

PORTFOLIO RECOVERY ASSOCIATES INC

Form DEF 14A

April 17, 2014

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

Filed by a Party other than the Registrant

Check the appropriate box:

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

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

PORTFOLIO RECOVERY ASSOCIATES, INC.

(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):

No fee required.

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(3) Filing party:

(4) Date filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
OF PORTFOLIO RECOVERY ASSOCIATES, INC.

Date: May 29, 2014  
Time: 12:00 p.m. Eastern Time  
Place: Portfolio Recovery Associates, Inc.  
Building III  
130 Corporate Blvd  
2<sup>nd</sup> Floor  
Norfolk, VA 23502

Dear Fellow Stockholders:

We are pleased to invite you to the Annual Meeting of Stockholders on May 29, 2014 at our Corporate Headquarters located at 130 Corporate Boulevard, Norfolk, Virginia 23502 at 12:00 p.m. eastern time. We look forward to your attendance at the meeting and we encourage you to complete, sign and date the enclosed proxy card to vote your shares or vote your shares on the Internet or by telephone, whether or not you are planning to attend. Following a report on Portfolio Recovery Associates, Inc.'s (the "Company") business results, stockholders will vote:

- ☐ To elect the nominees named in the accompanying proxy statement to the Board of Directors for the coming year;
- To amend the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 60,000,000 to 100,000,000;
- ☐ To ratify the selection of our independent registered public accounting firm for 2014; and
- ☐ To approve on a non-binding advisory basis the compensation of our named executive officers.

Stockholders also will transact any other business that may properly come before the meeting and any adjournment or postponement thereof.

Stockholders of record as of the close of business on April 4, 2014 are entitled to receive notice of, and to vote at, the Annual Meeting. Included in these materials are the Proxy Statement; the Company's 2013 Annual Report to Stockholders, which includes the Company's audited consolidated financial statements for the fiscal year ended December 31, 2013; this Notice of the Company's 2014 Annual Meeting; and your proxy card. These materials are first being mailed to stockholders on or about April 17, 2014, and are also available online at the Company's website at [www.portfoliorecovery.com](http://www.portfoliorecovery.com).

Every stockholder's vote is important and valued by the Company. We hope that you will find our Proxy Statement to be easy to follow, and that it will aid in your ability to designate your proxy vote.

Once again we thank you for your commitment to the Company and urge you to vote your shares now.

By Order of the Board of Directors,

Steven D. Fredrickson  
Chairman, President and Chief Executive  
Officer

Judith Scott  
EVP, General Counsel and Corporate  
Secretary

April 17, 2014

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## SUMMARY OF KEY ELEMENTS OF PROXY STATEMENT

## 2014 Proxy Summary

The following is a summary of information contained elsewhere in this Proxy Statement. This does not contain all of the information you should consider, and you should read the entire Proxy Statement carefully before voting.

## Meeting Agenda and Voting Matters

The Board of Directors recommends a vote for the following proposals.

1. Election of Directors (Page 8);
2. Approval of Amendment to the Company's Amended and Restated Certificate of Incorporation to Increase the Number of Authorized Shares (Page 22);
3. Ratification of Independent Registered Public Accounting Firm (Page 23); and
4. To Approve on a Non-Binding Advisory Basis the Compensation of our Named Executive Officers (Page 25)

## Board Nominees

Name and Year Joined the Board	Principal Occupation	Experience / Qualifications	Audit Committee	Compensation Committee	Compliance Committee	Nominating and Governance Committee
Scott M. Tabakin 2004	Independent Consultant and Advisor	-Finance -Risk Oversight -Management -Leadership -Strategy	Chair			X
James M. Voss 2002	Independent Financial Consultant	-Finance -Risk Oversight -Management -Leadership	X	X		
Marjorie M. Connelly 2013	Independent Consultant	-Finance -Risk Oversight -Management -Diversity -Entrepreneurial -High Growth Companies	X	X		
James A. Nussle 2013	President, The Nussle Group	-Leadership -Management -Strategy -Entrepreneurial -Leadership			Chair	X

## 2013 Compensation Summary

Compensation Component <sup>(1)</sup>	Steven D. Fredrickson	Kevin P. Stevenson	Michael J. Petit	Neal Stern	Christopher B. Graves
Salary	\$750,000	\$400,000	\$388,462	\$350,000	\$293,077
Bonus	\$1,600,000	\$1,000,000	\$1,000,000	\$700,000	\$650,000
Long-Term Incentive	\$1,600,000	\$700,000	\$700,000	\$400,000	\$350,000
Total 2013 Compensation	\$3,950,000	\$2,100,000	\$2,088,462	\$1,450,000	\$1,293,077

<sup>(1)</sup> Please see our 2013 Summary Compensation Table as required by the SEC on page 43 of this Proxy Statement to see full disclosure information including all other compensation, footnotes and narrative disclosure.

## COMPANY PERFORMANCE AND COMPENSATION HIGHLIGHTS

## COMPANY PERFORMANCE HIGHLIGHTS

Portfolio Recovery Associates Inc. (which, together with its subsidiaries, we refer to as PRA or the Company) delivered another year of record growth in 2013. This growth was evident in all of our significant financial metrics including Net Income, EPS, Revenue, and Cash Collections.

