PORTFOLIO RECOVERY ASSOCIATES INC
Form 424B5
February 18, 2010

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Amount to be Registered(1)	Maximum Offering Price per Share	Maximum Aggregate Offering Price	Amount of Registration Fee(2)
Shares of Common Stock, $0.01 par value	1,437,500	$ 52.50	$ 75,468,750	$ 5,381

(1) Includes shares of common stock which may be purchased by the underwriters to cover over-allotments, if any.

(2) Calculated in accordance with Rule 457(r) of the Securities Act.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-162224
PROSPECTUS SUPPLEMENT
(To Prospectus Dated September 30, 2009)

1,250,000 Shares

Portfolio Recovery Associates, Inc.

Common Stock

We are offering 1,250,000 shares of our common stock, par value $0.01 per share. We will receive all of the net proceeds from this offering.

Our common stock is quoted on the NASDAQ Global Market under the symbol PRAA. On February 17, 2010, the closing sale price of our common stock, as reported by NASDAQ, was $54.03 per share.

Investing in our common stock involves certain risks. Before purchasing our common stock, please review the information included in, and incorporated by reference into, the Risk Factors caption beginning on page S-7 of this prospectus supplement and page 3 of the accompanying prospectus.

	Per Share	Total
Public offering price	$ 52.50	$ 65,625,000

Underwriting discount	$ 2.494	$ 3,117,500
Proceeds, before expenses, to us	$ 50.006	$ 62,507,500

The underwriters may also purchase up to 187,500 additional shares of our common stock from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on or about February 22, 2010.

Sole Book-Running Manager *Co-Lead Manager*

William Blair & Company **JMP Securities**

The date of this prospectus supplement is February 17, 2010

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus. No dealer, salesperson or other person is authorized to give information that is different. This prospectus supplement is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement and the accompanying prospectus is correct only as of the date on the front of those documents, regardless of the time of the delivery of this prospectus supplement and the accompanying prospectus or of any sale of these securities.

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ABOUT THIS PROSPECTUS SUPPLEMENT

We are providing information to you about this offering of our common shares in two parts. The first part is this prospectus supplement, which provides the specific details regarding this offering. The second part is the accompanying prospectus, which provides general information, including information about the shares of our common stock. Generally, when we refer to this prospectus, we are referring to both documents combined. Some of the information in the accompanying prospectus may not apply to this offering. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on the information contained in this prospectus supplement. Please read Where You Can Find More Information in the accompanying prospectus and Incorporation of Certain Documents by Reference in this prospectus supplement and the accompanying prospectus.

References to we, us, our or the Company refer to Portfolio Recovery Associates, Inc. and its subsidiaries. The tern you refers to a prospective investor.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Before deciding to invest in shares of our common stock, you should read the entire prospectus supplement and the accompanying prospectus carefully, including the documents incorporated by reference, especially the matters discussed under Risk Factors beginning on page S-7 and the documents incorporated by reference herein, including the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2009. See Incorporation of Certain Documents by Reference below. Unless the context otherwise requires, the terms we, us and our refer to Portfolio Recovery Associates, Inc. and its subsidiaries.

Our business revolves around the detection, collection, and processing of both unpaid and normal-course accounts receivable originally owed to credit grantors, governments, retailers and others. Our primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. These are the unpaid obligations of individuals to credit originators, which include banks, credit unions, consumer and auto finance companies and retail merchants. We also provide fee-based services, including collateral-location services for credit originators via PRA Location Services, LLC (IGS) and revenue administration, audit and debt discovery/recovery services for government entities through both PRA Government Services, LLC (RDS) and MuniServices, LLC (MuniServices). We believe that the strengths of our business are our sophisticated approach to portfolio pricing, segmentation, and servicing, our emphasis on developing and retaining our collection personnel, our sophisticated collections systems and procedures and our relationships with many of the largest consumer lenders in the United States. Our debt purchase business specializes in receivables that have been charged-off by the credit originator. Because the credit originator and/or other debt servicing companies have unsuccessfully attempted to collect these receivables, we are able to purchase them at a substantial discount to their face value. From our 1996 inception through December 31, 2009, we acquired 1,697 portfolios with a face value of $48.0 billion for $1.4 billion, representing more than 22 million customer accounts. The success of our business depends on our ability to purchase portfolios of defaulted consumer receivables at appropriate valuations and to collect on those receivables effectively and efficiently. Since inception, we have been able to collect at an average rate of 2.5 to 3.0 times our purchase price for defaulted consumer receivables portfolios, as measured over a five to twelve year period, which has enabled us to generate increasing profits and positive operational cash flow.

