PORTFOLIO RECOVERY ASSOCIATES INC
Form DEF 14A
April 23, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. _)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

PORTFOLIO RECOVERY ASSOCIATES

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

Riverside Commerce Center
130 Corporate Blvd.
Norfolk, VA 23502
Notice of Annual Meeting of Shareholders
to be held on June 4, 2010

You are cordially invited to attend the 2010 Annual Meeting of Shareholders of PORTFOLIO RECOVERY ASSOCIATES, INC. (the Company), which will be held at the Company s Norfolk, Virginia headquarters located at Riverside Commerce Center, 130 Corporate Blvd, Norfolk, Virginia 23502, on June 4, 2010 at 12:00 Noon, local time. More information about the Annual Meeting is included in the Proxy Statement. At the Annual Meeting, you will be asked to:

Elect three directors to serve for three year terms;

Adopt the Company s 2010 Stock Plan;

Adopt the Company s Annual Bonus Plan;

Ratify the selection of KPMG LLP as the Company s Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2010, and

Transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The enclosed Proxy Statement contains detailed information about the business to be transacted at the Annual Meeting. The Board of Directors unanimously recommends that you vote FOR the election of each director nominee, FOR the adoption of the Company s 2010 Stock Plan, FOR the adoption of the Company s Annual Bonus Plan and FOR the ratification of KPMG LLP as the Company s Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2010.

In addition to considering the matters described above, Steve Fredrickson, the President, Chairman and Chief Executive Officer of the Company, will provide a summary of the significant developments since the 2009 Annual Meeting. The Board of Directors has fixed the close of business on April 8, 2010 as the Record Date for the determination of the shareholders who are entitled to this notice, and entitled to vote at the Annual Meeting. Only shareholders of record at the close of business on April 8, 2010 will be entitled to receive notice and to vote at the Annual Meeting. A list of such shareholders will be available during regular business hours at the Company s headquarters for ten days before the Annual Meeting for inspection by any shareholder for any purpose germane to the Annual Meeting.

If you have any questions or need additional information about the Annual Meeting, please contact the Company s investor relations liaison at telephone number 757-961-3510, by fax at 757-554-0586, or via email, at *info@portfoliorecovery.com.*

By Order of the Board of Directors,

Judith S. Scott
Executive Vice President, General Counsel and Secretary
April 23, 2010

Whether or not you plan to attend the Annual Meeting, please act promptly to vote your shares with respect to the proposals described above by marking, signing, dating and promptly returning the enclosed proxy card in the postage-paid envelope provided. Instructions on accessing and reviewing the proxy materials on the Internet can be found on the proxy card sent to shareholders of record and on the Notice of Internet Availability of Proxy Materials (the Notice) sent to shareholders who hold their shares in street name (i.e. in the name of a broker, bank or other record holder). If you attend the Annual Meeting, you may vote your shares in person, even if you have previously submitted your proxy in writing. If you vote in person, any previously voted proxy will be withdrawn.

Proxy Statement
For The Annual Meeting of Shareholders
June 4, 2010
12:00 Noon
Norfolk, Virginia 23502

The Board of Directors (the Board) of Portfolio Recovery Associates, Inc. (the Company) is soliciting your proxy to vote at its 2010 Annual Meeting of Shareholders (the Annual Meeting) which is scheduled to begin at 12:00 Noon, local time, on Friday, June 4, 2010, at the Company s corporate headquarters in Norfolk, Virginia. This Proxy Statement describes the proposals which will be on the ballot at the Annual Meeting, and any adjournments or postponements thereof, as well as other important information about the Company. The proposals for which your vote is being solicited are:

1. Election of three Directors to serve three year terms;

2. Adoption of the Company s 2010 Stock Plan;

3. Adoption of the Company s Annual Bonus Plan;

4. Ratification of the appointment of KPMG LLP as the Company s Independent Registered Public Accounting Firm for the year ending December 31, 2010, and

5. Such other matters as may properly come before the Annual Meeting.

At the conclusion of the Annual Meeting, the President and Chief Executive Officer of the Company (the CEO) will present a report on the Company s operations, and will respond to shareholder questions.

Included with this Proxy Statement are the Company s 2009 Annual Report to Shareholders, which includes the Company s audited consolidated financial statements for the fiscal year ended December 31, 2009, the Notice of the Company s 2010 Annual Meeting, this Proxy Statement and your Proxy Card. These materials are all first being mailed to shareholders on or about April 23, 2010, and are also available online at http://www.cstproxy.com/portfoliorecovery/2010. The information contained in these documents is accurate as of the dates specified therein. Changes or updates in the data, information or facts contained in such documents may occur after the mailing date.

VOTING AT THE ANNUAL MEETING

Date, Time and Place of the Annual Meeting

The Annual Meeting will begin promptly at 12:00 Noon, local time, on June 4, 2010 in the Board of Directors conference room at our Norfolk headquarters, which is located at the following address:

Portfolio Recovery Associates, Inc.
Riverside Commerce Center
130 Corporate Boulevard
2nd Floor
Norfolk, Virginia 23502

Who May Vote

Each holder of shares of the Company s common stock at the close of business on April 8, 2010 (the Record Date) will be entitled to receive a notice of the Annual Meeting, and to attend and vote at the Annual Meeting. Such persons are considered holders of record. As of the Record Date, 16,958,735 shares of common stock of the Company were outstanding and entitled to vote, which were held by 32 holders of record maintaining shares on behalf of approximately 21,000 beneficial owners. Entities holding shares on behalf of the owners of the shares, such as banks, brokerage firms and any other nominees who are holders of the Company s common stock as of the close of business on April 8, 2010 are requested to forward these materials to beneficial owners. The Company will pay the reasonable mailing expenses incurred for this purpose. Any shareholder who does not receive a copy of the Notice of Annual Meeting or this Proxy Statement, either by mail or on the Internet, or who wishes to obtain additional copies, may obtain these materials online at http://www.cstproxy.com/portfoliorecovery/2010, or by contacting the Company s Secretary or Investor Relations Liaison in advance of the Annual Meeting via email at info@portfoliorecovery.com, by fax at 757-554-0586, or by telephone at 757-961-3510. Materials will also be available at the Annual Meeting. If you received more than one proxy card, you may hold shares in more than one account. To ensure that all of your shares are voted, you must sign and return each card. Alternatively, if you vote online via the Internet, you will need to vote once for each proxy card and voting instruction card you receive.

Quorum for the Annual Meeting

A majority of holders of the issued and outstanding shares of common stock of the Company entitled to vote, represented in person or by proxy, will constitute a quorum. Continental Stock Transfer and Trust Company has been appointed by the Company s Board of Directors to act as the inspector of election. The inspector of election will tabulate the votes cast by proxy or in person at the Annual Meeting, and will determine whether or not a quorum is present. In the event that a quorum is not present, the Annual Meeting will likely be adjourned or postponed in order to solicit additional proxies.

How to Vote

As a holder of common stock of the Company, you are invited to attend the Annual Meeting and vote your shares in person. You are entitled to cast one vote per share owned as of the Record Date for each proposal to be considered at the Annual Meeting.

Votes Required to Elect Directors and Adopt Proposals

Proposal 1. To be elected as a Director, a nominee must receive the affirmative vote of a plurality of the votes cast. Under the plurality voting standard, the nominees receiving the most for votes will be elected. In an uncontested election, any nominee for Director who receives a greater number of withheld votes than for votes is required to tender his or her resignation for consideration by the Nominating and Corporate Governance Committee of the Board of Directors. Also, broker non-votes with respect to the election of one or more Directors will not be counted as a vote cast; therefore, if your shares are held in street name it is critical that you cast your vote or provide specific instructions to your broker if you want your vote to count. Your broker will not be allowed to vote your uninstructed shares on the election of directors on a discretionary basis.

Proposals 2 and 3. Approval of the 2010 Stock Plan and the Annual Bonus Plan will require the affirmative vote of a majority of the votes cast for each proposal. A proxy card marked as abstaining with respect to either of these proposals and any broker non-votes with respect to either of these proposals will not be counted as a vote cast and, therefore, will have no effect on the vote.

Proposal 4. Ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm for the year ending December 31, 2010 requires the affirmative vote of a majority of the votes cast. A proxy card marked as abstaining with respect to this proposal will not be counted as a vote cast and, therefore, will have no effect on the vote.

Other Matters. Any other matters and other business as may properly come before the Annual Meeting will require the affirmative vote of a majority of the votes cast, except as may otherwise be required by statute.

Shares represented by proxy will be voted as directed on the proxy form and, if no direction is given, will be voted as follows:

1. **FOR** all the persons nominated by the Board as Directors;

2. **FOR** the approval of the Company s 2010 Stock Plan;

3. **FOR** the approval of the Annual Bonus Plan;

4. **FOR** the ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm; and

5. In the best judgment of the persons named in the proxies, with respect to any other matters that may properly come before the meeting.

Preliminary voting results will be announced at the conclusion of the Annual Meeting, and final voting results will be published in a Form 8-K which will be filed within four days after the Annual Meeting.

Voting Before the Annual Meeting

Voting By Mail. If you do not expect to attend the Annual Meeting in person, and choose to vote on the proposals on the agenda by mail, simply complete the Proxy Card, sign and date it, and return it in the postage-paid envelope provided. If you are a shareholder whose shares are held in street name (i.e., in the name of a broker, bank or other record holder), you may obtain a proxy, executed in your favor, from the record holder. You may sign the proxy card and return it to the Company, or you may direct the record holder of your shares to vote your proxy in the manner you specify. Further, if your shares are held in street name, you must communicate your instructions respecting the voting of your shares to the record holder, or your broker will be prohibited from voting your shares. Voting by mail will not affect your right to vote in person if you decide to attend the Annual Meeting; however, if you wish to revoke your proxy, you must first notify the Corporate Secretary of your intent to vote in person, and must actually vote your shares at the Annual Meeting.

Voting and Viewing Proxy Materials via the Internet. Proxy materials are available on the Internet, at http://www.cstproxy.com/portfoliorecovery/2010, in addition to the paper copies which will be mailed to each shareholder of record. Instructions on the process for accessing and reviewing the proxy materials on the Internet can be found on the proxy card sent to shareholders of record and on the Notice of Internet Availability of Proxy Materials sent to shareholders who hold their shares in street name. Votes submitted via the Internet must be received by 11:59 p.m. Eastern Time, on June 3, 2010. If you do not wish to vote via the Internet, please complete, sign and return the proxy card in the self-addressed, postage-paid envelope provided. The Proxy Notice will also include instructions for shareholders who hold their shares in street name on how to access the proxy card to vote over the internet. Beneficial shareholders should ensure that instructions respecting the voting of their shares of common stock are communicated to the appropriate person, as without specific instructions, brokers/nominees are prohibited from voting shares for their clients. Voting over the internet will not affect your right to vote in person if you decide to attend the Annual Meeting; however, if you wish to revoke your proxy, you must first notify the Corporate Secretary of your intent to vote in person, and vote your shares at the Annual Meeting.

Changing or Revoking Your Proxy

You may change or revoke your proxy at any time before it is voted at the Annual Meeting by the following methods:

Send a written notice of revocation of your proxy so that it is received before the taking of the vote at the Annual Meeting to the Corporate Secretary at the following address:

Judith Scott
Executive Vice President, General Counsel and Secretary
Portfolio Recovery Associates, Inc.
Riverside Commerce Center
120 Corporate Blvd.
Norfolk, VA 23502
jsscott@portfoliorecovery.com
Fax: 757-321-2518

Attend the Annual Meeting and vote in person. Your attendance at the Annual Meeting will not in and of itself revoke your proxy. In order to revoke your proxy, you must also notify the Corporate Secretary of your intent to vote in person, and then vote your shares at the Annual Meeting. If you require assistance in changing or revoking your proxy, please contact the Corporate Secretary at the address above.