Financial Metric	2009	2010	2011	2012	2013	Percent Increase from 2009	Percent Increase from 2012
Net Income (in millions)	\$44.3	\$73.5	\$100.8	\$126.6	\$175.3	296%	38%
Diluted Earnings Per Share	\$0.96	\$1.45	\$1.95	\$2.46	\$3.45	259%	40%
Revenue (in millions)	\$281.1	\$372.7	\$458.9	\$592.8	\$735.1	162%	24%
Cash Collections (in millions)	\$368.0	\$529.3	\$705.5	\$908.7	\$1,142.4	210%	26%

The Company has also achieved the following milestones:

- In 2013 approximately 1.2 Million shares were bought back in order to return additional value to our stockholders;
- Full year investments in U.S. and U.K. consumer defaulted debt totaled \$657 million, up 22% from our prior record established in 2012 of \$539 million; and

- 1-Year, 3-Year and 5-Year total stockholder returns continued to outperform the peer group and market as show in in the following illustration.

**Continued Focus on Compliance:** Regulatory compliance remains a key focus of federal, state and local regulators across the financial services industry. While this focus has resulted and will continue to result in the contraction of the debt buying industry, PRA is well positioned to keep pace with these changes as the Company has a long-standing history of prioritizing and devoting resources to regulatory compliance. In 2013, to reinforce this focus, our Board of Directors (the “Board”) added a new standing committee dedicated to compliance. The objective of the Compliance Committee is to oversee the implementation and oversight of compliance programs, policies and procedures that ensure the Company’s adherence to applicable laws and regulations. Additionally, the Company also appointed a Chief Compliance Officer who reports to both the Chief Executive Officer (“CEO”) and the Board and will have primary responsibility for the day-to-day implementation of the Company’s compliance programs.

**Global Diversification:** On February 19, 2014, we entered into an agreement to acquire the equity of Aktiv Kapital AS (“Aktiv”), a Norway-based company specializing in the acquisition and servicing of non-performing consumer loans throughout Europe and in Canada, for approximately \$880 million. We also agreed to assume approximately \$435 million of Aktiv's corporate debt, resulting in an acquisition of estimated total enterprise value of \$1.3 billion. This acquisition will provide us entry into thirteen additional markets, which will give us additional geographical diversity in portfolio purchasing and collection. We expect Aktiv's Chief Executive Officer, his executive team and the more than 400 Aktiv

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employees will join our workforce upon the closing of the transaction. The transaction is expected to close in the second quarter of 2014, upon successful completion of customary closing conditions including approval of the transaction by applicable competition authorities and our ability to obtain the necessary financing to consummate the transaction.

#### COMPENSATION HIGHLIGHTS

The consistent, strong performance summarized on the previous page is reflected in the compensation that our named executive officers (to whom, along with our CEO, we collectively refer as NEOs) earned in 2013, as described in the Compensation Discussion and Analysis in this Proxy Statement.

In light of the favorable results of the 2013 advisory vote to approve the Company's executive compensation, the Company continued its existing compensation practices without substantial changes in 2013. At the Company's 2013 annual meeting of stockholders, 99.0% of stockholder votes cast approved, on a non-binding advisory basis, the compensation program for the Company's NEOs.

The Board awarded Steven D. Fredrickson, our CEO, incentive compensation for 2013 that was tied to business results, including a non-equity incentive plan award of \$1,600,000 and an incentive equity award under our 2013 Long-Term Incentive Program valued at \$1,600,010. The compensation of our other NEOs further reflects both our strong 2013 performance and our compensation philosophy. Consistent with our executive compensation philosophy, a significant portion of both our CEO's and other NEOs' total compensation is incentive-based and at risk, as illustrated in the following graphs:

Comparing PRA to our peer group (as listed on page 30 of this Proxy Statement) on a one, three and five year basis, our percentile ranking in terms of total stockholder return significantly exceeds the percentile ranking of our CEO's target and realizable pay.

	One Year	Three Years	Five Years
Total Shareholder Return <sup>1</sup>	74%	63%	68%
CEO Target Pay <sup>2</sup>	45%	24%	31%
CEO Realizable Pay <sup>3</sup>	61%	59%	49%

(1) As of December 31, 2013; assumes reinvestment of dividends.

(2) CEO target pay is based on compensation information reported in the most recently filed proxy statements of the Company's 2013 compensation peer companies listed on page 30 of this proxy statement.

(3) Realizable pay was calculated as the sum of (a) annual base pay, (b) actual bonus, and for long-term incentive awards granted during the measurement period, (c) intrinsic value of stock options as of December 31, 2013, (d) value of restricted stock as of the vesting date or December 31, 2013, if not vested, (e) performance shares earned or target shares if the performance period ends after December 31, 2013 (based on the stock price at the vesting date or December 31, 2013 if not vested), (h) earned performance cash awards or target values if the performance period ends after December 31, 2013.