We have achieved strong financial results since our formation, with cash collections growing from $10.9 million in 1998 to $368.0 million in 2009. Total revenue has grown from $6.8 million in 1998 to $281.1 million in 2009, a compound annual growth rate of 40%. Similarly, pro forma net income has grown from $402,000 in 1998 to net income of $44.3 million in 2009.

We are a Delaware corporation. Our principal corporate office is located at 120 Corporate Blvd, Norfolk, Virginia 23502, and our main telephone number at that location is (757) 519-9300. We maintain a website at www.portfoliorecovery.com. The information on our website does not constitute a part of this prospectus or any accompanying prospectus supplement.

Competitive Strengths

We Offer a Compelling Alternative to Debt Owners and Governmental Entities

We offer debt owners the ability to immediately realize value for delinquent receivables throughout the entire collection cycle, from receivables that have only been processed internally by the debt owner to receivables that have been subject to multiple internal and external collection efforts, whether or not subject to bankruptcy proceedings. This flexibility is unusual in our industry, helping us to meet the needs of debt owners and allowing us to become a trusted resource. Also, through our RDS and MuniServices businesses, we have the ability to service state and local governments receivables in various ways. This includes such services as processing tax payments on behalf of the client and extends to more complicated tax audit and discovery work, as well as additional services that fill the needs of our clients to local and state governments.

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Disciplined and Proprietary Underwriting Process

One of the key components of our growth has been our ability to price portfolio acquisitions at levels that have generated profitable returns on investment. Since inception, we have been able to collect at an average rate of 2.5 to 3.0 times our purchase price for defaulted consumer receivables portfolios, as measured over a five to twelve year period, which has enabled us to generate increasing profits and operational cash flow. In order to price portfolios and forecast the targeted collection results for a portfolio, we use two separate internally developed statistical models and one externally developed model, which we may supplement with on-site due diligence and data obtained from the debt owner s collection process and loan files. One model analyzes the portfolio as one unit based on demographic comparisons, while the second and external models analyze each account in a portfolio using variables in a regression analysis. As we collect on our portfolios, the results are input back into the models in an ongoing process which we believe increases their accuracy. Additionally, we have not sold any accounts since 2002, and the accounts we sold were primarily in Chapter 13 bankruptcy proceedings. By holding and collecting the accounts over the long-term, we create batch tracking history that we believe is unique among our peers.

Ability to Hire, Develop and Retain Productive Collectors

We place considerable focus on our ability to hire, develop, motivate and retain effective collectors who are key to our continued growth and profitability. Several large military bases and numerous telemarketing, customer service and reservation phone centers are located near our headquarters and regional offices in Virginia, providing access to a large pool of eligible personnel. The Hutchinson, Kansas, Las Vegas, Nevada, Birmingham, Alabama, Jackson, Tennessee, Houston, Texas and Fresno, California areas also provide a sufficient potential workforce of eligible personnel. We have found that tenure is a primary driver of our collector effectiveness. We offer our collectors a competitive wage with the opportunity to receive unlimited incentive compensation based on performance, as well as an attractive benefits package, a comfortable working environment and the ability to work on a flexible schedule. We have a comprehensive training program for new owned portfolio collectors and provide continuing advanced training classes which are conducted in our five training centers. Recognizing the demands of the job, our management team has endeavored to create a professional and supportive environment for all of our employees.

