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# Portfolio Recovery Associates Reports Third Quarter 2008 Results

NORFOLK, VA, Oct 29, 2008 (MARKET WIRE via COMTEX News Network) -- Portfolio Recovery Associates, Inc. (NASDAQ: PRAA), a company that purchases, collects and manages portfolios of defaulted consumer receivables and provides a broad range of accounts receivable management services, today reported net income of \$11.5 million, or \$0.75 per diluted share, for the quarter ended September 30, 2008.

The Company's third-quarter 2008 profit represents a decline of 2.1% from net income of \$11.7 million, or \$0.75 per diluted share, in the same period a year earlier.

Total revenues in the third quarter of 2008 increased 26% to a record \$68.6 million, up from \$54.6 million in the year-earlier period. Total revenues consist of cash collections reduced by amounts applied to principal on the Company's owned debt portfolios, plus commissions earned from its fee-for-service businesses. During the third quarter of 2008, the Company applied 36.5% of cash collections to reduce the carrying basis of its owned debt portfolios. This amount included a \$3.8 million allowance charge, equivalent to approximately \$2.4 million after tax, or 15 cents a diluted share, against certain pools of finance receivables accounts. Amortization was up 725 basis points from 29.2% in Q3 2007.

"Portfolio Recovery Associates continued to generate substantial cash in the third quarter as well as making strategic portfolio acquisitions and remaining focused on operational effectiveness. Cash receipts set a new record in the quarter, finishing just short of \$100 million. This helped drive record quarterly revenues of \$68.6 million. We moved to restructure our legal collections unit during the quarter, investing more heavily in this channel, as legal recoveries failed to meet our internal expectations. These moves should help improve future earnings both directly and indirectly, as our legal collections shortfall also played a role in the \$3.8 million allowance charge taken in the quarter," said Steven D. Fredrickson, Chairman, President and Chief Executive Officer.

### Financial and Operating Highlights

- Cash collections rose 27% to \$83.0 million in the third quarter of 2008, up from \$65.2 million in the year-ago period. Call center collections and other increased 22%, external legal collections grew 1%, internal legal collections grew 45% and purchased bankruptcy collections gained 143% when compared with the year-earlier period.

The table below displays our cash collections by source, by quarter

Cash Collection Source (\$ in thousands)	Q32008	Q22008	Q12008	Q42007	Q32007	Q22007
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Call Center Collections & Other	\$ 43,949	\$ 46,892	\$ 44,883	\$ 35,551	\$ 36,001	\$ 36,107
External Legal Collections	21,590	22,471	21,880	20,861	21,384	20,911
Internal Legal Collections	2,106	1,947	1,819	1,443	1,449	1,357
Purchased Bankruptcy	15,362	13,732	10,820	7,245	6,317	6,231
Cash Collection Source (\$ in thousands)	Q12007	Q42006	Q32006	Q22006	Q12006	
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Call Center Collections & Other	\$ 37,841	\$ 31,266	\$ 31,630	\$ 32,975	\$ 35,811	
External Legal Collections	20,844	19,762	19,607	19,058	17,606	
Internal Legal Collections	1,400	1,171	1,056	761	625	
Purchased Bankruptcy	7,223	6,581	7,390	6,645	4,447	

- Productivity, as measured by cash collections per hour paid, the Company's key measure of collector performance, finished at \$134.23 for the first nine months of 2008, down slightly from \$135.77 for all of 2007. Excluding the impact of trustee remittances from purchased bankrupt accounts, the comparison is \$114.37 for the first nine months of 2008 vs. \$123.10 for all of 2007.
- Revenues were \$68.6 million in the third quarter, up 26% from \$54.6 million in the same period a year ago. This was driven by record cash receipts of \$98.9 million, up 34% from \$73.7 million a year earlier. Cash receipts comprise both cash collections and revenue from the Company's fee-based businesses.
- The Company purchased \$857 million of face-value debt during the third quarter of 2008 for \$52.3 million. This debt was acquired in 56 portfolios from 19 different sellers.
- The Company's fee-for-service businesses generated revenue of \$15.8 million in the third quarter of 2008, up 86% from \$8.5 million in the same period a year ago. These businesses accounted for a record 23% of the Company's overall revenues in the third quarter.
- On July 1, 2008, the Company completed its acquisition of MuniServices, LLC, a provider of revenue administration to local governments, based in Fresno, California.
- On August 1, 2008, the Company completed and announced its acquisition of the assets of Broussard Partners and Associates, Inc., a provider of audit services to local governments, based in Houston, Texas.
- During the third quarter of 2008, the Company reversed all estimated share-based compensation costs that had been accrued during 2007 and 2008 related to the 2007 Long Term Incentive Program because the achievement of the performance targets of the program were unlikely to be achieved. This expense reversal of approximately \$1.4 million resulted in an increase in net income of approximately \$850,000, or six cents per diluted share.
- The Company's cash balances were \$28.0 million as of September 30,