Further detail on the total compensation for our CEO and all other NEOs can be found in the Compensation Discussion and Analysis and the corresponding tables and narratives in this Proxy Statement.

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## PROXY STATEMENT

This proxy statement (the "Proxy Statement") is furnished in connection with the solicitation of proxies by the Board of Directors (the "Board") of Portfolio Recovery Associates, Inc. (which, together with its subsidiaries, we refer to as "PRA" or "the Company"), in connection with the Annual Meeting of Stockholders (the "Annual Meeting") scheduled for May 29, 2014, at 12:00 noon eastern time at PRA's Corporate Headquarters located at Building III, 2<sup>d</sup> Floor, 130 Corporate Blvd, Norfolk, Virginia 23502. These proxy materials are first being furnished to stockholders on or about April 17, 2014.

## VOTING INSTRUCTIONS AND INFORMATION

### Who May Vote

Each holder of the approximately 50,059,852 shares of the issued and outstanding shares of the Company's common stock at the close of business on April 4, 2014 (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" and will be entitled to cast one vote per share owned for each proposal to be considered at the Annual Meeting.

### Matters to be Presented

We are not aware of any matters to be presented at the meeting other than those described in this Proxy Statement. If any matters not described in the Proxy Statement are properly presented at the meeting, the proxies will use their own judgment to determine how to vote your shares. If the meeting is adjourned or postponed, the proxies can vote your shares at the adjournment or postponement as well.

### Costs of Proxy Solicitation

The Company will bear the entire cost of this proxy solicitation, including its preparation, assembly, printing, as well as the mailing of this Proxy Statement, the proxy card, the Notice of Internet Availability of Proxy Materials and any additional solicitation materials sent by the Company to stockholders. In addition, proxies may be solicited by directors, officers and regular employees of the Company who will not receive any additional compensation for such solicitation by mail, email, telephone or personal contact.

### Attending the Annual Meeting

If you plan to attend the Annual Meeting and wish to vote your shares in person, you will be asked to present valid government-issued photo identification, such as a driver's license, in order to gain admission. If you are a holder of record, you will need to bring with you your proxy card or other documentation showing that you owned shares of the Company's common stock on the Record Date. You will not be able to vote your shares at the Annual Meeting without a proxy card or such other documentation. If you require special assistance due to a disability or other reasons, please notify the Corporate Secretary in writing at 140 Corporate Blvd, Norfolk, Virginia 23502, Attention: Judith Scott, EVP, General Counsel and Corporate Secretary, or by email at [jsscott@portfoliorecovery.com](mailto:jsscott@portfoliorecovery.com).

If your shares are held by a broker, bank or other similar organization, bring one of the following with you to the Annual Meeting: the proxy card; the Notice of Internet Availability of Proxy Materials; any voting instruction form that is sent to you; or your most recent brokerage statement or a letter from your broker, bank or other similar organization indicating that you beneficially owned the shares of common stock as of the Record Date. We can use this information to verify your beneficial ownership of common stock in order to admit you to the Annual Meeting. If you intend to vote at the Annual Meeting, you also will need to bring to the Annual Meeting a proxy from your broker, bank or other similar organization that authorizes you to vote the shares that the holder of record holds for you in its name.

### Revoking Your Proxy

You may change or revoke your proxy at any time before it is voted at the Annual Meeting by sending a written notice of revocation of your proxy to the Corporate Secretary so that it is received before the completion of voting at the Annual Meeting. You can also attend the Annual Meeting and vote in person, unless you are a beneficial owner, without a legal proxy. 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 140 Corporate Blvd, Norfolk, Virginia 23502, Attention: Judith Scott, EVP, General Counsel and Corporate Secretary or by email at [jsscott@portfoliorecovery.com](mailto:jsscott@portfoliorecovery.com).

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### Quorum and How Votes Are Counted

A quorum is required to transact business at the Annual Meeting. A majority of holders of the issued and outstanding shares of common stock of the Company entitled to vote, who are represented in person or by proxy, will constitute a quorum. Abstentions and broker non-votes are included in determining whether a quorum is present, which are explained below. Alliance Advisors has been appointed by the Board 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.

### Voting Your Proxy

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" the election of each of the nominees named in this Proxy Statement to the Board for the coming year;
2. "FOR" the approval of an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 60,000,000 to 100,000,000;
3. "FOR" the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year 2014;
4. "FOR" the approval, on a non-binding advisory basis, of the compensation of the Company's NEO's; 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 and any adjournments or postponements.

### Broker Non-Votes

Brokers, banks or other similar organizations holding shares in street name for customers who are beneficial owners of such shares are prohibited from voting such customers' shares on non-routine matters in the absence of specific instructions from such customers. The absence of a specific instruction is commonly referred to as a "broker non-vote." If your shares are held in "street name", it is critical that you vote or provide specific instructions to your broker, bank or similar organization if you want your vote to count. The ratification of the selection of KPMG LLP as the Company's independent registered public accounting firm is considered a routine matter. Therefore, the organization that holds your shares may vote on this matter without instructions from you and no broker non-votes will occur with respect to this matter. On the other hand, the election of directors, the approval of an amendment to the Company's Amended and Restated Certificate of Incorporation and the approval, on a non-binding advisory basis, of the compensation of the Company's NEOs are considered non-routine matters. If you hold your shares through a bank, broker or other similar organization, the organization may not vote your shares on these non-routine matters absent specific instructions from you and absent specific instructions, the shares held by such organization are not counted as shares present and entitled to be voted with respect to such non-routine matters. Therefore, broker non-votes will exist with respect to such non-routine matters but will have no impact on the outcome of such non-routine matters.