Established Systems and Infrastructure

We have devoted significant effort to developing our systems, including statistical models, databases and reporting packages, to optimize our portfolio purchases and collection efforts. In addition, we believe that our technology infrastructure is flexible, secure, reliable and redundant, to ensure the protection of our sensitive data and to mitigate exposure to systems failure or unauthorized access. We take data security and collection compliance very seriously. We employ a staff of Quality Control and Compliance employees whose role it is to monitor calls and observe collection system entries in real time. They additionally monitor and research daily exception reports that track significant account status movements, and account changes. We believe that our systems and infrastructure give us meaningful advantages over our competitors. We have developed financial models and systems for pricing portfolio acquisitions, managing the collections process and monitoring operating results. We perform a static pool analysis monthly on each of our portfolios, inputting actual results back into our acquisition models, to enhance their accuracy. We monitor collection results continuously, seeking to identify and resolve negative trends immediately. In addition, we do not sell our purchased defaulted consumer receivables. Instead, we work them over the long-term enhancing our knowledge of a pool s long-term performance. Our comprehensive management reporting package is designed to fully inform our management team so that they may make timely operating decisions. This combination of hardware, software and proprietary modeling and systems has been developed by our management team through years of experience in this industry and we believe provides us with an important competitive advantage from the acquisition process all the way through collection operations.

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Strong Relationships with Major Credit Originators

We have done business with most of the top consumer lenders in the United States. We maintain an extensive marketing effort and our senior management team is in contact on a regular basis with known and prospective credit originators. We believe that we have earned a reputation as a reliable and compliant purchaser of defaulted consumer receivables portfolios and as responsible collectors. Furthermore, from the perspective of the selling credit originator, the failure to close on a negotiated sale of a portfolio consumes valuable time and expense and can have an adverse effect on pricing when the portfolio is re-marketed. We have never been unable to close on a transaction. Similarly, if a credit originator sells a portfolio to a debt buyer which has a reputation for violating industry standard collecting practices, it can damage the reputation of the credit originator. We go to great lengths to collect from consumers in a responsible, professional and legally compliant manner. We believe our strong relationships with major credit originators provide us with access to quality opportunities for portfolio purchases.

Experienced Management Team

We have an experienced management team with considerable expertise in the accounts receivable management industry. Prior to our formation, our founders played key roles in the development and management of a consumer receivables acquisition and divestiture operation of Household Recovery Services, a subsidiary of Household International, now owned by HSBC. As we have grown, the original management team has been expanded to include a group of experienced, seasoned executives, many coming from the largest, most sophisticated lenders in the country.

Portfolio Acquisitions

Our portfolio of defaulted consumer receivables includes a diverse set of accounts that can be categorized by asset type, age and size of account, level of previous collection efforts and geography. To identify attractive buying opportunities, we maintain an extensive marketing effort with our senior officers contacting known and prospective sellers of defaulted consumer receivables. We acquire receivables of Visa®, MasterCard® and Discover® credit cards, private label credit cards, installment loans, lines of credit, bankrupt accounts, deficiency balances of various types, legal judgments, and trade payables, all from a variety of debt owners. These debt owners include major banks, credit unions, consumer finance companies, telecommunication providers, retailers, utilities, insurance companies, medical groups/hospitals, other debt buyers and auto finance companies. In addition, we exhibit at trade shows, advertise in a variety of trade publications and attend industry events in an effort to develop account purchase opportunities. We also maintain active relationships with brokers of defaulted consumer receivables. We have done business with most of the largest consumer lenders in the United States. Since our formation, we have purchased accounts from approximately 150 debt owners.

Fee-for-Service Businesses

In order to provide debt owners with alternative collection solutions and to capitalize on common competencies with our acquired receivables portfolio business, we also perform certain collection activities on a fee-for-service basis.

Within these businesses, IGS performs national skip tracing, asset location and collateral recovery services, principally for auto finance companies, for a fee. The amount of fee earned is generally dependent on several different outcomes: whether the debtor was found and a resolution on the account occurred, if the collateral was repossessed or if payment was made by the debtor to the debt owner. For example, if the debtor is not found, our fee is less than if the debtor is found and we are able to create a positive resolution on the account.

The primary source of income for RDS and MuniServices, our government processing and collection businesses, is derived from servicing taxing authorities in several different ways: processing all of their tax payments and tax forms, collecting delinquent taxes, identifying taxes that are not being paid and auditing tax payments. The processing and collection pieces are standard commission based billings or fee for service transactions.