Effect of Not Casting Your Vote

If you hold your shares in street name it is critical that you cast your vote if you want it to count. In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted, your bank or broker was allowed to vote those shares as they felt appropriate. Recent changes in regulations eliminated the ability of your bank or broker to vote your uninstructed shares on the election of directors on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of directors, no votes will be cast on your behalf on Proposal 1. Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on the adoption of the Company s 2010 Stock Plan and Annual Bonus Plan (Proposals 2 and 3 of this Proxy Statement) and the ratification of the appointment of the Company s independent registered public accounting firm (Proposal 4 of this Proxy Statement). If you are a shareholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the Annual Meeting.

Voting in Person at the Annual Meeting

If you are planning to attend the Annual Meeting and wish to vote your shares in person, you will be given a ballot for that purpose at the Annual Meeting. If you require special assistance due to a disability or other reasons, please notify the Corporate Secretary at the address below. Shareholders who do not hold their shares in their own name (referred to in this Proxy Statement as beneficial shareholders) should note that only proxies deposited by shareholders whose names appear on the records of our Corporation as the registered holders of shares of common stock can be recognized and acted upon at the Annual Meeting. If your shares are listed in an account statement provided to you by a broker, then in almost all cases those shares will not be registered in your name on the Company s records. Such shares will more likely be registered under the name of your broker or an agent of that broker. If you are a shareholder whose shares are held in street name, you must obtain a proxy from your broker, banker, trustee or nominee, giving you the right to vote your shares at the Annual Meeting.

Security Ownership of Certain Beneficial Owners

The following table sets forth the persons or entities known by the Company to be the beneficial owners of more than five percent (5%) of the common stock of the Company as of April 8, 2010, based on available information.

Names and Address of Beneficial Owners	Shares Beneficially Owned[1](#)	Shares Beneficially Owned[2] (%)
Capital Research Global Investors[3] 333 South Hope Street Los Angeles, CA 90071	1,733,000	10.2%
BlackRock, Inc.[4] 40 East 52^{nd} Street New York, NY 10022	1,162,497	6.9%
Waddell & Reed Financial, Inc.[5] 6300 Lamar Avenue Overland Park, KS 66202	1,134,216	6.7%
Riverbridge Partners LLC[6] 801 Nicollet Mall, Suite 600 Minneapolis, MN 55402	910,144	5.4%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (SEC) and includes voting and investment power with respect to shares.

(2) Ownership percentage is based on 16,958,735 shares of common shares outstanding as of the Record Date.

(3) Based on information filed in a Schedule 13G/A with the SEC on February 9, 2010 (dated as of December 31, 2009) in which Capital Research Global Investors, a division of Capital Research and Management Company (CRMC), is reported as the beneficial owner of 1,733,000 shares of the Company s common stock with sole power to dispose or to direct the

disposition of 1,733,000 shares.

(4) Based on information filed in a Schedule 13G with the SEC on January 29, 2010 (dated as of December 31, 2009) in which BlackRock, Inc. is reported as the beneficial owner of 1,162,497 shares of the Company s common stock with sole power to dispose or to direct the disposition of 1,162,497 shares.

(5) Based on information filed in a Schedule 13G with the SEC on February 12, 2010 (dated as of December 31, 2009) in which Waddell & Reed Investment Management Company is reported as the beneficial owner of 701,600 shares of the Company s common stock with sole power to dispose or to direct the disposition of 5701,600 shares

and Ivy Investment Management Company is reported as the beneficial owner of 432,616 shares of the Company s common stock with sole power to dispose or to direct the disposition of 432,616 shares.

(6) Based on information filed in a Schedule 13G with the SEC on February 3, 2010 (dated as of December 31, 2009) in which Riverbridge Partners LLC is reported as the beneficial owner of 910,144 shares of the Company s common stock with sole power to dispose or direct the disposition of 910,144 shares.

Security Ownership of Management and Directors

The following table contains information about the shares of the Company s stock beneficially owned by the executive officers named therein, including the Company s CEO, Chief Financial and Administrative Officer (CFO), each of the Company s non-employee Directors, and all Directors and executive officers as a group, as of April 8, 2010. Except as indicated by footnote and subject to community property laws where applicable, to the knowledge of the Company, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. In computing the number of shares beneficially owned by a person or entity and the percentage ownership of that person or entity, all outstanding stock options currently exercisable or exercisable within 60 days of April 8, 2010 and all nonvested shares vesting within 60 days of April 8, 2010, are deemed outstanding.

Security Ownership of Management and Directors

Amount and Nature of Beneficial Ownership

	Shares Owned (#)	Shares (Options) Vested (#)	Shares Not Vested (#)	Shares Vesting Within 60 Days of 4/8/2010 (#)	Total Shares Beneficially Owned (#)	Percentage of Shares Owned (%)
Management						
Steve Fredrickson, CEO	209,964	0	67,890	1,000	210,964	1.2%
Kevin Stevenson, CFO	110,037	0	35,007	1,000	111,037	0.7%
Craig Grube, EVP	36,023	0	24,578	1,000	37,023	0.2%
Judith Scott, EVP	14,161	0	9,400	300	14,461	0.1%
Michael Petit, SVP	5,241	0	36,339	1,000	6,241	0.0%
Kent McCammon, SVP	4,707	0	28,204	0	4,707	0.0%
Non- Employee Directors						
William Brophey	5,300	0	1,732	1,732	7,032	0.0%
Penelope Kyle	3,600	0	2,003	603	4,203	0.0%
David Roberts	98,632	5,000	1,764	564	104,196	0.6%
Scott Tabakin	4,000	0	2,833	833	4,833	0.0%
James Voss	5,800	2,000	1,732	532	8,332	0.0%
John Fain	0	0	2,000	0	0	0.0%
John Fuller	0	0	2,000	0	0	0.0%
All Executives & Directors	497,465	7,000	215,482	8,564	513,029	3.0%

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s executive officers and Directors and persons who beneficially own more than five percent (5%) of the Company s common stock to file initial reports of ownership and changes in ownership of such common stock with the SEC and NASDAQ. As a practical matter, the Company typically assists its Directors and executive officers with these transactions by completing and filing Section 16 reports on their behalf. The Company also reviews directors and officers questionnaires and written representations from the executive officers and Directors. Based on a review of the Section 16(a) reports filed by the Company on behalf of its Directors and executive officers or furnished to the Company by 5% beneficial owners and a review of written representations from certain reporting persons, the Company believes that all such filing requirements were complied with on a timely basis during 2009, with the exception of one Form 4 which was not timely filed for Judith Scott and for each Director with respect to their June 1, 2009 grant of shares of the Company s stock.

Corporate Governance

The Company s corporate governance principles and the current charters of each of the committees of the Company s Board of Directors (the Board) are posted on the Investor Relations page of the Company s website at www.portfoliorecovery.com. Please note that the web site does not constitute a part of this Proxy Statement. These materials are also available in print to any shareholder upon request. The Board regularly reviews committee charters and major corporate governance developments and modifies its governance principles, committee charters and key practices as warranted. Additionally, the Board annually conducts assessments of each of its committees and of itself. This process enhances director, committee and Board effectiveness. At the conclusion of the annual assessments, the Board uses the information obtained to evaluate and refine its processes and committee charters, as necessary.

Code of Business Conduct and Ethics. The Company has adopted a Code of Business Conduct and Ethics which applies to all executive officers, employees and Directors, including the CEO and CFO. The Code of Business Conduct and Ethics addresses, among other items, conflicts of interest, confidentiality, fair dealing, protection and use of corporate assets, compliance with laws and the reporting of illegal or unethical behavior. A copy of the Code of Business Conduct and Ethics, and the Company s corporate governance principles, are posted on the Investor Relations page of the Company s web site at www.portfoliorecovery.com. Please note that the web site does not constitute a part of the Proxy Statement. Shareholders may also obtain a copy of the Code of Business Conduct and Ethics by sending a written request to the Corporate Secretary. The Company will disclose all amendments to the Code of Business Conduct and Ethics, as well as any waivers thereof, on its website to the extent permissible by the rules and regulations of the SEC and NASDAQ. There were no waivers of the Code of Business Ethics granted in 2009.

The Company also has established and published a confidential telephone hot line for the reporting of suspected policy violations, fraud, embezzlement, and other criminal and/or unethical activities concerning the Company s accounting practices, auditing and reporting of financial results. This number is operational 24 hours a day, seven days a week. Any employee who has a concern about the Company s, or of any Director s or employee s ethical conduct, or of any accounting, internal controls or auditing matters may anonymously communicate those concerns directly to the Chairman of the Audit Committee via the telephone hot line. All such communications are entirely confidential, and may be reported to an independently maintained toll-free phone number which is posted in prominent places at all Company work sites, and also on the Company s intranet. All such communications are promptly reviewed by the Chairman of the Audit Committee and addressed by the Company s General Counsel or other corporate executives, as appropriate. Moreover, each quarter the Company s Office of General Counsel asks its Directors, as well as more than fifty of the Company s senior employees, from all aspects of its businesses, to certify that they are not aware of any fraudulent, unethical or illegal activities committed by or on behalf of the Company. Additionally, on an annual basis, each Director and each executive officer is obligated to complete a Directors and Officers Questionnaire which requires disclosure of any transactions with the Company in which the Director or executive officer, or any member of his or her immediate family, may have a direct or indirect material interest.

Risk Oversight. The Board recognizes that the Company s business risks are not static, and that it is not possible to mitigate all risks and uncertainties all of the time. However, a comprehensive knowledge of the Company s elements of risk allows the Board to achieve proper oversight and perspective in the understanding and management of the material risks facing the Company. The Board takes a regular, systematic and proactive approach to risk management that includes ongoing evaluations and assessments of both the internal and external business risks and regular reports from management. At least quarterly, the entire Board completes a risk assessment to identify and evaluate risks. Also, the Board operates within a climate of openness and uninhibited dialog with management. In this connection, management attends the regular meetings of the Board and routinely reports on their activities. These reports include risk considerations and discussions concerning actions and proposals to mitigate the risks identified, if any. The Audit Committee receives reports at each of its regularly scheduled meetings from the Company s CFO and the Company s external auditors on financial risks and compliance with reporting requirements, including internal controls. The Audit Committee also receives reports at each quarterly meeting from the Company s Internal Auditor. As described in the Compensation Committee report, the Compensation Committee ensures that the Company s compensation programs and incentives do not lead to decisions that encourage or promote excessive risk-taking. The Board s ultimate goal is to ensure that the Company continues as a successful business, and analyzes risks so as to appropriately optimize financial returns and increase shareholder value.