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 that you receive. Alternatively, if you vote online via the Internet or by telephone, you will need to vote once for each proxy card you receive. As a holder of common stock of the Company, you are always invited to attend the Annual Meeting and vote your shares in person.

### How to Vote

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. You may vote online, by telephone, by mail or in person at 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 stockholder whose shares are held in “street name” (i.e., in the name of a broker, bank or other similar organization), 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

Under rules approved by the Securities and Exchange Commission (“SEC”), the Company is furnishing proxy materials on the Internet in addition to mailing paper copies of the materials to each stockholder of record. Instructions on how to access and review the proxy materials on the Internet can be found on your proxy card and on the Notice of Internet Availability of Proxy Materials which is sent to stockholders who hold their shares in “street name” (i.e. in the name of a broker, bank or other similar organization). 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. In addition, stockholders may request proxy materials be sent in printed form by mail or electronically by email on an ongoing basis. This process provides stockholders with needed information in a timely manner, while conserving natural resources and lowering the costs of printing and distributing proxy materials.

### Voting Results

The results of voting at the Annual Meeting will be filed with the SEC within four business days after the Annual Meeting and will be available on the SEC’s website [www.sec.gov](http://www.sec.gov) or on our website [www.portfoliorecovery.com](http://www.portfoliorecovery.com). If the final results are not available at that time, we will provide preliminary voting results in a Form 8-K and will provide the final voting results in an amendment to the Form 8-K as soon as they are available.

### Board Recommendations

#### THE BOARD RECOMMENDS THAT YOU VOTE:

• “FOR” THE ELECTION OF EACH OF THE NOMINEES NAMED IN THIS PROXY STATEMENT TO THE BOARD FOR THE COMING YEAR;

• “FOR” THE AMENDMENT OF THE COMPANY’S AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF OUR COMMON STOCK FROM 60,000,000 to 100,000,000;

• “FOR” THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014; AND

• “FOR” THE APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION OF OUR NEO’S.

## CORPORATE GOVERNANCE

PRA's Board and management are committed to strong corporate governance and sound business practices. The Company has a code of business conduct and ethics which satisfies the requirements for a "code of ethics" under the SEC rules and covers the members of our Board, our officers including our CEO and Chief Financial Officer ("CFO") and our employees. Our 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. The Company will disclose amendments to our code of business conduct and ethics, as well as any waivers thereof, on its website, [www.portfoliorecovery.com](http://www.portfoliorecovery.com), to the extent permissible by the rules and regulations of the SEC and the NASDAQ. There were no waivers of the code of business conduct and ethics granted in 2013.

The Company's corporate governance guidelines, code of business conduct and ethics and the charters of the committees of the Board are posted on the Investor Relations page of the Company's website, [www.portfoliorecovery.com](http://www.portfoliorecovery.com). Please note that the website does not constitute a part of this Proxy Statement. These materials are also available in print to any stockholder 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 conducts assessments of each of its committees and of itself. This process enhances director, committee, and Board effectiveness. At the conclusion of the Board and committee assessments, the Board uses the information obtained to evaluate and refine its processes and committee charters, as necessary.

## DIRECTOR ATTENDANCE

During 2013, the Board held thirteen meetings: five regular and eight special meetings. The majority of the Board attended 100% of the regular meetings of the Board in 2013. Each director attended at least 75% of the aggregate number of meetings of the Board and committees on which he or she served during 2013. All directors are encouraged, but not required, to attend our annual meeting of stockholders. A majority of our directors attended the 2013 annual meeting of stockholders.

## DIRECTOR INDEPENDENCE

The Board currently consists of eight directors, one of whom is currently employed by the Company (Steven D. Fredrickson, Chairman of the Board, President and CEO). The Board has established guidelines which conform to the independence requirements of the NASDAQ listing standards to assist it in determining director independence. In February 2014, the directors completed 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, material 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 lack material relationships with the Company, and are independent directors under applicable securities law requirements and NASDAQ rules. The Board has also concluded that each of the members of the Audit Committee, the Compensation Committee, the Compliance Committee and the Nominating and Corporate Governance Committee meet the NASDAQ independence requirements. These determinations were made based upon a number of facts, including, but not limited to, the following:

Except for Steven D. Fredrickson, the Chairman of the Board, President 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 officer of the Company or its subsidiaries 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 NEO serves on the board of directors of any company that employs one of our directors or any member of the immediate family of any of our directors, no NEO sits on a board of directors of any company at which one of our directors is the chief executive officer or chief operating officer, and none of our directors nor any members of the immediate family of any of our directors 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;

None of the independent directors, their respective affiliates or members of their immediate family, directly or indirectly, has engaged in any transaction with the Company or its affiliates or has any relationship with the Company or its affiliates which, in the judgment of the Board, is inconsistent with a determination that the director is independent;

No director and no immediate family member of any director is a partner or controlling stockholder, 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 5% of the entity's consolidated gross revenues for that year, or \$200,000, whichever is greater; and

There is no family relationship among any of the directors or executive officers of the Company.