2008, up from \$16.3 million as of June 30, 2008. Also during the quarter, the Company made net draws of \$33.0 million on its line of credit, leaving it with \$267.3 million in outstanding borrowings at quarter's end. With the \$25 million expansion of the line during the quarter, remaining borrowing availability under the line was \$97.7 million at September 30, 2008.

"Portfolio Recovery Associates continued to successfully pursue its overall strategy in the third quarter, despite the slowing economy and credit crunch. Our ability to expand our bank credit line by \$25 million on top of existing borrowing capacity allowed the Company to continue taking advantage of portfolio acquisition opportunities, spending \$52.3 million on defaulted debt. In addition, we closed on the MuniServices acquisition as well as the acquisition of the assets of Broussard Partners during the third quarter, as revenue from our fee-for-service businesses rose 86% vs. a year ago. These businesses now represent a record 23% of the Company's overall revenue," said Kevin P. Stevenson, Chief Financial and Administrative Officer.

The Company's year to date 2008 earnings totaled \$34.8 million, or \$2.27 per diluted share, compared with \$37.6 million, or \$2.35 per diluted share, for the first nine months of 2007. Year to date total 2008 revenues were \$196.3 million, compared with \$163.4 million in the comparable period of 2007.

#### Conference Call Information

The Company will hold a conference call with investors tonight, Wednesday, October 29, 2008, at 5:30 p.m. EDT to discuss its third quarter results. Investors can access the call live by dialing 888-713-4218 for domestic callers or 617-213-4870 for international callers using the pass code 57329861.

In addition, investors may listen to the call via a taped replay, which will be available for seven days, by dialing 888-286-8010 for domestic callers and 617-801-6888 for international callers using the pass code 12611630. The replay will be available approximately two hours after today's conference call ends. Investors may also listen via webcast, both live and archived, at the Company's website, [www.portfoliorecovery.com](http://www.portfoliorecovery.com).

#### About Portfolio Recovery Associates, Inc.

Portfolio Recovery Associates is a full-service provider of outsourced receivables management and related services. The Company's primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. These are the unpaid obligations of individuals to credit originators, which include banks, credit unions, consumer and auto finance companies, and retail merchants. Portfolio Recovery Associates also provides a broad range of collection services, including revenue administration for government entities through its RDS and MuniServices businesses, and collateral-location services for credit originators via IGS.

Statements herein which are not historical, including Portfolio Recovery Associates' or management's intentions, hopes, beliefs, expectations, representations, projections, plans or predictions of the future, including statements with respect to future contributions of IGS, RDS and MuniServices to earnings and future portfolio-purchase opportunities, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include references to Portfolio Recovery Associates' presentations and web casts. The forward-looking statements in this press release are based upon management's beliefs, assumptions and expectations of the Company's future operations and economic performance, taking into account currently available information. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us. Actual events or results may differ from those expressed or implied in any such forward-looking statements as a result of various factors, including the risk factors and other risks that are described from time to time in the Company's filings with the Securities and Exchange Commission including but not limited to its annual reports on Form 10-K, its quarterly reports on Form 10-Q and its current reports on Form 8-K, filed with the Securities and Exchange Commission and available through the Company's website, which contain a more detailed discussion of the Company's business, including risks and uncertainties that may affect future results. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. Information in this press release may be superseded by more recent information or statements, which may be disclosed in later press releases, subsequent filings with the Securities and Exchange Commission or otherwise. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or to reflect any change in events, conditions or circumstances on which any such forward-looking statements are based, in whole or in part.