Board of Directors

The Board is the ultimate decision-making body of the Company, except with respect to those matters reserved to the shareholders. The Board advises senior management and monitors their performance. The Board held four regular meetings and eight special meetings in 2009. The Board has informal discussions by telephone or electronically, as well as special meetings during the year, as needed. Non-employee Directors meet at least quarterly in executive session without management present, and hold at least one meeting each year for the purpose of reviewing and assessing the Board s effectiveness and the effectiveness of each committee. In 2009 the non-employee Directors held five executive sessions. There is no formal policy regarding Directors attendance at Board meetings or at annual meetings; however, all Directors are expected to attend Board meetings, either in person or telephonically. It is the Board s practice to schedule its meetings and the Company s Annual Meeting of Shareholders at times and dates which will permit maximum attendance by Directors, taking into account the Directors schedules and the timing requirements of applicable laws. Five Directors attended the Company s 2009 Annual Meeting in person. All Directors attended 100% of the regular meetings of the Board in 2009, and not less than 75% of all meetings of the Board. Each of the Directors serving on the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee attended at least 75% of the meetings of each committees on which they serve.

The Board currently consists of eight Directors, seven of whom are non-employee Directors. Two members of the Board, Mr. Fuller and Mr. Fain, were appointed in March 2010. The Board is divided into three classes. The terms of each class expire at successive annual meetings. Shareholders elect Directors from one class at each annual meeting to serve three year terms. The election of Mr. Roberts, Mr. Fain and Mr. Fuller, all of whom are in the Second Class of Directors, will take place at the 2010 Annual Meeting. Mr. Brophey, who is also in the Second Class of Directors, will not seek reelection at the Annual Meeting. The following table sets forth information concerning the Company s Directors as of March 1, 2010:

Director	Age	Title	Appointed	Class
Steve Fredrickson	50	President, CEO and Chairman of the Board	March 1996 (1)(4)	1st
William Brophey	72	Director	November 2002(2)	2nd
Penelope Kyle	62	Director	October 2005(4)	1st
David Roberts	48	Lead Director	March 1996(1)(2)	2nd
Scott Tabakin	51	Director	October 2004(3)	3rd
James Voss	67	Director	November 2002(3)	3rd
John Fuller	66	Director	March 2010(5)	2nd
John Fain	61	Director	March 2010(5)	2nd

(1) In March 1996, Mr. Fredrickson and Mr. Roberts

were named as managers of Portfolio Recovery Associates, L.L.C., the Company s predecessor. Mr. Fredrickson and Mr. Roberts were appointed as directors of the Company upon its creation in August 2002.

(2) The terms of Mr. Brophey and Mr. Roberts will expire at the 2010 Annual Meeting. Mr. Brophey is not seeking reelection.

(3) The terms of Mr. Voss and Mr. Tabakin will expire at the 2011 Annual Meeting.

(4) The terms of Mr. Fredrickson and Ms. Kyle will expire at the 2012 Annual Meeting.

(5) Mr. Fuller and Mr. Fain were appointed as directors of the Company on March 1, 2010, and are on the ballot for election by the shareholders at the Annual Meeting.

Summary: Board of Directors Information	**2009**
Size of Board	6
Average Age of Directors	58
Number of Independent Directors	5
Lead Independent Director	Yes
Independent Audit Committee	Yes
Independent Compensation Committee	Yes
Independent Corporate Governance Committee	Yes
Number of Board Meetings Held	12
Corporate Governance Guidelines Approved by the Board	Yes
Outside Directors Hold Meetings Without Management Present	Yes
Annual Board Self-Evaluation	Yes
Annual Review of Independence of Board	Yes
Annual Committee Self Evaluations	Yes
Charters for Audit, Compensation and Corporate Governance Committees	Yes
Annual Equity Grants to Non-Employee Directors	Yes
Corporate Compliance Program	Yes
Code of Ethics	Yes

Combination of Chairman and Chief Executive Officer Positions

The positions of Chairman of the Board and CEO are combined; however, the Board has designated a non-employee independent Director to serve as its Lead Director. The Lead Director coordinates the activities of the other non-employee Directors, consults with the CEO regarding agendas, schedules and information needs for Board and committee meetings, and facilitates information flow and communication by acting as a liaison between the non-employee Directors and management. The Board believes this arrangement provides the most efficient and effective leadership model for the Company. Further, combining the Chairman and CEO roles is appropriate because the structure fosters a closer alignment between the Board and management. Due to the size of the Company, in most cases one person, the President and CEO, should speak for and lead both the Company and the Board. The Board regularly reviews and considers whether it is in the best interests of shareholders to separate or combine the roles of Chairman of the Board and Chief Executive Officer.

Communication with Directors

Shareholders may communicate with members of the Board by transmitting their correspondence by mail or facsimile addressed to one or more Directors. All such communications should be sent to the attention of the Corporate Secretary, at the Company s headquarters address specified herein, or to fax number 757-321-2518. Communications from shareholders to one or more directors will be collected and organized by the Corporate Secretary and forwarded to the Chairman of the Board, or if addressed to an identified Independent Director, to that Director, as soon as practicable. Communications that are abusive, in bad taste or that present safety or security concerns may be handled differently. If multiple communications are received on a similar topic, the Corporate Secretary may forward only representative correspondence. The Corporate Secretary will determine whether any communication addressed to the entire Board as a whole should be properly addressed by the entire Board, or by a committee of the Board. If a response to the communication is warranted, the content and method of the response will be coordinated with the Company s General Counsel. The Company s confidential hot line may be used by any shareholder who prefers to raise a concern to the Board in a confidential or anonymous manner, by dialing 1-800-290-1650. All telephone calls to the Company s confidential hot line are referred to the Chairman of the Audit Committee, who ensures that such matters are appropriately investigated. The Company s Investor Relations Liaison will address communications from the investment community regarding the Company s financial and business matters, and will refer appropriate matters to the Company s CEO or its CFO.

Director Independence

The Board consists of a majority of independent Directors who do not have any direct or indirect material relationship with the Company. The Board has established guidelines which conform to the independence requirements of the NASDAQ Global Stock Market s (NASDAQ s) listing standards, to assist it in determining director independence. In March 2010, the Directors provided updated responses to Directors and Officers questionnaires in accordance with current proxy disclosure requirements. These included updated information concerning their qualifications and experience, as well as any conflicts of interest, job changes, and any material transactions, relationships, and other arrangements between the Company and the Directors or immediate family members of the Directors. A Director s immediate family members include the Director s spouse, parents, children, siblings, in-laws, and anyone (other than domestic employees) who shares the Director s home. Based on the responses received and other available information, it was determined that all of the non-employee Directors of the Company and their employers lack material relationships with the Company, and are independent Directors. The Board has also concluded that each of the members of the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee meet the NASDAQ independence tests. This determination was made based upon a number of facts, including, but not limited to, the following:

Except for Steve Fredrickson, the Chairman of the Board and CEO, no Director is, or has ever been, an executive officer of the Company or employed by the Company or its subsidiaries, or has an immediate family member who is an employee or officer of the Company or its subsidiaries, has accepted any compensation or payments from the Company or has any current or past material relationships with the Company;

No Director, other than the CEO has ever received any compensation from, worked for, been retained by, or received anything of substantial value from the Company other than Director compensation;

No Director or any member of any Director s immediate family is, or ever was, employed by the Company s independent registered public accounting firm, or ever worked on the Company s audit at any time;

No executive officer serves on the board of directors of any company that employs a Director or any member of the immediate family of a Director, none sit on a board of directors of any company at which a Director is the chief executive officer or chief operating officer, and no Director or any member of the immediate family of a Director has been an executive officer of any entity having a compensation committee on which one or more of the Company s executive officers has concurrently served; and

No Director and no immediate family member of any Director is a partner or controlling shareholder, director or executive officer of any entity from which the Company purchases goods or services, or to which the Company makes charitable contributions in excess of 2% of the entity s consolidated gross revenues for that year, or $200,000.

Review and Approval of Related Party Transactions

The Company requires disclosure of any relationships and transactions in which the Company, its Directors, its executives or their immediate family members are participants, and conducts a review of transactions of the Company with any shareholders owning five percent or greater of the Company s outstanding common stock, to determine whether there are any such transactions in amounts at or exceeding the minimum threshold for disclosure in this Proxy Statement under the relevant SEC rules (generally, transactions involving amounts exceeding $120,000) in which a related person has a direct or indirect material interest. The Company s General Counsel is primarily responsible for developing and implementing the policy and procedures relative to the review and approval of related party transactions.

Procedure for the Approval of Related Party Transactions

1. The complete details of any proposed transaction must be presented to the Company s General Counsel by the party intending to enter into the transaction.
2. The Company s General Counsel will prepare a written analysis and recommendation to the Nominating and Corporate Governance Committee, based on: (a) the nature of the proposed transaction; (b) the related person s interest in the transaction; (c) the dollar value of the transaction; (d) the importance of the transaction to the business of the Company; (e) the material terms of the transaction and (f) the overall fairness of the transaction to the Company.
3. Based on the foregoing factors, the Nominating and Corporate Governance Committee will decide whether or not to recommend that the proposed transaction be brought before the full Board for consideration.
4. If the matter is presented to the Board for a vote, and a related party is involved in the transaction, he or she will not be allowed to participate in any discussions and decisions concerning the transaction.
5. If the Board approves the transaction, the Company s General Counsel will ensure that a written arm s length contract between the parties is appropriately executed by all parties.

There were no related person transactions with the Company in 2009.

Director Orientation, Education and Preparation

A comprehensive orientation program is in place for new Directors. It includes one-on-one meetings with senior management and extensive written materials concerning each of the Company s different business units. Senior management meetings with Directors involve business unit overviews, strategic plans and significant financial, accounting and risk management issues. Directors also are provided opportunities to visit the Company s business units across the country, in order to gain additional knowledge about their operations. Further, all Directors receive ongoing continuing education through director education sessions held on a regular Board meeting date at least once per year. The Company also affords Directors the opportunity and funds to attend external director education programs, and provides materials for their use between meetings.

Management ensures that the Board is fully informed of the Company s business by providing them regular written financial reports, reports of operations and other relevant reports at Board meetings at least monthly, between meetings and at committee meetings. Board materials related to agenda items are provided sufficiently in advance of Board meetings to allow the Directors to prepare for discussion of agenda items. All Board members also may receive comprehensive monthly financial reports from the CFO. Members of senior management attend regular Board meetings, or portions thereof, for the purpose of participating in discussions and providing management reports on business unit operations. Directors also have access to members of management and employees of the Company between meetings and, as necessary and appropriate, may consult with and engage, at the Company s expense, independent legal, compensation, financial and accounting advisors to assist them in their duties to the Company and the shareholders.

Committees of the Board

All non-employee Directors serve on more than one committee so that there is continuity across all committees. (Except for Mr. Fain and Mr. Fuller, who, due to their recent appointments to the Board, have not yet been assigned to a committee.) The Committees of the Board regularly report on their activities and results of meetings to the full Board. Only independent non-employee Directors may serve on the committees. The table below shows the current membership for each of the standing committees of the Board as of April 8, 2010.