We do not have any related person transactions to report for fiscal year 2013.

#### BOARD LEADERSHIP

The structure of our Board leadership consists of a Chairman (who is also our CEO), strong independent committee chairs and a Lead Independent Director, who is elected by the independent directors and whom we refer to as our Lead Director. Our Board believes that the current Board leadership structure, in which the roles of Chairman and CEO are held by one person, is best for the Company and its stockholders at this time. As Chairman and CEO, Mr. Fredrickson is able to utilize the in-depth focus and perspective gained in running the Company to effectively and efficiently guide our directors, while also working closely with Mr. Roberts, the Lead Director. However, the Board does review the appropriateness of this structure on a regular basis. Our Lead Director coordinates the activities of the other independent directors to ensure strong independent oversight of management; facilitates information flow and communication by acting as a liaison between the directors and management; chairs all meetings of the Board during executive session; and is authorized to call meetings of the independent directors and retain any outside advisors and consultants who report directly to the Board. The Board believes that strong, independent Board leadership is a critical aspect of effective corporate governance; therefore the independent directors meet in executive session at each regular Board meeting.

#### INDEPENDENT DIRECTOR MEETINGS

Non-employee directors meet at least quarterly in executive session without management present, as part of each regularly scheduled Board meeting. The Lead Director acts as chairman of these sessions, at which the independent directors have the opportunity to frankly discuss management's performance.

#### BOARD RISK OVERSIGHT

The Board, as a whole and through its committees, is responsible for overseeing PRA's risk profile and management's processes for assessing and managing risk, and management is responsible for day-to-day risk management. The Board recognizes that the Company faces a broad range of risks, including financial, regulatory, operational, political, reputational, governance, and legal, that may affect the Company's ability to execute corporate strategies and fulfill business objectives. The Board operates within a climate of transparency and uninhibited dialogue with senior management. Consistent with this approach, senior management attends the regular meetings of the Board and routinely reports on their activities. These reports include risk considerations and discussions concerning actions and strategies for monitoring, managing and mitigating any risks identified. The Board meets regularly to discuss the strategic direction of the Company; a consideration of key risks is essential to the Company's strategic planning process. The Company's Risk Management Group documents known risks, assesses the sufficiency of risk identification, and recommends the appropriate manner in which to control or mitigate those risks. This group provides quarterly risk management reports to the Audit Committee.

Certain important categories of risk are assigned to committees that review, evaluate and receive management reports on risk. These include the following:

The Audit Committee is responsible for direct oversight of the Company's Risk Management Group. The Company's Risk Management Group provides the Audit Committee with quarterly risk management updates. Additionally, the Audit Committee receives quarterly reports from the Company's CFO and the Company's external auditors on financial risks, compliance with reporting requirements, and internal controls. The Audit Committee also receives quarterly reports from the Company's Director of Internal Audit on the results of internal audit testing;

The Compliance Committee oversees matters of non-financial compliance, significant legal or regulatory compliance exposure and material reports or inquiries from government or regulatory agencies; and

The Compensation Committee takes measures to prevent the Company's compensation programs and incentives from leading to decisions that encourage or promote excessive risk-taking. The Compensation Committee, with assistance from Frederic W. Cook & Co. ("FW Cook") the Compensation Committee's compensation consultant, has reviewed the Company's compensation policies and practices for all employees, including our NEOs, as they relate to risk management practices and risk-taking incentives, and has determined that there are no risks arising from these policies and practices that are reasonably likely to have a material adverse effect on the Company. The Compensation Committee considers that our compensation programs incorporate several features which promote the creation of long-term value and reduce the likelihood of excessive risk-taking by our employees. These features include: (i) a balanced mix of cash and equity, annual and longer-term incentives, and types of performance metrics, (ii) the ability of the Compensation Committee to exercise negative discretion over all incentive program payouts, (iii) performance targets for incentive compensation that include objective Company goals and allow for individual levels of achievement toward those goals, (iv) time-based vesting of long-term equity incentive program awards, which encourages long-term retention, (v) performance-based vesting of long-term equity program awards, which aligns company performance and compensation, (vi) a bonus pool for the majority of non-executive employees that is capped at an amount equal to a percentage of each employee's annual base pay and (vii) executive stock ownership guidelines to further align executives with the Company's stockholders.

#### COMMUNICATION WITH DIRECTORS

Stockholders may communicate with members of the Board by transmitting their correspondence by mail or email. All such communications should be sent to the attention of the Corporate Secretary, at the address specified below:

Judith Scott  
Executive Vice President, General Counsel and Secretary  
Portfolio Recovery Associates, Inc.  
Building II  
140 Corporate Boulevard  
Norfolk, VA 23502  
jsscott@portfoliorecovery.com

The Company's confidential toll-free fraud hotline may be used by any stockholder who prefers to raise a concern to the Board in a confidential or anonymous manner by dialing 1-800-290-1650. All communications to the Company's confidential fraud hotline are referred to the Chairman of the Audit Committee, who is responsible for ensuring that such matters are appropriately investigated.

