135	$145	$131	$134	$144	$200
Q4	$126	$142	$119	$123	$148	

	Non-legal cash collections (2)					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Q1	$96	$106	$108	$96	$118	$154
Q2	$92	$ 99	$ 96	$99	$116	$160
Q3	$88	$ 98	$ 88	$99	$119	$170
Q4	$82	$ 94	$ 80	$94	$123	

	Non-bankruptcy cash collections (3)					
	2005	2006	2007	2008	2009	2010
Q1	$132	$141	$141	$116	$120	$135
Q2	$132	$132	$129	$115	$114	$127
Q3	$129	$129	$120	$110	$111	$127
Q4	$120	$127	$107	$ 98	$109	

	Non-legal/non-bankruptcy cash collections (4)					
	2005	2006	2007	2008	2009	2010
Q1	$92	$95	$92	$79	$90	$106
Q2	$85	$85	$83	$78	$87	$100
Q3	$82	$82	$76	$76	$87	$ 97
Q4	$77	$80	$68	$69	$84	

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

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

(1) Includes cash collections on finance receivables only and excludes cash proceeds from sales of defaulted consumer receivables.

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

Cash Collection Source ($ in thousands)	Q32010	Q22010	Q12010	Q42009	Q32009	Q22009	Q12009	Q42008	Q32008
Call Center & Other Collections	$51,711	$54,477	$56,987	$45,365	$48,590	$50,052	$50,914	$41,268	$43,949
External Legal Collections	20,217	18,819	18,276	15,496	15,330	16,527	17,790	18,424	21,590
Internal Legal Collections	12,130	11,362	10,714	7,570	6,196	4,263	3,539	2,652	2,106
Purchased Bankruptcy Collections	53,319	43,748	33,219	26,855	22,251	19,637	17,628	16,904	15,362

Rollforward of Net Finance Receivables

The following table shows the changes in finance receivables, including the amounts paid to acquire new portfolios (amounts in thousands).

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Balance at beginning of period	$ 775,606	$ 624,592	$ 693,462	$ 563,830
Acquisitions of finance receivables, net of buybacks (1)	88,984	74,318	273,858	210,116
Cash collections applied to principal on finance receivables (2)	(57,351)	(38,031)	(160,081)	(113,067)
Balance at end of period	$ 807,239	$ 660,879	$ 807,239	$ 660,879
Estimated Remaining Collections (ERC) (3)	$ 1,669,574	$ 1,331,912	$ 1,669,574	$ 1,331,912

(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 finance receivable amortization) on finance receivables consists of cash collections less income recognized on finance receivables, net.

(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.

Seasonality

We depend on the ability to collect on our owned and serviced defaulted consumer receivables. Cash 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 cash collections seasonality.

Quarterly Cash Collections [1]

($ in millions)

(1) Includes cash collections on finance receivables only and excludes cash proceeds from sales of defaulted consumer receivables.

Portfolios by Type and Geography

The following table categorizes our life to date owned portfolios at September 30, 2010 into the major asset types represented (amounts in thousands):

Asset Type	No. of Accounts	%		Life to Date Purchased Face Value of Defaulted Consumer Receivables (1)	%
Major Credit Cards	14,220	59.8%	$	38,321,385	72.3%
Consumer Finance	5,285	22.2%		6,195,641	11.7%
Private Label Credit Cards	3,776	15.9%		5,171,199	9.8%
Auto Deficiency	510	2.1%		3,278,611	6.2%
Total:	**23,791**	**100.0%**		**52,966,836**	**100.0%**

(1) The Life to Date Purchased Face Value of Defaulted Consumer Receivables represents the original face amount purchased from sellers and has not been decremented by any adjustments including payments and buybacks.

The following chart shows details of our life to date buying activity as of September 30, 2010 (amounts in thousands). We actively seek to purchase both bankrupt and non-bankrupt accounts at any point in the delinquency cycle.

Account Type	No. of Accounts	%		Life to Date Purchased Face Value of Defaulted Consumer Receivables (1)	%
Fresh	1,320	5.5%	$	4,109,213	7.8%
Primary	3,620	15.2%		6,212,667	11.7%
Secondary	3,825	16.1%		6,121,552	11.6%
Tertiary	3,937	16.5%		5,017,483	9.5%
BK Trustees	3,439	14.5%		15,174,713	28.6%
Other	7,650	32.2%		16,331,208	30.8%
Total:	**23,791**	**100.0%**	**$**	**52,966,836**	**100.0%**

(1) The Life to Date Purchased Face Value of Defaulted Consumer Receivables represents the original face amount purchased from sellers and has not been decremented by any adjustments including payments and buybacks.