Audit Committee	**Nominating and Corporate Governance Committee**	**Compensation Committee**
James Voss*	William Brophey*	David Roberts*
William Brophey	Scott Tabakin	Penelope Kyle
Scott Tabakin	Penelope Kyle	Scott Tabakin
	James Voss	William Brophey
	David Roberts	James Voss
Number of Committee Meetings in 2009		
12	3	5

* Committee Chair

Director Compensation

The Board sets the compensation for non-employee Directors so as to fairly compensate them for the work required of them, based on the Company s size and scope. The Board also makes annual equity awards to Directors in order to align each Director s interests with the long-term interests of the Company s shareholders. In 2009, at the request of the Compensation Committee, the Committee s compensation consultant, Frederic W. Cook & Co., Inc. (FW Cook), evaluated the design and competitiveness of the Company s Director compensation program and made recommendations for the Committee s consideration. The purpose of the evaluation was to determine whether the Company s Director compensation program promoted independence and objectivity among Directors, was sufficient to attract qualified candidates to enable the Board to fill any Director vacancies and was competitive in comparison to the companies listed in the Compensation Peer Group (defined on page 23 below). The FW Cook evaluation included a competitive analysis of the Company s total Director compensation package, compared against those of the companies in the Compensation Peer Group. The Company s annual Director retainers were determined to be at approximately the 25^{th} percentile of the directors in the Compensation Peer Group, and the Audit Committee chair and Lead Director retainers were determined to be below the Compensation Peer Group s 25^{th} percentile. The equity compensation awarded the Company s Directors was determined to be between the 25^{th} percentile and median of the Compensation Peer Group, and total Director compensation was determined to be below the 25^{th} percentile on both an individual and aggregate basis. The Committee determined, based on the FW Cook analysis, that a modification to the Director compensation program was appropriate, and in March 2009, revised the Director compensation structure, effective June 1, 2009. The approved Director compensation program provides each non-employee Director an annual retainer for their service as a Director, and additional annual retainers for committee service and for chairing a committee. These adjustments increased total non-employee Director compensation in 2009 by approximately 35% above 2008 levels.

Pursuant to the revised Board compensation structure, non-employee Directors receive an annual retainer of $30,000. The Lead Director and the Chair of the Audit Committee receive additional annual retainers of $15,000 and $25,000, respectively, and the Chairs of the Compensation Committee and the Nominating and Corporate Governance Committee receive additional retainers of $10,000 and $2,500 respectively. Each Director receives additional compensation for their service on standing committees equal to 50% of the committee chair s retainer, as well as reimbursement for travel expenses in connection with attendance at Board meetings. The Company also pays all reasonable expenses for any Director who wishes to attend director continuing education programs, and maintains policies of directors and officers liability insurance covering all Directors.

Prior to 2004 non-employee Directors received an initial grant of 5,000 stock options upon their appointment to the Board, and additional grants of 5,000 stock options, to which they became entitled annually on the anniversary date of their initial appointment. All stock options so granted vested in five equal installments and will expire seven years after the initial grant date. Directors are no longer being granted stock options.

Instead, beginning in 2004, newly appointed Directors receive 2,000 nonvested shares of the Company s stock upon their initial appointment to the Board. These shares vest at the rate of 20% per year for five years. Directors are also awarded 1,000 nonvested shares annually, on the date of the annual meeting of shareholders. The annual Director stock awards become fully vested one year after the grant date. This vesting schedule, combined with the targeted Director stock ownership policy described below, advances the alignment of Directors economic interests with those of shareholders.

Recognizing that each Director should have a substantial personal investment in the Company, the Board has adopted a target stock ownership policy which applies to each Director, requiring a personal holding by each Director of a number of shares valued at not less than two times the Director s annual Board retainer, exclusive of Committee retainers, if any. Directors are expected to acquire and maintain this share ownership threshold within two years after joining the Board. In 2009 the Company offered no compensation to its Directors other than their annual retainers and stock awards. The Company offers no retirement benefits or other perquisites to Directors. The table below summarizes the compensation paid by the Company to non-employee Directors for the year ended December 31, 2009. The Company s CEO received no additional compensation for his service as a Director and Chairman of the Board of Directors.

Non-Employee Director Annual Compensation Structure

BOARD SERVICE	
Annual Retainer (Cash Portion)	$ 30,000
Annual Retainer (Stock Portion) 1,000 Nonvested Shares[1]	$ 44,850[2]
TOTAL (excluding Committee Retainers, and Lead Director Retainer)	$ 74,850
COMMITTEE AND LEAD DIRECTOR SERVICE	
Annual Committee Chair Retainers:	
Audit Committee Chair	$ 25,000
Compensation Committee Chair	$ 10,000
Nominating and Corporate Governance Committee Chair	$ 5,000
Annual Committee Retainers:	
Audit Committee	$ 12,500
Compensation Committee	$ 5,000
Nominating and Corporate Governance Committee	$ 2,500
Lead Director Retainer	$ 15,000

(1) The Company awards Directors 1,000 nonvested shares annually, on the date of the annual shareholders meeting.

(2) Based on the NASDAQ s closing price of the Company s common stock on December 31,

2009, as reported by the NASDAQ Global Stock Market.

2009 DIRECTOR COMPENSATION

Director	Fees Earned or Paid in Cash ($)	Stock Awards (1) ($)	Option Awards (2) ($)	Total Compensation ($)
William Brophey	$41,250	$19,934	$0	$61,184
Penelope Kyle	$33,750	$22,594	$0	$56,344
David Roberts	$46,250	$21,133	$0	$67,383
Scott Tabakin	$40,000	$31,213	$0	$71,213
James Voss	$48,750	$19,934	$0	$68,684

(1) The amounts reported in the Stock Awards column represent the aggregate grant date fair value of the stock awards calculated by multiplying the number of nonvested shares granted by the closing stock price of the Company s common stock on the grant date. The actual amount of compensation that will be realized by a Director at the time an award vests will depend upon the market price of the Company s common stock at the vesting date.

(2) No stock options were granted in 2009.

The aggregate number of outstanding stock options held by each of the Company s non-employee Directors as of April 8, 2010 is provided in the table below:

Directors	Outstanding Options (#)*
William Brophey	0
John Fain	0
John Fuller	0
Penelope Kyle	0
David Roberts	5,000
Scott Tabakin	0
James Voss	2,000

* The Company discontinued its practice of granting stock options to Directors in 2004. Directors appointed to the Board after 2004 have received no stock options.

Qualifications and Skills of Directors

Certain minimum qualifications must be met by a nominee for a position on the Board. Specifically, nominees should possess the highest level of professional and personal ethics, integrity and values, be free of any material conflicts of interest with respect to Board service, have competence at the policy-making level and have the ability to exercise sound judgment. Nominees must also be independent, as defined in NASDAQ Rule 5605(a)(2), be able to understand and relate to the culture of the Company, have sufficient time to properly discharge the duties associated with serving as a Director, and have sufficient experience and knowledge to enhance or maintain the diversity of the Board. Directors must possess the ability to apply good business judgment and must be in a position to properly exercise his or her duties of loyalty and care. Directors should also exhibit proven leadership capabilities, integrity and experience with a high level of responsibility and accomplishment within their chosen fields, and must have the ability to quickly understand complex principles of business and finance in the context of a publicly traded company. Overall continuity and chemistry of the Board are also considerations.

Director Diversity

The Board strives to have a meaningful cross-section of business and industry experience represented by a group of diverse individuals who add quality to the Company s corporate governance framework. The Board does not have a formal diversity policy. However, the Board, through the Nominating and Corporate Governance Committee, reviews, at least annually, the size, structure and membership of the Board of Directors and its committees to assure that the proper skills and experience are represented on the Board and its committees. In conducting its review, the Committee considers the contributions of existing directors and the overall needs of the Company. The review assesses committee balance, the overall composition of the Board and identifies the contribution each Director makes to the diversity of backgrounds, experience and competencies represented on the Board and its committees. Also considered are existing and potential gaps in skills sets. Among other criteria, the experience and skill sets deemed necessary for the Board of Directors as a whole includes financial expertise, an understanding of the industries in which the Company operates and experience as a director or officer of other public companies.

Information Regarding Nominees for Election to Three-year Terms Expiring in 2013

The following persons have been nominated by the Board of Directors on the recommendation of the Nominating and Corporate Governance and Nominating Committee, for election to three-year terms expiring at the 2013 Annual Meeting. In making these nominations, the Board reviewed the backgrounds of the nominees (summaries of each nominee s biography are provided below), their independence, character, judgment and business experience, and determined to nominate each of them. The important professional characteristics that each particular person brings to the Board, and the attributes and skills that led to the conclusion that they should serve as a Director of the Company are listed below. The Board believes that each Director and each nominee for election has valuable individual skills and experiences that, taken together, provide the Company with the requisite mix of skills and depth of knowledge, judgment and vision necessary to provide effective oversight of the Company s varied businesses, and will enable the Board and each committee to continue to provide sound judgment and leadership and function effectively as a group. As indicated in the following biographies, the nominees have extensive experience in a variety of fields, including oversight of public companies and experience in the financial services industry and related industries. Each newly appointed Director has completed a comprehensive director orientation program.

Each person nominated for election has consented to being named in this Proxy Statement and has agreed to serve if elected. If one or more of the nominees should at the time of the meeting be unavailable or unable to serve as a Director, the shares represented by the proxies will be voted to elect the remaining nominees and any substitute nominee or nominees designated by the Board. The Board knows of no reason why any of the nominees would be unavailable, unwilling or unable to serve.

Experience and Qualifications of the Nominees

David N. Roberts. Mr. Roberts has been a Director since the Company s formation in 1996. Mr. Roberts is a Senior Managing Director of Angelo, Gordon & Co., a leading alternative investment money management firm. He joined Angelo, Gordon & Co. in 1993 and is a member of the firm s executive committee. Mr. Roberts manages the firm s private equity and special situations area and was the founder of the firm s opportunistic real estate area. Mr. Roberts has invested in a wide variety of companies and special situations, including companies in the business services, healthcare services and financial services industries. Previously, he was a principal at Gordon Investment Corporation, a Canadian merchant bank, where he participated in a wide variety of principal transactions. Prior to that he worked in the Corporate Finance Department at L. F. Rothschild where he specialized in mergers and acquisitions. Mr. Roberts holds a B. S. degree from The Wharton School of the University of Pennsylvania. Mr. Roberts is a member of the Nominating and Corporate Governance Committee, the chair of the Compensation Committee, and also serves as the Board s Lead Director. The Board determined that Mr. Roberts should be nominated for election as a Director because of his extensive knowledge of the Company, his financial expertise, and his career experience in business development, operations and strategic planning.

John H. Fain. Mr. Fain was appointed as a Director on March 1, 2010, subject to election by the stockholders at the 2010 Annual Meeting. Mr. Fain has more than 25 years of business management experience, including service as the founder, President and Chief Executive Officer of Metro Information Services, an information technology consulting services firm which went public in 1997, and merged with Keane, Inc. in 2001. He served as a member of the Board of Directors of Keane, Inc. until September 2006. Prior to co-founding Metro Information Services, Mr. Fain developed and ran his own independent data processing consulting practice, servicing clients in multiple states. Mr. Fain is currently retired, and serves on the Investment Committee of the Hampton Roads Community Foundation. Mr. Fain holds a B.S. Degree in Computer Science from the University of South Carolina. The Board determined that Mr. Fain should be nominated for election as a Director because of his insight with respect to the use of information technology strategies in large multi-state companies, his operational and financial expertise and his experience as a Chief Executive Officer and Director of a sizeable business.

***John E. Fuller*.** Mr. Fuller was appointed as a Director on March 1, 2010, subject to election by the stockholders at the 2010 Annual Meeting. Mr. Fuller has more than 20 years of executive experience, including service as the co-founder and Chief Executive Officer of Automotive Finance Company (AFC), an independent automobile floor plan financing company. Following the sale of AFC to Auto Dealers Exchange Services of America in 1994, Fuller stayed on as Chief Executive Officer for another 12 years, after which he left to start Dealer Services Corporation (DSC). DSC also provides financing to auto dealers throughout the country. Fuller acted as Chairman, President and Chief Executive Officer of DSC until January, 2010, and currently serves as Chairman of its Board of Directors. The Board determined that Mr. Fuller should be nominated for election as a Director because of his business development experience and expertise, his experience as a Chief Executive Officer, Chairman and Director of companies in the financial services industry and his significant corporate leadership and knowledge of the auto financing business.

