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 % of
Allowance Period (1)	**1996-2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009-2010**	**Total**	**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 Period	**Purchase Price**	**Cash Collection Period**											
		1996-2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**YTD 2010**	**Total**
1996	$ 3,080	$ 7,295	$ 730	$ 496	$ 398	$ 285	$210	$237	$102	$ 83	$ 78	$ 48	$ 9,962
1997	7,685	15,138	2,630	1,829	1,324	1,022	860	597	437	346	215	151	24,549
1998	11,089	16,981	5,152	3,948	2,797	2,200							