Communications received from stockholders 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 or summaries. 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.



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#### POLICIES FOR APPROVAL OF RELATED PERSON TRANSACTIONS

The Company requires disclosure of any relationships and transactions in which the Company, its directors, its executive officers or their immediate family members are participants, and conducts a review of transactions of the Company with any stockholders owning five percent (5%) 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. 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. The Company's General Counsel will make an initial materiality determination, and when appropriate, will prepare a written analysis and recommendation to the Nominating and Corporate Governance Committee based on: (i) the nature of the proposed transaction; (ii) the related person's interest in the transaction; (iii) the dollar value of the transaction; (iv) the importance of the transaction to the business of the Company; (v) the material terms of the transaction; and (vi) the overall fairness of the transaction to the Company. 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. 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. 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 reportable related party transactions with the Company in 2013, and no such transactions are currently proposed or being considered.

## PROPOSAL 1 - ELECTION OF DIRECTORS

The Board currently consists of eight members in three classes. Each director serves a three year term. One class of directors is elected at each annual meeting of stockholders. Nominees for director who receive the affirmative votes of a plurality of the shares represented and voting in person or by proxy at the Annual Meeting will be elected. The names of Scott M. Tabakin and James M. Voss will be placed on the ballot for re-election to the Board in 2014. The names of Marjorie M. Connelly and James A. Nussle will be placed on the ballot for election to the Board in 2014. If Messrs Nussle, Tabakin and Voss and Ms. Connelly are elected, the Board will consist of seven non-employee directors.

Each of the nominees has consented to serve as director if elected. We have no reason to believe that any of the current directors will be unable or unwilling for good cause to serve. However, if any director should become unable for any reason or unwilling for good cause to serve, proxies may be voted for another person nominated as a substitute by the Board or the Board may reduce the number of directors.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF EACH OF THE DIRECTOR NOMINEES.

### Director Orientation, Education and Preparation

The Company conducts a formal orientation program for all new directors, which includes one-on-one meetings with each of our executives as well as the provision of extensive written material about the Company, its operating units and departments, and the industries in which the Company and its subsidiaries operate. Senior management reports and meetings with directors involve operating performance overviews, strategic plans and significant financial, accounting and risk management issues and reviews of the Company's succession plans. Directors visit the Company's departments and subsidiaries in order to gain additional knowledge about their operations. Further, all directors participate as a group in ongoing continuing education through director education sessions that are held on a regular Board meeting date at least once per year. The Company also affords directors the opportunity and funds to attend additional external director education programs. Management ensures that the Board is fully informed about the Company's business by providing regular written financial reports, reports of operations, compliance reports and updates and other relevant reports at Board meetings at least quarterly, as well as between meetings and at committee meetings. Board materials related to agenda items are provided sufficiently in advance of Board meetings to allow the directors time to prepare for meaningful discussion. All Board members also receive comprehensive quarterly financial reports and budget briefings 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 and operational developments and risks. 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 performing their duties to the Company and its stockholders.

### Director Qualifications

The responsibility of service as a director requires highly-skilled individuals with various qualities, skills, attributes, and professional experience. The Board believes that there are general requirements for service on the Board that are applicable to all directors and that there are other skills and experiences that should be represented on the Board as a whole, but not necessarily by each director. The Board and the Nominating and Corporate Governance Committee consider the qualifications of directors and director candidates individually and in the broader context of the Board's overall composition and the Company's current and future needs.

The Board and the Nominating and Corporate Governance Committee require that each director be a recognized person of high integrity and ethical standards with a proven record of success in his or her field. Directors (other than the CEO) should also be independent, as defined in NASDAQ Rule 5605(a)(2). Each director must also have a familiarity with and respect for corporate governance requirements and practices as well as an appreciation for

diversity. While the Board does not have a specific diversity policy, it does consider diversity of race, ethnicity, gender, age, cultural background, and professional experiences in evaluating candidates for Board membership. All directors should have sufficient time to properly discharge the duties associated with serving as a director and to attend and participate in Board and committee meetings. The Nominating and Corporate Governance Committee also prefers that director candidates have intangible qualities including the ability to ask difficult questions while continuing to work collegially with the other directors and members of management.

In 2013, the Nominating and Corporate Governance Committee also reviewed the competencies that are most likely to make a director candidate successful on our Board. The top competencies that were identified are listed below.

Director Competencies:

Integrity and Trust	Composure
Strategic Agility	Perspective
Decision Quality	Political Savvy
Intellectual Horsepower	Patience
Business Acumen	

Following the review of competencies the Board reviewed the knowledge, skills and abilities that they also believe would be essential for a Board member. Below are the knowledge, skills and abilities that were identified as being essential for all Board members.