The Offering

Common stock offered by us:	1,250,000 Shares
Underwriters option to purchase additional common stock:	187,500 Shares
Common stock outstanding after the offering:	16,770,235 Shares (assuming that the underwriters do not exercise their over-allotment option)
NASDAQ Global Market symbol:	PRAA
Use of proceeds:	We estimate that the net proceeds from the sale of shares of our common stock in this offering will be approximately $62.2 million (or approximately $71.6 million if the underwriters exercise their over-allotment option in full), after deducting the underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds of the offering primarily to repay a portion of the debt outstanding under our $365 million revolving credit facility. See Use of Proceeds.
Risk factors:	See Risk Factors and other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding whether to invest in shares of our common stock.

The share information above is based on 15,520,235 shares of common stock outstanding as of February 9, 2010 and excludes:

7,000 shares of our common stock issuable upon exercise of options outstanding under our Amended and Restated 2002 Stock Option Plan and 2004 Restricted Stock Plan as of February 9, 2010 at a weighted average exercise price of $29.41;

666,309 shares of common stock reserved under our Amended and Restated 2002 Stock Option Plan and 2004 Restricted Stock Plan; and

343,922 shares of restricted stock that are subject to forfeiture as of February 9, 2010.

Unless we indicate otherwise, the information in this prospectus supplement assumes that the underwriters will not exercise their over-allotment option to purchase up to 187,500 additional shares of our common stock.

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Summary Consolidated Financial and Operating Data

The following table shows our summary consolidated income statement and other financial and operating data for each of the years ended December 31, 2009, 2008 and 2007 and our summary consolidated balance sheet data as of December 31, 2009, 2008 and 2007. The summary consolidated income statement and other financial data for the years ended December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles, which are incorporated herein by reference. Our historical results are not necessarily indicative of our results for any future period.

This information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009, including the Management s Discussion and Analysis of Financial Condition and Results of Operations, and our audited consolidated financial statements and related notes appearing in such report.

	Years Ended December 31,		
	2009	2008	2007
INCOME STATEMENT DATA:			
(In thousands, except per share data)			
Revenues:			
Income recognized on finance receivables, net	$ 215,612	$ 206,486	$ 184,705
Commissions	65,479	56,789	36,043
Total revenues	281,091	263,275	220,748
Operating expenses:			
Compensation and employee services	106,388	88,073	69,022
Legal and agency fees and costs	46,978	52,869	40,187
Outside fees and services	9,570	8,883	7,287
Communications	14,773	10,304	8,531
Rent and occupancy	4,761	3,908	3,105
Other operating expenses	8,799	6,977	5,915
Depreciation and amortization	9,213	7,424	5,517
Total operating expenses	200,482	178,438	139,564
Income from operations	80,609	84,837	81,184
Interest income	3	60	419
Interest expense	(7,909)	(11,151)	(3,704)
Income before income taxes	72,703	73,746	77,899
Provision for income taxes	28,397	28,384	29,658
Net income	$ 44,306	$ 45,362	$ 48,241
Net income per share			
Basic	$ 2.87	$ 2.98	$ 3.08
Diluted	$ 2.87	$ 2.97	$ 3.06
Weighted average shares			
Basic	15,420	15,229	15,646

Diluted	15,455	15,292	15,779
OPERATING AND OTHER FINANCIAL DATA:			
(Dollars in thousands)			
Cash collections and commissions(1)	$ 433,482	$ 383,488	$ 298,209
Operating expenses to cash collections and commissions	46%	47%	47%
Return on equity(2)	14%	17%	20%
Acquisitions of finance receivables, at cost(3)	$ 288,889	$ 280,336	$ 263,809
Acquisitions of finance receivables, at face value	$ 8,109,694	$ 4,588,234	$ 11,113,830
Employees at period end:			
Total employees	2,213	2,032	1,677
Ratio of collection personnel to total employees(4)	86%	87%	88%

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(1) Includes both cash collected on finance receivables and commission fees earned during the relevant period.

(2) Calculated by dividing net income for each year by average monthly stockholders equity for the same year.

(3) Represents cash paid for finance receivables. It does not include certain capitalized costs or 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.

(4) Includes all collectors and all first-line collection supervisors at December 31.