We also review the geographic distribution of accounts within a portfolio because we have found that certain states have more debtor-friendly laws than others and, therefore, are less desirable from a collectability perspective. In addition, economic factors and bankruptcy trends vary regionally and are factored into our maximum purchase price equation.

The following chart sets forth our overall life to date portfolio of defaulted consumer receivables geographically at September 30, 2010 (amounts in thousands):

Geographic Distribution	No. of Accounts	%	Life to Date Purchased Face Value of Defaulted Consumer Receivables (1)	%	Original Purchase Price of Defaulted Consumer Receivables (2)	%
California	2,444	10%	$ 6,799,417	13%	$ 197,164	12%
Texas	3,768	16%	6,118,228	12%	153,383	9%
Florida	1,864	8%	5,059,455	10%	145,930	9%
New York	1,401	6%	3,283,264	6%	94,105	6%
Pennsylvania	830	3%	2,014,301	4%	64,247	4%
North Carolina	842	4%	1,865,383	4%	55,885	3%
Illinois	935	4%	1,852,381	3%	62,859	4%
Ohio	825	3%	1,842,272	3%	68,544	4%
Georgia	748	3%	1,708,829	3%	64,948	4%
New Jersey	552	2%	1,512,003	3%	47,417	3%
Michigan	632	3%	1,432,679	3%	50,993	3%
Virginia	655	3%	1,141,459	2%	39,343	2%
Tennessee	501	2%	1,105,474	2%	41,156	3%
Arizona	399	2%	1,070,902	2%	31,577	2%
Massachusetts	423	2%	1,023,540	2%	30,855	2%
South Carolina	416	2%	946,733	2%	27,430	2%
Other (3)	6,556	27%	14,190,516	26%	466,934	28%
Total:	**23,791**	**100%**	**$ 52,966,836**	**100%**	**$ 1,642,770**	**100%**

(1) The Life to Date Purchased Face Value of Defaulted Consumer Receivables represents the original face amount purchased from sellers and has not been decremented by any adjustments including payments and buybacks.

(2) The Original Purchase Price of Defaulted Consumer Receivables represents the cash paid to sellers to acquire portfolios of defaulted consumer receivables.

(3) Each state included in Other represents less than 2% of the face value of total defaulted consumer receivables.

PART II. OTHER INFORMATION

Item 1. 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. We maintain appropriate levels of errors and omissions insurance coverage to protect us against financial losses associated with potential litigation involving us, and 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 matters described below falls outside of the normal parameters of our routine legal proceedings.

As previously disclosed, we are a defendant in another purported class action related to matters previously brought before NAF, styled PRA v. Freeman (Case No.: 10-CVD-1003) which was filed in the District Court for Wake County, North Carolina on or about March 26, 2010. The court in PRA v. Freeman recently heard arguments on the motion to dismiss that the Company had filed earlier this year and has informed the parties that the matter will be dismissed, pending submission of an appropriate order. We anticipate submitting such an order and having the matter dismissed imminently.

As previously disclosed, we were a defendant in a purported enforcement action brought by the Attorney General for the State of Missouri. The action, filed in August 2009, sought relief for Missouri consumers that had allegedly been injured as a result of certain of our alleged collection practices. We denied any wrongdoing with respect to the allegations in the complaint and on June 25, 2010, the Missouri Circuit Court dismissed the matter in its entirety. On July 26, 2010, the Missouri Attorney General filed a notice of appeal.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the specific risk factors listed under Part I, Item 1A of our 2009 Annual Report on Form 10-K/A filed on December 17, 2010, together with all other information included or incorporated in our reports filed with the SEC. Any such risks may materialize, and additional risks not known to us, or that we now deem immaterial, may arise. In such event, our business, financial condition, results of operations or prospects could be materially adversely affected. If that occurs, the market price of our common stock could fall, and you could lose all or part of your investment.

Item 5. 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 the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	PORTFOLIO RECOVERY ASSOCIATES, INC. (Registrant)
Date: December 17, 2010	By: /s/ Steven D. Fredrickson Steven D. Fredrickson Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
Date: 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)