Experience of Directors Continuing in Office Terms Expiring in 2011

James M. Voss. Mr. Voss was appointed as a Director in 2002. Mr. Voss has more than 35 years of prior 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 the executive vice president and chief credit officer of First Midwest Bank. He served in a variety of senior executive roles during his 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. Mr. Voss holds both an MBA and Bachelor s Degree from Northwestern University. Mr. Voss chairs the Audit Committee and is a member of the Compensation Committee and the Nominating and Corporate Governance Committee.

Scott M. Tabakin. Mr. Tabakin was appointed as a Director in 2004. He currently serves as Executive Vice President and Chief Financial Officer of Bravo Health, Inc., a privately owned managed health-care company. From November 2003 until July 2006, Mr. Tabakin was an independent financial consultant. Mr. Tabakin has more than 20 years of executive experience, having served as Executive Vice President and Chief Financial Officer of AMERIGROUP Corporation, a managed health-care company, from May 2001 until October 2003. Prior to May 2001, Mr. Tabakin was Executive Vice President and CFO of Beverly Enterprises, Inc., at that time, the nation s largest provider of long-term health care. Earlier in his career, Mr. Tabakin was an executive with the accounting firm of Ernst & Young. He received a Bachelor s Degree in Accounting from the University of Illinois. Mr. Tabakin is a member of the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee.

Experience of Directors Continuing in Office Terms Expiring in 2012

Steven D. Fredrickson. Prior to co-founding the Company in 1996, Mr. Fredrickson was Vice President of Household Recovery Services (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, and other functional areas. Prior to joining HRSC, Mr. Fredrickson spent five years with Household Commercial Financial Services where he managed a national commercial real estate workout team. He also was employed for five years as a member of the FDIC workout department of Continental Bank of Chicago, specializing in corporate and real estate workouts. He received a Bachelor s degree from the University of Denver and an M.B.A. degree from the University of Illinois. He is a past board member of the American Asset Buyers Association.

Penelope W. Kyle. Ms. Kyle was appointed as a Director in 2005. She currently serves as President of Radford University. Prior to her appointment as President of Radford University in 2005, Ms. Kyle was the Executive Director of the Virginia Lottery, where she served for ten years under three Virginia Governors. Earlier in her career, Kyle worked as an attorney in a prominent Richmond, Virginia law firm. 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. Ms. 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. Ms. Kyle received her M.B.A. degree from the College of William and Mary, and her law degree from the University of Virginia. Ms. Kyle serves on the Compensation Committee and the Nominating and Corporate Governance Committee.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee held three meetings in 2009. Each member of the Nominating and Corporate Governance Committee is independent, as such term is defined by NASDAQ Rule 5605(a)(2). The Nominating and Corporate Governance Committee annually reviews the composition of all committees, makes recommendations concerning Board dynamics and oversees Director development and the annual self evaluations of the Board and its committees. In addition, the Nominating and Corporate Governance Committee reviews the Company s corporate governance practices and related public issues important to the Company, and makes recommendations to the Board on such issues.

The Nominating and Corporate Governance Committee is responsible for the review and recommendation of nominees for election to the Board. In addition to considering the qualifications of candidates suggested by current Directors and by officers and employees of the Company, the Committee considers any candidates who may be recommended by shareholders in accordance with the provisions of the Company s by-laws. The Committee screens all candidates in the same manner, regardless of the source of the recommendation, and determines whether a candidate meets the Company s general Board membership qualifications, possesses the skills required of a Director and will contribute to the diversity of talent represented on the Board. The Committee arranges and conducts personal interviews of candidates, as appropriate.

The Nominating and Corporate Governance Committee has determined that each of the Company s Directors possesses satisfactory prior experience as a director or an officer of a publicly held company, and that at least two of the Company s Directors possess the competence and expertise necessary to qualify as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K.

Any shareholder may make nominations with respect to the election of Directors in accordance with the provisions of the Company s by-laws, which establish the information and notice requirements for such nominations. Prior to 120 days in advance of the anniversary date of the Proxy Statement for the 2009 annual meeting, the Company did not receive any recommendations of potential director candidates from shareholders.

The Nominating and Corporate Governance Committee recommended to the Board the candidates for re-election which are included on the ballot for the Annual Meeting. Any nominee for Director who receives a greater number of votes withheld from or against his election than votes for his election shall tender his resignation for consideration by the Nominating and Corporate Governance Committee. The Committee will then consider the best interests of the Company and its shareholders and shall recommend to the full Board the action to be taken with respect to the tendered resignation.

The duties and responsibilities of the Nominating and Corporate Governance Committee are specified in its charter. The charter of the Nominating and Corporate Governance Committee, as amended in February 2009, is available at the Company s web site, at www.portfoliorecovery.com, and will be mailed to any shareholder who sends a request therefor to the Corporate Secretary at the Company s mailing address.

Audit Committee

The Audit Committee held twelve meetings during 2009 and also met informally between meetings. Audit Committee meetings are typically held in conjunction with scheduled Board meetings; however, the Audit Committee also holds meetings between Board meetings as needed. The Audit Committee holds an executive session with the KPMG LLP audit team following each regular Audit Committee meeting. Each member of the Audit Committee is independent, as that term is defined by the applicable standards promulgated by NASDAQ, and meets the heightened criteria for independence applicable to members audit committees under Rule 5605(a)(2) and Rule 5605(c)(2) of the NASDAQ listing rules. The Board has determined that each member of the Audit Committee is financially literate, and that Mr. Voss and Mr. Tabakin are both qualified as audit committee financial experts pursuant to Section 401(h) of Regulation S-K. The Audit Committee is primarily concerned with the integrity of the Company s consolidated financial statements, the effectiveness of the Company s internal control over financial reporting, the Company s compliance with legal and regulatory requirements, the independence, qualifications and performance of the independent auditors, and the objectivity and performance of the Company s internal audit function. The Audit Committee is not responsible for the planning or conduct of the audits, or the determination that the Company s consolidated financial statements are complete and accurate and in accordance with U. S. generally accepted accounting principles.

The Audit Committee reviews and takes appropriate action with respect to the Company s annual and quarterly consolidated financial statements, the internal audit program, the confidential hot line and related ethics program and disclosures made with respect to the Company s internal controls. To facilitate its risk oversight responsibilities, the Committee receives regular briefings from the Company s Office of General Counsel with respect to significant litigation and from the Company s Internal Auditor regarding Sarbanes-Oxley 404 compliance matters. Each member of the Audit Committee completes a quarterly risk assessment questionnaire.

The Audit Committee reviewed its charter in February 2010. As described in its charter, the Audit Committee s primary duties and responsibilities are to:

- Monitor and review the accuracy and fairness of the Company s financial reports and monitor and ensure the adequacy of the Company s systems of internal controls regarding finance, accounting and legal compliance.
- Engage and monitor the independence and performance of the Company s independent auditors and pre-approve all audit and permitted non-audit services.
- Monitor the independence and performance of the Company s internal auditors.
- Provide an avenue of communication between the independent auditors, management and the Board of Directors.
- Prepare an Audit Committee report for the Company s annual proxy statements.
- Perform such other duties as set forth in its charter.

The Audit Committee s current charter is available at the Company s web site, at www.portfoliorecovery.com, and will be mailed to any shareholder who sends a request therefor to the Corporate Secretary at the Company s mailing address. At the time of its charter review, the Audit Committee also reviewed practices and procedures to assure continued compliance with the internal control reporting provisions of the Sarbanes-Oxley Act of 2002 and related regulatory requirements.

Audit Committee Report

The Audit Committee has furnished the following report to shareholders of the Company in accordance with rules adopted by the SEC.

The Audit Committee held twelve meetings during 2009 and also met informally between meetings. Each member of the Audit Committee is an independent director, as defined in NASDAQ Rules 4200(a)(15) and 5605(c)(2). In addition, the Board has determined that James Voss and Scott Tabakin are both audit committee financial experts as defined by paragraph (d)(5)(ii) of Item 407 of Regulation S-K.

The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided by the Company s independent auditors. These services may include audit services, audit-related services, tax services, services related to internal controls and other services. The independent auditors and the Company s CEO and CFO periodically report to the Audit Committee regarding the services provided by the independent auditor in accordance with this pre-approval.

The Company s management has primary responsibility for establishing and maintaining effective internal controls over financial reporting, preparing the Company s consolidated financial statements in accordance with U. S. generally accepted accounting principles, and managing the public reporting process. The Company s independent auditors are responsible for forming and expressing opinions on the conformity of the Company s audited consolidated financial statements in accordance with U. S. generally accepted accounting principles, in all material respects, and on the effectiveness of the Company s internal control over financial reporting.

The Audit Committee reviewed and discussed with management, the Company s audited consolidated financial statements for the year ended December 31, 2009, including a discussion of the acceptability and appropriateness of significant accounting policies and management s assessment of the effectiveness of the Company s internal control over financial reporting. The Audit Committee discussed with the Company s independent auditors matters related to the conduct of the audits of the Company s consolidated financial statements and internal control over financial reporting. The Audit Committee also reviewed with management and the independent auditors the reasonableness of significant estimates and judgments made in preparing the consolidated financial statements, as well as the clarity of the disclosures in the consolidated financial statements and related notes.

The Audit Committee has discussed with the Company s independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended.

The Audit Committee has received written communications from KPMG LLP as required by PCAOB Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with KPMG LLP their independence. The Audit Committee has concluded that the audit and permitted non-audit services which were provided by KPMG LLP in 2009 were compatible with, and did not negatively impact, their independence.

In 2009 the Audit Committee met with the Company s internal auditor and its independent auditors, with and without management present, to discuss the overall quality of the Company s financial reporting. The Audit Committee also reviewed with management the Company s audited consolidated financial statements and related notes and the acceptability and appropriateness of significant accounting policies. Based on the reviews and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee referred to in this report and in the charter, the Audit Committee recommended to the Board that the audited consolidated financial statements and related notes be included in the Annual Report on Form 10-K for the year ended December 31, 2009.

KPMG LLP has been recommended by the Audit Committee of the Board for reappointment as the Independent Registered Public Accounting Firm for the Company, and subject to shareholder approval, the Board has appointed KPMG LLP as the Company s Independent Registered Public Accounting Firm for the year ending December 31, 2010.

Representatives of KPMG LLP are expected to attend the 2010 Annual Meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

The Company is requesting that the shareholders ratify the appointment of KPMG LLP as the Company s Independent Registered Public Accounting Firm for the year ending December 31, 2010. In the event the shareholders fail to ratify the appointment, the Audit Committee will consider it a direction to consider other accounting firms for the subsequent year.

This report is submitted on behalf of the following independent Directors, who constitute the Audit Committee:

James Voss, Chairman
William Brophey
Scott Tabakin

Principal Accountant Fees and Services

KPMG LLP served as the Company s Independent Registered Public Accounting Firm with respect to the audits of the Company s consolidated financial statements as of and for the year ended December 31, 2009, and the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In connection with its 2009 corporate income tax returns, which are anticipated to be completed in 2010, the Company has retained KPMG LLP for those permitted non-audit services.