	As of December 31,		
	2009	**2008**	**2007**
BALANCE SHEET DATA:			
(Dollars in thousands)			
Cash and cash equivalents	$ 20,265	$ 13,901	$ 16,730
Finance receivables, net	693,462	563,830	410,297
Total assets	794,433	657,840	476,307
Long-term debt	1,499		
Total debt, including obligations under capital lease and line of credit	320,799	268,305	168,103
Total stockholders equity	335,480	283,863	235,280

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RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the risks described below and the information set forth under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, together with all other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, before you decide to invest in our common stock. See also Cautionary Note Regarding Forward-Looking Statements below.

Risks Related to our Common Stock and this Offering

The market price of our common stock may fluctuate significantly, and this may make it difficult for holders to resell our common stock when they want or at prices that they find attractive.

The price of our common stock on the NASDAQ Global Market constantly changes. We expect that the market price of our common stock will continue to fluctuate. The market price of our common stock may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- changes in market conditions;
- quarterly variations in our operating results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in the economy and the financial markets;
- departures of key personnel;
- changes in governmental regulations; and
- geopolitical conditions, such as acts or threats of terrorism or military conflicts.

In addition, in recent years, global equity markets have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Our quarterly operating results may vary significantly, which could negatively impact the price of our common stock.

Our quarterly results of operations have fluctuated in the past and will continue to fluctuate in the future. You should not rely on the results of any past quarter or quarters as an indication of future performance in our business operations or the price of our common stock. If our results of operations from quarter to quarter fail to meet the expectations of securities analysts and investors, the price of our common stock could suffer or be negatively impacted.

There may be future sales or issuances of our common stock, which will dilute the ownership interests of stockholders and may adversely affect the market price of our common stock.

We may issue additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or substantially similar securities, which may result in dilution to our stockholders. In addition, our stockholders may be further diluted by future issuances under our equity incentive plans. The market price of our common stock could decline as a result of sales or issuances of a large number of our common stock or similar securities in the market after this offering or the perception that such sales or issuances could occur.

The common stock are equity interests and are subordinate to our existing and future indebtedness.

The common stock are equity interests. This means the common stock will rank junior to all of our indebtedness and to other non-equity claims on us and our assets available to satisfy claims on us, including claims in a bankruptcy or similar proceeding. Our existing indebtedness restricts, and future indebtedness may restrict, payment of dividends on the common stock.

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of common stock, (i) dividends are payable only when and if declared by our board of directors or a duly authorized committee of the board and (ii) as a corporation, we are restricted to only making dividend payments and redemption payments out of legally available assets. Further, the common stock places no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the voting rights available to stockholders generally.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not expect to pay cash dividends on our common stock, including the common stock issued in this offering. Any future dividend payments are within the absolute discretion of our board of directors or a duly authorized committee of the board of directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, contractual restrictions, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant. We may not generate sufficient cash from operations in the future to pay dividends on our common stock.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC permits us to incorporate by reference the information we file with the SEC; therefore, we can disclose important information to you without actually including the specific information in this prospectus by referring you directly to those previously filed documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference into this prospectus supplement the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent any information contained in such filings is deemed furnished in accordance with SEC rules. Such furnished information is not deemed filed under the Exchange Act and is not incorporated in this prospectus supplement.

Our Annual Report on Form 10-K for the year ended December 31, 2009 (filed with the SEC on February 16, 2010);

Our Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders (filed with the SEC on April 20, 2009);

Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the year ended December 31, 2008 (filed with the SEC on July 30, 2009); and

The description of our Common Stock contained in our Registration Statement on Form 8-A as filed with the SEC on October 30, 2002, including any amendments thereto or any public disclosures that may update such description.

We will provide without charge to each person to whom a copy of this prospectus supplement has been delivered, upon the written or oral request of such person, a copy of any or all of the documents which have been incorporated in this prospectus by reference. Any such requests for copies should be directed to Judith Scott, Corporate Secretary, at Portfolio Recovery Associates, Inc., 120 Corporate Boulevard, Norfolk, VA 23502, by phone to telephone number (757) 519-9300, or by email to jsscott@portfoliorecovery.com.