Director Knowledge, Skills, and Abilities:

High integrity and ethical standards	An appreciation for diversity
A proven record of success	Strong decision making ability
Knowledge of corporate governance	Availability to prepare for and participate in Board and
Regulatory compliance	Committee meetings

Specific Qualifications, Attributes, Skills, and Experience to be Represented on the Board

The Board and the Nominating and Corporate Governance Committee have identified certain qualifications, attributes, skills, and experiences that are important to be represented on the Board as a whole, in light of the Company's current needs and business priorities. The following table represents the characteristics that should be represented on the Board:

High Level of Financial Literacy, to include being knowledgeable and qualified to review financial statements	Business Strategy Skills	Political of Financial Sector Policy Expertise
Risk Oversight	Financial Industry Experience	Experience with High Growth Companies
Management Expertise	Sales and Marketing Experience	Entrepreneurial Spirit
Diversity	Government Experience	International Experience
Leadership Skills	Technology Experience	
	Understanding of and experience with complex public companies or like organizations	

## Summary of Qualifications of Board of Directors

The table below includes the specific qualifications, attributes, skills and experience of each director that led the Board to conclude that the director is qualified to serve on the Board. While we look to each director to be knowledgeable in these areas, an “X” in the chart below indicates that the item is a specific qualification, attribute, skill or experience that the director brings to the Board. The absence of an “X” for a particular item does not mean that the director does not possess that qualification, attribute, skill, or experience.

Qualification	Connelly	Fain	Fredrickson	Kyle	Nussle	Roberts	Tabakin	Voss
High Level of Financial Literacy	X	X	X			X	X	X
Risk Oversight	X						X	X
Management Expertise	X	X	X	X	X	X	X	X
Diversity	X			X				
Leadership Skills	X	X	X	X	X	X	X	X
Business Strategy Skills	X	X	X	X	X	X	X	
Financial Industry Experience	X		X			X		X
Sales and Marketing Experience				X				
Government Experience				X	X			
Technology Experience	X	X						
Experience with Complex Organizations	X	X	X	X			X	
Political or Financial Sector Policy Expertise	X			X	X	X		
Experience with High Growth Companies	X	X	X			X	X	X
Entrepreneurial Spirit	X	X	X		X		X	
International Experience	X							X

BOARD OF DIRECTORS

Director Nominees - Terms Expiring in 2014

Scott M. Tabakin	Age: 55	PRA Committees: Audit (Chair) Compliance	Education: BS Accounting, University of Illinois
	Director Since: August 2004 Class 3		

SKILLS AND QUALIFICATIONS

Mr. Tabakin has been a director of PRA since 2004. He was a certified public accountant for twenty-five years and has more than twenty-five years of public-company experience. He is an independent consultant and advisor. Mr. Tabakin was Executive Vice President and Chief Financial Officer of ValueOptions, Inc., the nation's largest independent, privately owned behavioral health and wellness company from December 2011 to December 2013. Mr. Tabakin also served as Executive Vice President and Chief Financial Officer of Bravo Health, Inc., a privately owned managed health care company from July 2006 until the sale of the company in November 2010. From October 2003 until July 2006, Mr. Tabakin was an independent financial consultant. He served as Executive Vice President and Chief Financial Officer of AMERIGROUP Corporation, then a publicly traded (NYSE) managed health care company, from May 2001 until October 2003. From October 1992 until May 2001, Mr. Tabakin was Executive Vice President and Chief Financial Officer of Beverly Enterprises, Inc., then the nation's largest publicly traded (NYSE) provider of long-term health care. From June 1980 until October 1992, Mr. Tabakin was an executive with the accounting firm of Ernst & Young. These experiences, including his experience as a senior financial officer of large publicly traded companies, provide Mr. Tabakin with a comprehensive understanding of the complex financial and legal issues facing public companies and were all factors in our conclusion that Mr. Tabakin has made and continues to make strong contributions to the Company through his service on our Board.

James M. Voss	Age: 71	PRA Committees: Audit Compensation	Education: BS, Northwestern University
	Director Since: November 2002 Class 3	Public Company Directorships in the Last Five Years: AG Mortgage Investment Trust, Inc.	MBA, Kellogg School of Management

SKILLS AND QUALIFICATIONS

Mr. Voss has been a director of PRA since 2002. He has more than forty years of experience as a senior finance executive. Mr. Voss currently serves as an independent financial consultant. From 1992 through 1998, he was with First Midwest Bank as Executive Vice President and Chief Credit Officer. Prior to that, he served in a variety of senior executive roles during a twenty-four 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. Mr. Voss' combination of expertise in the areas of business and finance enables him to provide unique insight and perspective to our Board and to address complex financial issues which may be presented to our Board.