The following table sets forth the aggregate fees billed or expected to be billed by KPMG LLP for the years ended December 31, 2009 and 2008, respectively. All the services performed by and fees paid to KPMG LLP were pre-approved by the Audit Committee.

Audit Fees

	2009	**2008**
Audit Fees		
Annual Audit	$ 568,500	$ 551,500
Registration Statement	15,000	
Tax Fees	30,000	14,550
Other Fees:		
Subscription Fees (1)	2,100	1,500
Total Accountant Fees	$ 615,600	$ 567,550

(1) Subscription fees represent fees paid to KPMG LLP for an annual subscription to their proprietary research tool during 2009 and 2008, respectively.

Audit Fees include fees for the audit of the Company s annual consolidated financial statements, reviews of the quarterly condensed consolidated financial statements, and services normally performed in connection with statutory and regulatory filings. Audit Fees also include fees related to the audit of the effectiveness of Company s internal control over financial reporting.

Compensation Committee

The Compensation Committee held five meetings in 2009 and met informally between meetings. Each member of the Compensation Committee has been determined to be independent, as that term is defined by the applicable standards promulgated by NASDAQ. As described in its charter, the Compensation Committee s primary responsibilities are to:

- Develop and oversee the implementation of the Company s compensation philosophy with respect to the Directors, the CEO and other executives who report directly to the CEO.

- Ensure that the employees of the Company and its subsidiaries are compensated effectively in a non-discriminatory manner consistent with such compensation philosophy, internal equity considerations, market practice and the requirements of the appropriate employment laws and regulatory bodies.

Review and recommend to the full Board the Company s compensation discussion and analysis disclosure containing the Company s compensation policies and the reasoning behind such policies, as required by the SEC.

Prepare a Compensation Committee report for the Company s annual reports and/or proxy statements.

The Compensation Committee is responsible for setting annual and long-term performance goals and compensation for the CEO, and establishing the compensation of each of the executives who report directly to him. Its decisions are approved or ratified by action of the non-employee Directors of the Board. The Compensation Committee also approves the terms of executive employment agreements, equity plans and equity awards in accordance with the Company s Amended and Restated Portfolio Recovery Associates 2002 Stock Option Plan and 2004 Restricted Stock Plan. The Committee may delegate to the Chief Executive Officer such of its duties and responsibilities as the Committee deems to be in the best interests of the Company, provided such delegation is not prohibited by applicable law, rule or regulation. The Compensation Committee delegated, in limited circumstances, authority to the CEO to grant a specified number of nonvested shares of the Company s stock to newly hired, recently promoted or other key employees under specified parameters. The authority so delegated is limited to a total of ten thousand shares in any fiscal year, and awards of no more than one thousand shares per employee.

The Compensation Committee reviews compensation programs and policies for features that may encourage excessive risk taking, and ascertains the extent to which there may be a connection between compensation and risk, if at all. In this respect, in 2009 the Compensation Committee considered whether reasonable risk-taking is appropriately rewarded and whether the incentive compensation opportunities achieve the proper balance between the need to reward employees and the need to protect shareholder returns. In 2009 the Compensation Committee approved changes to the executive share ownership and retention guidelines, and adopted design features for future incentive compensation programs, as described herein. The Company s current total compensation package mitigates the risk of unreasonable or excessive risk-taking, while enabling executives to take thoughtful and prudent risks to increase the value of the Company. Long-Term Incentive Programs use meaningful financial performance metrics measured over three years; therefore, a significant portion of total compensation is linked to the achievement of stated long-term financial goals that are directly aligned to shareholder interests. The components of the cash bonus portion are performance based, and are tied to annual individual and company-wide performance results. Annual cash bonuses reward executives for achieving short-term performance targets, which keeps employees focused on the day-to-day business fundamentals. On the other hand, long-term equity awards incent employees to take a longer term view of the Company and assume reasonable risks to enter new markets and expand existing businesses. Consequently, there is a balance achieved between short-term and long-term awards. Additionally, the Company has implemented controls that require executives to focus on risks with the aim of minimizing unintended and willful reporting any such errors, and reporting any of which they become aware. The Company may terminate the employment of any executive whose actions place the Company at unreasonable risk. Additionally the Company s executives are all shareholders of the Company, with established share ownership guidelines requiring them to acquire and hold significant amounts of the Company s stock. Although equity programs limit and define the total number of shares an executive may receive, the value of the award to the executive is determined by the stock market at the time they vest, which provides a strong connection with shareholder interests. Most grants of stock to the Company s executive officers have multi-year vesting periods, which incentivize executives to build shareholder value over time.

Under its charter, the Committee has sole authority to retain and terminate a consulting firm to assist in its evaluation of executive compensation. In accordance with this authority, the Compensation Committee has directly engaged FW Cook as its independent compensation consultant. The Compensation Committee ensures that the Company has established succession plans with respect to each of its key executives. To assist the Compensation Committee in this role, the Vice President of Human Resources provides the Committee with progress reports of individual development and succession planning strategies and activities with respect to the Company s key executives, and assessments of the persons who are considered to be the potential successors to the incumbents in certain senior management positions. The current Charter of the Compensation Committee is available at the Company s web site, at www.portfoliorecovery.com, and will be provided to any shareholder who sends a request therefor to the

Corporate Secretary at the Company s mailing address. The Compensation Committee s report appears in this Proxy Statement on page 32.

Compensation Committee Interlocks and Insider Participation. All of the members of the Compensation Committee are independent, non-employee Directors, and none are former officers of the Company or any of its subsidiaries, or has ever been an officer or employee of the Company or any of its subsidiaries. No officer of the Company has ever served on any compensation committee or board of directors of any other company with respect to which a Director is an executive officer. None of the Directors has any relationship with the Company which is required to be disclosed under this caption pursuant to the rules of the SEC.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The following compensation discussion and analysis describes the material elements of compensation awarded to, earned by, or paid in 2009 to each of the executives identified below in the Summary Compensation Table. For a complete understanding of our executive compensation program, this Compensation Discussion and Analysis should be read in conjunction with the Summary Compensation Table and other compensation disclosures included elsewhere in this Proxy Statement.

The Compensation Committee is responsible for the Company s executive compensation policies and programs. Its duties involve establishing, implementing and monitoring the administration of compensation and benefits programs of the Company in accordance with the Company s compensation philosophy described below. The Committee seeks to establish a total compensation package for the Company s executives that is fair, reasonable, and competitive. The Company s compensation package consists of base salary, annual cash incentive compensation in the form of bonuses, long-term equity-based incentive compensation and benefits. The types of compensation and benefits paid to the Company s executives are the same as those provided to other employees and officers of the Company. Given the absence of supplemental perquisites, benefits and plans, cash incentives and equity compensation programs are critical to maintaining the competitiveness of the Company s compensation arrangements.

Philosophy

The following philosophy guides the compensation decisions concerning the Company s senior management team, including its executive officers.

1. Executive compensation should be linked, directly and materially, to the Company s overall performance and each executive s individual performance, and should reward past performance and motivate future performance.

The Company s executive compensation package is based on a motivational pay for performance standard, consisting of a combination of base pay and incentives that are competitive in the relevant marketplace and are reflective of the individual s performance and the Company s performance. Through its practice of granting equity awards, the compensation program also promotes and rewards an executive s tenure and longevity with the Company, as well as the executive s role in the Company s overall financial performance. The Company s historical philosophy has been to establish a base salary structure that is relatively low, when compared to its peer group, and to provide additional compensation through bonus and equity performance incentives, that taken together, produce competitive total compensation. The Company s financial performance for the year is the principal consideration regarding the overall funding level of the executive target cash bonus pool. The target bonus pool is determined at the beginning of each year based on budgeted net income; however, the Compensation Committee may adjust annual and long term compensation, including the target 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 and equity compensation than it does when corporate performance is weaker.

2. Executive Compensation should assist the Company in attracting and retaining high quality talent, and should be reasonable in comparison to like positions in like companies.

The Company considers each named executive to be an invaluable resource, and they have developed as a cohesive and complementary executive management team. In order to appropriately incentivize and retain the management team, the Compensation Committee aims to provide compensation packages for the Company s executives which are responsive to the current environment and attractive and competitive in comparison to peer companies. Consequently, the Compensation Committee strives to provide executive compensation packages that include a combination of base pay and incentives that are appropriate in the relevant marketplace. In accordance with its charter, the Compensation Committee retained FW Cook as its independent compensation consulting firm, to assist it in the performance of its duties, including the evaluation of executive compensation levels and programs. FW Cook has served as the Compensation Committee s independent compensation consultant since 2007, and has provided assistance to the Committee with respect to the Company s executive compensation programs, executive pay levels and the design of the Company s incentive compensation plans. FW Cook s assessments included the following:

A 2008 review and analysis of the components of compensation (including a comparison of each element of executive compensation to external market rates), in order to determine the competitiveness of the Company s executive compensation relative to that of its peer group (the Compensation Peer Group),

Recommendations for changes in the Company s compensation structure, to assist the Company in attracting, motivating and retaining key senior level executives, and

Advice concerning the implementation and design of the Company s Long-Term Incentive Compensation Programs (LTI Programs), the Annual Bonus Plan and the 2010 Stock Plan.

Benchmarking

While the Compensation Committee does not believe that it is appropriate to establish compensation levels based solely on benchmarking, the Compensation Committee believes that information regarding pay practices at other companies is nevertheless useful in two respects. First, the Compensation Committee recognizes that compensation practices must be competitive in the marketplace. Second, independent marketplace information is one of the many factors that the Compensation Committee considers in assessing the reasonableness of compensation. Accordingly, the Compensation Committee commissioned FW Cook to assist with the selection of comparable peer companies, to review, analyze and make recommendations with respect to the peer companies compensation data and the Company s policies and procedures with respect to executive compensation. The Compensation Committee uses the peer data to determine whether compensation levels are competitive, and to make any necessary adjustments to reflect executive performance and Company performance. The seventeen-company peer group (Compensation Peer Group) consists of business services companies which were selected based on certain metrics, primarily revenue, net income, market capitalization and complexity, comparable to those of the Company. The Compensation Committee reviews the compensation data for each executive in the Company s senior management team in comparison with the compensation of executives in similar positions with similar responsibility levels in the Compensation Peer Group by pay type (including base salary, annual incentive and long-term incentives). The Company uses benchmarks of its executive compensation against the Compensation Peer Group to enhance its ability to remain competitive in attracting and retaining executives. In its review of the compensation of its executives the Committee primarily reviews the compensation practices of the following Compensation Peer Group:

Compensation Peer Group*

Advanta	Financial Federal
Asset Acceptance Capital Corp	First Marblehead
Asta Funding, Inc	Huron Consulting Group
Costar Group	Navigant Consulting
Dealer Track Holdings	Ocwen Financial
Dollar Financial	QC Holdings
Encore Capital Group, Inc.	World Acceptance Corp.
EPIQ Systems	Wright Express Corp
EZCORP	

* The Compensation Peer Group differs from the peer group in the stock performance graph which is included in the Company s 2009 Annual Report, as it includes additional peer companies for the purpose of compensation comparisons. There were no additions or deletions to the Compensation Peer Group in 2009.