Portfolio Recovery Associates, Inc. Unaudited Consolidated Income Statements (in thousands, except per share amounts)					
	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	
Revenues:					
Income recognized on finance receivables, net	\$ 52,738	\$ 46,111	\$ 158,412	\$ 137,964	
Commissions	15,848	8,529	37,891	25,460	
Total revenues	68,586	54,640	196,303	163,424	
Operating expenses:					
Compensation and employee services	22,983	17,322	64,983	50,438	
Outside legal and other fees and services	16,709	11,847	46,400	34,530	
Communications	2,263	2,038	7,535	5,927	
Rent and occupancy	1,123	819	2,830	2,217	
Other operating expenses	1,912	1,605	4,863	4,467	
Depreciation and amortization	2,162	1,455	5,138	4,112	
Total operating expenses	47,152	35,086	131,749	101,691	
Income from operations	21,434	19,554	64,554	61,733	
Other income and (expense):					
Interest income	17	65	50	364	
Interest expense	(3,066)	(1,137)	(8,215)	(1,543)	
Income before income taxes	18,385	18,482	56,389	60,554	
Provision for income taxes	6,930	6,787	21,638	22,991	
Net income	\$ 11,455	\$ 11,695	\$ 34,751	\$ 37,563	
Net income per common share:					
Basic	\$ 0.75	\$ 0.76	\$ 2.28	\$ 2.37	
Diluted	\$ 0.75	\$ 0.75	\$ 2.27	\$ 2.35	
Weighted average number of shares outstanding:					
Basic	15,267	15,451	15,210	15,816	
Diluted	15,336	15,577	15,280	15,962	
Portfolio Recovery Associates, Inc. Unaudited Consolidated Summary Balance Sheets (in thousands, except per share amounts)					
	September 30, 2008	December 31, 2007			
ASSETS					

Cash and cash equivalents	\$ 28,006	\$ 16,730
Finance receivables, net	535,430	410,297
Income taxes receivable	3,715	3,022
Property and equipment, net	23,354	16,171
Goodwill	28,058	18,620
Intangible assets, net	13,747	5,046
Other assets	9,251	6,421
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Total assets	\$ 641,561	\$ 476,307

#### LIABILITIES AND STOCKHOLDERS' EQUITY

##### Liabilities:

Accounts payable and accrued liabilities	\$ 19,426	\$ 15,345
Deferred tax liability	81,350	57,579
Line of credit	267,300	168,000
Obligations under capital lease	23	103
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Total liabilities	368,099	241,027

##### Stockholders' equity:

Preferred stock, par value \$0.01, authorized shares, 2,000, issued and outstanding shares - 0	-	-
Common stock, par value \$0.01, authorized shares, 30,000, issued shares, 15,392, outstanding shares, 15,280 at September 30, 2008, and 15,159 issued and outstanding at December 31, 2007	153	152
Additional paid-in capital	74,873	71,443
Retained earnings	198,436	163,685
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Total stockholders' equity	273,462	235,280

Total liabilities and stockholders' equity	\$ 641,561	\$ 476,307
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#### Portfolio Recovery Associates, Inc.

#### Unaudited Consolidated Summary Statements of Cash Flows (in thousands)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
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##### Cash flows from operating activities:

Net income	\$ 34,751	\$ 37,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of share-based compensation	442	2,218
Depreciation and amortization	5,138	4,112
Deferred tax expense	23,771	17,566
Changes in operating assets and liabilities:		
Other assets	105	(352)
Accounts payable and accrued liabilities	2,365	1,081
Income tax receivable	(513)	(918)
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Net cash provided by operating activities	66,059	61,270

##### Cash flows from investing activities:

Purchases of property and equipment	(4,041)	(6,655)
Acquisition of finance receivables, net of buybacks	(214,172)	(159,130)
Collections applied to principal on finance receivables	89,039	59,102
Acquisitions, including acquisition costs and net of cash acquired	(25,791)	(409)
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Net cash used in investing activities	(154,965)	(107,092)

##### Cash flows from financing activities:

Dividends paid	-	(16,070)
Proceeds from exercise of options	594	1,461
Income tax benefit from share-based compensation	368	1,145
Proceeds from line of credit	146,300	103,000
Principal payments on line of credit	(47,000)	(3,000)
Repurchase of common stock	-	(50,557)
Principal payments on long-term debt	-	(690)
Principal payments on capital lease obligations	(80)	(104)
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Net cash provided by financing activities	100,182	35,185

Net increase/(decrease) in cash and cash equivalents	11,276	(10,637)
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Cash and cash equivalents, beginning of period	16,730	25,101
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Cash and cash equivalents, end of period	\$ 28,006	\$ 14,464
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##### Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 8,272	\$ 1,096
Cash paid for income taxes	\$ 3	\$ 5,285

##### Noncash investing and financing activities:

Common stock issued for acquisition	\$ 1,847	50
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