The FW Cook analysis included a review of the Company s top eleven executives total compensation as compared to the same or similar positions in the market from which the Company would be likely to recruit job candidates. The peer group analysis revealed that in aggregate, the Company s executives base pay was lower than the median of pay for comparable positions in the Compensation Peer Group, and was, on average, 70%-73% of the median of pay for comparable positions in the Compensation Peer Group. The low ranking relative to the peer data is indicative of the Company s historical practice of paying relatively smaller base salaries and relatively larger cash bonuses. Total cash compensation for the Company s executives, which includes base salary plus cash bonus, was approximately 15% above that of the median of the Compensation Peer Group. The base pay and total cash compensation of the CEO and General Counsel were found to have the greatest negative disparity, relative to available peer data. In order to attract and maintain the highest level of talent, FW Cook recommended that the Compensation Committee consider appropriate compensation actions, taking into account a variety of factors. Accordingly, the Company s executives total cash compensation was increased, in some cases, to an amount that was closer to the median level of the Compensation Peer Group, and in other cases, the allocation of the salary and bonus components were adjusted.

3.

Executive compensation should be linked to shareholder returns. Equity awards should be based on multi-year performance goals.

The Company s long term incentive (LTI) awards of nonvested shares of the Company s common stock ensure that the Company s executives are properly focused on long-term shareholder value. The LTI performance targets are designed to provide executives with the potential to earn additional shares of the Company s stock and provide them with specific financial goals that are tied to shareholder value. Target grant values are set based on a variety of financial performance measures, including earnings per share (EPS), return on shareholders equity (ROE) return on invested capital (ROIC) and total shareholder return (TSR) relative to the Compensation Peer Group data. The Compensation Committee chose these metrics as the objective performance measures for the Company s LTI awards in order to provide a direct link between the Company s performance and shareholder value. These metrics also provide easily understood numbers that allow for definitive determination of the achievement of performance metrics.

Executive Stockholding Targets

In order to further align executives interests with those of the Company s shareholders and assure that management focuses on the appropriate long-term initiatives designed to increase shareholder value, the Compensation Committee has established stock ownership guidelines for its key executives. Ownership by executive officers of equity in the Company serves to align their interests with those of the Company s shareholders and demonstrates to the investing public and all of the Company s other employees, senior management s commitment to the Company. The Company s targeted executive stockholdings policy establishes for each executive officer, as well as other executives and managers in key leadership roles, individual equity ownership goals which are to be achieved within a specified time frame. Each executive officer s employment agreement provides that in the event that the targeted equity goals are not achieved within the required time frame, the annual bonus may be paid in nonvested stock, rather than in cash, until such targets are met. The specific share requirements for each executive officer are based on a multiple of annual base pay, and only include shares that are beneficially owned, directly or indirectly by the executive, but do not include any shares that have been granted to the executive that have not yet vested. In order to permit consistent long term planning by an executive, once established, these targets are not reset, except in the event of a significant promotion of an executive.

Each year, prior to the payment of any annual cash bonus, the Company s CEO is required to provide a report to the Compensation Committee detailing the status of stockholding for each executive officer. This report includes the executive officer s base pay, total compensation, anticipated bonus, targeted stockholdings, actual stockholdings, increase or decrease in actual stockholdings during the year, and the amount of both awarded and vested options and/or nonvested shares. In accordance with the executives employment agreements, the Compensation Committee may determine whether, based on the executives success in achieving their shareholding targets, the executive s annual bonus is paid in stock, rather than in cash.

The matrix below details the equity ownership targets established for the executives listed in the Summary Compensation Table and their actual stockholdings as of April 8, 2010.

Targeted Levels of Executive Stockholdings

Name	Minimum Targeted Stockholdings	Actual Stockholdings
Steve Fredrickson	115,000	209,964
Kevin Stevenson	50,000	110,037
Craig Grube	28,500	36,023
Judith Scott	12,000	14,161
Michael Petit	12,000	5,241
Kent McCammon	12,000	4,707

Roles of the Compensation Committee and Management

The Compensation Committee administers the compensation program for the Company s key executives, applying the principles and philosophy stated above. The Committee is supported in this role by its compensation consultant, the CEO and the Human Resources Department of the Company. The Committee considers executive pay data provided by its compensation consultant (including peer group comparables) and considers the recommendations of the CEO with respect to the compensation of each executive officer other than himself. The CEO s recommendations to the Compensation Committee detail, with respect to each executive, a proposed total compensation package for the year, including any recommended adjustments in base salary, annual cash bonus as a percentage of targets, and proposed equity awards, if any. The CEO also recommends annual incentives, business goals and financial targets and individual performance targets.

In connection with its work for the Compensation Committee, FW Cook attended Committee meetings and related meetings with management. FW Cook compared the Company s executive compensation to that of the Compensation Peer Group, and to compensation data from industry surveys, and provided a detailed report of its findings to the Compensation Committee. Using the data and analysis presented in the FW Cook report, the Compensation Committee set guidelines for total compensation and the mix of compensation elements for the Company s executives. Base salaries were targeted at around the average of the 25th percentile of like positions in the Company s Compensation Peer Group, with adjustments made based on factors including the executive s likely future contributions, market competition, individual productivity and retention goals. The CEO provides input to the Compensation Committee with respect to these factors, along with his views on the responsibilities and relative contribution of each executive, other than himself, their likely future contribution and the extent to which the Company would have to be more or less competitive to retain and motivate the executive. The CEO also provides to the Committee his assessment of each executive s performance during the prior year, the extent to which individual and departmental goals established for the executive were met, and the CEO s recommendations with respect to each executive s proposed total compensation package for the year, including any recommended adjustments in base salary, annual cash bonus as a percentage of target and equity awards, if any. Although the Committee considers the CEO s

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recommendations, the Compensation Committee independently evaluates the recommendations and makes all final compensation decisions in executive session, within the parameters of its compensation philosophy.
The Compensation Committee considered the recommendations of FW Cook in the process of allocating the mix of total compensation among each element of compensation, to provide the right balance of short-term and long-term compensation. The compensation of executives who have the greatest ability to influence the Company s financial performance is predominately performance-based and at risk, which is consistent with the Company s overall compensation philosophy. Base salaries are set at roughly the average salaries of the 25th percentile of the Compensation Peer Group, with the opportunity to earn total cash compensation (base salary, plus cash bonus) at the average of the 50th to 75th percentile of the Compensation Peer Group, with the addition of fully earned target bonus compensation. However, the total direct executive compensation is targeted to approximately the median of the Compensation Peer Group with the addition of fully earned bonus compensation and performance based equity incentives. In making its year-end compensation decisions, the 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 internal performance targets.

Components of Executive Compensation

The executive compensation program consists of three components: base salary, annual bonus compensation in the form of cash bonuses, and long-term equity-based incentive compensation in the form of nonvested shares and LTI stock awards. The Company pays base salary and annual bonus compensation in cash. Equity- based incentive compensation awards are paid in the form of shares of the Company s common stock, to align the executive s interests with those of the shareholders, to increase the executive s ownership in the Company, and to expedite achievement of the Company s executive stock ownership targets. Except for base pay, executive compensation is at risk and varies based on the performance of the Company and on individual, departmental and Company performance. Company performance is evaluated from a variety of perspectives, including absolute performance, performance relative to the Company s peers; return measures including total shareholder return relative to its peers and return on equity, and earnings per share.

Principal Objectives	**Features**
Base Pay	
To attract executive talent in the markets in which the Company competes Recognizes and rewards the experience and skills that employees bring to the Company Provides motivation for career development and enhancement Ensures that all employees receive a basic level of compensation	Initially established based on employees prior experience and anticipated contribution, the scope of their responsibilities and the applicable market compensation paid by other companies for similar positions Fixed annual cash payments,benchmarked against market data and reviewed annually after employment Not dependent upon the Company s achievement of its performance goals
Bonus	
Provides pay differentiation based on performance Rewards superior performance Provides incentives to executives to meet or exceed profitability targets Rewards those most accountable for long-term financial performance	Financial and non-financial goals are set by the Board Minimum financial achievement bonus targets and individual achievement bonus targets are stated in employment agreements* Bonuses are typically paid in cash in the first quarter for the prior year s performance
Long-term Equity Incentives	
Attracts and retains talented employees Aligns executives interests with those of the Company s shareholders	Consists of nonvested time-based shares of the Company s stock, and performance-based shares Performance-based shares vest only upon the Company s

Promotes long-term accountability
Motivates outstanding performance
Rewards employment longevity
Provides significant equity to those most accountable for long-term financial performance

achievement of specified targets
Time-based nonvested shares generally vest 20% per year over a five year period
Grants reflect consideration of each executive s performance and expected contributions to overall financial results

* The target bonus is paid to the extent that the Company s financial results for the year are achieved and the executive s individual performance is determined to have met expectations. If the results of operations for the year exceed target goals and 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 such 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 within 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 executive bonus structure was modified and incorporated in the 2009-2011 executive employment agreements which became effective January 1, 2009.

1. ***Base Pay*.** Base Pay provides a baseline level of executive compensation, which is in most instances, set on an individual basis at the time the employee enters into an employment agreement with the Company, or upon promotion or other change in job responsibilities. The objectives of base pay are to provide salaries at levels that allow the Company to attract and retain highly qualified executives, and to recognize and reward individual performance and experience. Historically, base pay has been comparatively low, and has been augmented through bonus and equity performance incentives. When determining base salaries the Company considers, among other factors, peer group market data, as well as the Company s interest in retaining the executive, the executive s previous experience, scope of responsibility and future potential. Base pay is set at approximately the 25^{th} percentile of base salaries of like positions of companies in the Company s Compensation Peer Group. Pursuant to their employment agreements, executives who continue employment with the Company receive a minimum annual base pay increase of 4% over their previous years base pay.

Incentive Compensation

The Company s incentive compensation programs are comprised of a cash incentive bonus based on both current and long-term performance and individual and corporate performance. The Company entered into new three-year employment agreements with its key executives effective January 1, 2009. These agreements will terminate on December 31, 2011, unless sooner terminated pursuant to their terms. The employment agreements provide for an annual bifurcated cash bonus based on individual and financial performance. The amount of the individual portion of the annual cash bonus is determined based upon the executive s performance during the prior operating year, compared to goals for that year as approved by the Board. The individual portion of the cash bonus is paid if the executive s personal performance is in conformance with Company policy and with the Executive s past levels of performance, and if Employee has met the performance expectations of the Compensation Committee. The financial achievement bonus will be paid if, and to the extent that the results of operations achieve the goals set for the year. If (i) the results of operations for the year exceed the net profitability goals and (ii) the executive s performance is determined to have exceeded expectations, the amount of the Annual Cash Bonus may be increased in recognition of the degree to which results exceeded such goals, and the degree to which the executive contributed to the Company s superior performance results as determined in the sole discretion of the Compensation Committee. If (i) the results of operations for the year fail to achieve net profitability goals or (ii) the executive s performance is determined not to have met expectations, then the amount, if any of the Cash Bonus shall be within the absolute discretion of the Committee, provided that the Committee can give reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall. Further, if pursuant to the Company s senior executive target equity ownership policies, the Employee s targeted equity ownership levels have not been met, the Annual Cash Bonus may be paid, in whole or in part, in shares of the Company s common stock.

Equity incentive grants are designed to provide equity compensation that is primarily linked to longer-term corporate performance. In assessing executive performance during 2009, the Compensation Committee considered performance against these and other objectives and noted that the Company s executive officers performed well against their business objectives, and made strategic investments in 2009 to position the Company for the long-term. The following performance indicators were achieved 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 10% 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 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 s stock price increased 33% in 2009, compared to a 23% increase for the S&P 500.

2. **Annual Cash Bonus.** Annual cash incentive bonuses are paid in January of each year for the prior year s performance. Each executive s employment agreement contains bonus targets based on individual achievement and corporate financial achievement, which are expressed as a percentage of the executive s total compensation. These bonus targets were 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 performance targets are met. 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 are met, and the corporate financial performance targets are met. Approximately 4% of pre-tax net operating income was earned by the five most highly compensated executives as cash compensation (base pay plus cash bonus) in 2009. The criteria upon which individual achievement bonus payments are based consist of, among other things, the executive s individual goal achievements during the year, including expense reduction efforts, successful implementation of identified growth strategies and the achievement of the specific personal professional goals that were set for each of the executives with respect to their areas of direct responsibility. The financial portion of the target bonus in each executive s employment agreement was established based largely upon the extent to which the executive or the executive s business unit has the ability to contribute to the Company s overall financial targets. Financial achievement cash bonus awards are based on the extent to which the executive s business unit contributed to the attainment of the Company s financial performance. The Compensation Committee believes that these incentives focus executives on corporate growth and profitability, thereby driving shareholder value. 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. 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.

The performance of each of the named executives against their individual goals is reviewed, evaluated and rewarded on an annual basis, using a management performance worksheet containing the following rankings.

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

The bonus targets for the named executives, and bonuses earned by them in 2009 are as follows:

	Bonus Targets $/% of Base Pay		2009 Target Bonus Earned			
Base Salary$	Individual	Financial	Individual%	Financial%	Total%	Total$
$500,000	$250,000/50%	$550,000/110%	100%	64%	75%	$600,000

Steve Fredrickson							
Kevin Stevenson	$300,000	$150,000/50%	$350,000/117%	117%*	64%	80%	$400,000
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

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* 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.

3. ***Equity Incentives***. The Company utilizes a combination of nonvested share awards and long-term equity incentive (LTI) awards based on multi-year cumulative corporate performance goals to focus executives on ensuring sustained performance over a multi-year period. If the performance targets specified for achievement of the LTI Shares are not met or exceeded, the awarded shares do not vest. The performance targets, by design, promote the achievement of strong and sustained financial performance, and require such achievement for a payout. The Company believes that equity awards serve to motivate outstanding performance, provide executives with the potential to earn additional shares of the Company s stock, provide specific financial goals that are tied to shareholder value and encourage and reward employment tenure. Participation in LTI programs is limited to key employees who are in a position to have a significant impact on the achievement of the Company s financial goals and those who provide the long-term strategic leadership necessary to accomplish financial goals. Consistent with the company s compensation objectives, individuals at higher executive levels and those with greater influence over the Company s financial performance generally receive a significant proportion of their total compensation in the form of equity. The Compensation Committee may make equity grants to new hires at the time of their hire in order to align them as quickly as possible to shareholder interests, if circumstances warrant. The LTI programs contain performance targets designed to provide executives with the potential to earn additional shares of the Company s stock and provide them with specific financial goals. In order to receive an equity award, the executive must be a full-time employee as of the award date. Any shares so earned (LTI Shares) will be awarded in fully paid shares of the Common Stock of the Company.

(a) **2007 and 2008 LTI Programs**. Key executives of the Company were granted LTI Shares pursuant to the 2007 and 2008 LTI Programs, the vesting of which is dependent upon the Company s achievement of both a targeted percentage Return on Invested Capital (Target ROIC) and a cumulative three year ROE and EPS target for performance periods ending December 31, 2009 and 2010 (Target EPS). Any shares earned would be awarded in the first quarter of 2010 and 2011, respectively. The 2007 and 2008 LTI Programs provide that 100% of the LTI Shares will be awarded if the Company achieves both the Target ROIC and Target EPS, and that no LTI Shares will vest or be awarded if the Company s ROIC is less than 13.5% during the performance period. If the Target ROIC is met, the number of shares awarded could range from 0% to 200% of the targeted LTI Shares, depending on the actual EPS performance. The minimum Target EPS for awards under the 2007 LTI Program was $10.09. The Company s EPS performance was $8.90 during the performance period; **consequently, no stock vested under the 2007 LTI plan.** The minimum Target EPS for the 2008 LTI Program is $11.34, for the performance period ending December 31, 2010. (A complete description of the 2007 and 2008 LTI Programs is included in the Company s 2009 Proxy Statement.) Based on the Company s financial results for 2007 and 2008, the Company has determined that it is unlikely that the 2008 LTI Program will result in an award of LTI Shares.

(b) 2009 LTI Program. The 2009 LTI program s performance criteria (Performance Criteria) are (1) the extent to which the Company achieves its EPS, as stated in the Company s annual reports filed with the SEC, with respect to fiscal year 2009 (the EPS Performance Period); (2) the extent to which the Company achieves its target Return on Shareholders Equity (ROE), over a three year performance period beginning on January 1, 2009 and ending on December 31, 2011 (the ROE/TSR Performance Period) and (3) TSR relative to the Compensation Peer Group during the ROE/TSR Performance Period. The extent to which any 2009 LTI Program Shares may be awarded is based upon the extent to which either or all of the Performance Criteria are met. A number of Performance Shares, ranging from zero to 200% of the target shares, may be awarded based upon the Company s achievement of the Performance Criteria. Pursuant to the 2009 LTI Program, one-third of the shares earned, if any, for the EPS goal during the EPS Performance Period, will be awarded on December 31, 2010, and the remainder, if any, will be awarded on December 31, 2011. All of the ROE and Relative TSR Performance Shares earned, if any, will be awarded on or before March 31, 2012. In every case, the three Performance Criteria are computed after taking into consideration the costs of the LTI Program. The 2009 LTI Program is a self-funding program.

(i) EPS. The ability of the 2009 LTI grantees to earn one third of the 2009 LTI Shares was determined on December 31, 2009, based upon the EPS targets stated below. The Company s EPS performance finished at $2.87, which was below the minimum threshold of $3.20 required to earn the first one-third of the shares granted under the 2009 LTI plan; therefore, **no EPS target shares were eligible for award.**

EPS Value	Target Shares Earned (%)
Less than $3.20	Zero
$3.20	50
$3.35	100
$3.60	150
$3.85	200

(ii) 2009-2011 ROE. One third of the 2009 LTI Performance Shares will be determined as of December 31, 2011, based upon the Company s achievement of a three year annualized ROE goal over the ROE/TSR Performance Period. To the extent that actual ROE falls between any of the threshold amounts indicated in the table below, the number of Performance Shares awarded will be determined by the Compensation Committee based on an interpolation between the ROE ranges in the table below.

Value	Target Shares Earned (%)
Less than 15.0%	Zero
15.0%	50
16.5%	100
19.5%	150
21.0% or more	200

(iii) 2009-2011 Relative TSR. One third of the 2009 LTI Performance Shares will be determined as of December 31, 2011 based upon the Company s achievement of relative shareholder value over the ROE/TSR Performance Period, which will be calculated by comparing one-third of the TSR of companies in the NASDAQ Global Market and two thirds of the TSR of the Compensation Peer Group. To the extent that the relative TSR falls between any of the threshold amounts indicated in the table below, the number of Performance Shares awarded will be determined by the Compensation Committee based on an interpolation between the TSR ranges in the table below.

Value	Target Shares Earned (%)
Below 35^{th} percentile	Zero
35^{th} percentile	50
50^{th} percentile	100
90^{th} percentile or more	200

Since the Company s EPS performance finished below the minimum threshold required in order to earn the first one-third of the shares granted under the 2009 LTI plan, those shares will not vest. However, if the ROE and TSR performance metrics for the remainder of the 2009 LTI performance period are met, the remaining two-thirds of the shares granted may be awarded.

The Company has never back-dated or re-negotiated any equity awards. The Company has no specified policy concerning the timing of equity awards; however, the Company does not grant equity compensation awards in anticipation of the release of material nonpublic information. Similarly, the Company does not time the release of material nonpublic information based on equity award grant dates. The Company did not grant any stock option awards in 2009.

2010 Incentive Compensation Plans

On the recommendation of the Compensation Committee, in March 2010 the Board adopted the Company s Annual Bonus Plan and 2010 Stock Plan, subject to the approval of the shareholders at the Annual Meeting. The 2010 Stock Plan is a further amendment of the Amended and Restated Portfolio Recovery Associates 2002 Stock Option Plan and 2004 Restricted Stock Plan, which were approved by the shareholders at Company s 2003 and 2005 annual meetings, respectively. The 2010 Stock Plan amendments include additional performance metrics and ministerial changes to the previously approved stock plan. The 2010 Stock Plan is more fully described in Appendix A, which is being mailed with this Proxy Statement. The Annual Bonus Plan which is on the ballot provides the performance metrics which will be used in the determination of the amount of annual cash bonus awards to executive officers. Pursuant to the Annual Bonus Plan, each executive officer s maximum cash bonus award in 2011 will be calculated as a percentage of the Company s adjusted EBITDA, ranging from 1% to 2%, for the year ending December 31, 2010. The Annual Bonus Plan is more fully described in Appendix B, which is being mailed with this Proxy Statement.

Allocation among Elements of Compensation

The Compensation Committee uses its judgment in making compensation decisions, using the framework described above, with the goal of structuring its executive compensation mix to be market competitive for each compensation element, in order to effectively respond to the evolving business environment and to attract, develop and retain exceptional talent. The CEO recommends to the Committee the mix of salary, annual incentive and long-term incentive awards that the Company s key executives should receive as total direct compensation based on job responsibilities and performance and talent assessments, while being informed by available market data. As a result, the weighting of each component can vary each year. The Company s stock awards and cash bonus awards allocate total incentive compensation between the short-term and long-term awards. A key element in mitigating risk in the compensation package is ensuring that a significant portion of incentive compensation is based on the long-term performance of the Company. This mix serves to reduce the risk that employees will focus on short-term achievements to the detriment of the long-term sustainability of the Company, and both elements work together for the benefit of the Company and its shareholders.

Base salary and incentives (including annual and long-term incentives) are generally targeted at the 25th percentile of the Compensation Peer Group, and total cash compensation is targeted to 50% -75% of the Compensation Peer Group. Total compensation (base salary, cash bonus and equity) is targeted to the median of the Compensation Peer Group. The exact percentile may differ by individual, based on performance and other factors. In 2009, total direct compensation levels, base salaries and incentives (both annual and long term incentives) were generally targeted at the 50^{th} percentile of the Compensation Peer Group. However, the Compensation Committee, primarily on the recommendation of the CEO (for positions other than his), has the discretion to set total compensation above or below the targeted percentile of similar positions in the Compensation Peer Group when the value of the individual s experience, performance and specific skill set justifies variation. The total compensation paid to the executive officers of the Company in 2009 is shown in the Summary Compensation Table on page 33.

The following charts show the weighting of each element of total compensation for the CEO and collectively for the other executive officers. These charts depict our pay for performance philosophy, as predominately performance-based and at risk compensation comprises the majority of total compensation. Total compensation paid to the executives named in the Summary Compensation Table was allocated in 2009 as follows:

2009 Total Compensation Mix

CEO Compensation	**Compensation of Other Named Executives (Except CEO)**

Name	**Base Pay (%)**	**Cash Bonus (%)**	**Equity Awards (%) ***	**Total at Risk (%)**
Steve Fredrickson	24%	28%	48%	76%
Kevin Stevenson	27%	37%	36%	73%
Craig Grube	32%	31%	37%	68%
Judith Scott	43%	40%	17%	57%
Michael Petit	21%	44%	35%	79%
Kent McCammon	23%	39%	38%	&nb