Director Nominees - New Directors

Marjorie M. Connelly	Age: 52	Director Since: September 2013 Class 3	PRA Committees: Audit Compensation	Education: BA Political Science, University of Delaware
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SKILLS AND QUALIFICATIONS

Ms. Connelly was appointed as a director in 2013. She currently is an Independent Consultant. Previously, she served as Barclaycard's Global Chief Operating Officer from 2009 to 2011, where Ms. Connelly directed operations for Barclays PLC's customized and co-branded credit cards, as well as merchant payment services. She joined Barclay's following two-and-a-half years at Wachovia Securities, the retail brokerage firm now named Wells Fargo Advisors, where she served as Chief Operating Officer. From 1990 to 2006, Connelly led credit card operations for First USA, then Capital One, where for 12 years she held numerous executive roles overseeing operations for Capital One's U.S. and international credit card businesses. She also was a member of Visa USA's Executive Advisory Committee and Visa International's Risk Advisors Group. From 2012 to 2013, Ms. Connelly was Interim President of Longwood University in Farmville, Virginia, near Richmond. She had previously served for eight years on Longwood's board where she twice served as Rector. She also has been a member of University of Richmond's Business School Executive Advisory Board and the Foundation Board for Virginia Commonwealth University's Business School. Currently, she serves on the board of The Women's Initiative, in Charlottesville, Virginia. Ms. Connelly holds a Bachelor of Arts degree in political science from the University of Delaware and also has completed Harvard Business School's Advanced Management Program.

James A. Nussle	Age: 53	Director Since: June 2013 Class 3	PRA Committees: Nominating and Corporate Governance Compliance (Chair)	Education: BA, Luther College JD, Drake Law School
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SKILLS AND QUALIFICATIONS

Mr. Nussle was appointed as a Director in 2013. Mr. Nussle currently serves on the Compliance and Nominating and Corporate Governance Committees. Mr. Nussle is currently the President and CEO of The Nussle Group, a Washington D.C. based public affairs consulting company. Mr. Nussle also serves as an independent director of the Thrivent Financial Mutual Funds and is an industry advisor to a private equity firm Avista Capital Partners. Mr. Nussle served as the President of Growth Energy, a renewable energy industry association also based in Washington D.C. Prior to his private sector career, Mr. Nussle had extensive service in government at both the local and federal levels. He served eight terms as a U.S. Representative from Iowa from 1991-2007; was elected by his colleagues to serve three terms as the House Budget Committee Chairman; and was selected by President George W. Bush in 2007 to serve in his Cabinet as the Director of the Office of Management and Budget and serve on a number of the President's policy councils including the National Economic, Homeland Security, and National Security Councils. Mr. Nussle also served four years as an elected prosecuting attorney in Iowa and practiced law in Iowa.



Experience of Directors Continuing in Office - Terms Expiring in 2015

Steven D. Fredrickson                      Age: 54

President, CEO and Chairman of the Board Since: March 2002 Class 1	Education: BS, University of Denver MBA, University of Illinois
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SKILLS AND QUALIFICATIONS

Prior to co-founding Portfolio Recovery Associates, Inc. in 1996, Mr. Fredrickson was Vice President of Household Recovery Services' (HRSC) Portfolio Services Group from 1993 until 1996. At HRSC, he was ultimately responsible for 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. Mr. Fredrickson has an MBA from the University of Illinois and a bachelor's degree from the University of Denver. He is active on the Financial Services Advisory Board of CIVC Partners, and is a Director on the Board of the United Way of South Hampton Roads, Eastern Virginia Medical School and St. Mary's Home Foundation. He also is on the executive advisory council of the College of Business and Public Administration at Old Dominion University and is a past Board Director of the American Asset Buyers Association.

Penelope W. Kyle  Age: 65  Director Since: October 2005 Class 1	PRA Committees: Nominating and Corporate Governance (Chair) Compliance	Education: BS, Guilford College of NC Post-graduate work, Southern Methodist University MBA, College of William and Mary JD, University of Virginia
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SKILLS AND QUALIFICATIONS

Ms. Kyle has been a director of PRA since 2005. Ms. Kyle currently serves as the Chair of the Nominating and Corporate Governance Committee. Ms. Kyle is currently the President of Radford University. Prior to her appointment as President of Radford University in June 2005, she had served since 1994 as Director of the Virginia Lottery under three Virginia governors. Earlier in her career, Ms. Kyle was an attorney with the law firm McGuire Woods in Richmond, Virginia. 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. Ms. Kyle brings a unique and valuable perspective to our Board based on her distinctive background in law, business, academia and government, particularly with respect to matters relating to law and corporate governance.

Experience of Directors Continuing in Office - Terms Expiring in 2015

John H. Fain

Age: 65

Director Since:  
March 2010  
Class 2

PRA Committees:  
Audit  
Compensation

Education:  
BS, Computer Science, University  
of South Carolina

SKILLS AND QUALIFICATIONS

Mr. Fain has been a director of PRA since 2010. 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. Metro Information Services was an information technology consulting services firm which went public in 1997, and subsequently merged with Keane, Inc. in 2001. 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 and the Endowment Committee of the Virginia Beach Aquarium and Marine Science Center Foundation. Mr. Fain was appointed to the Board 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 public company.

David N. Roberts

Age: 52

Director Since:  
March 2002  
Class 2  
Lead Director

PRA Committees:  
Compensation (Chair)  
Nominating and Corporate  
Governance  
  
Public Company Directorships  
in the Last Five Years:  
AG Mortgage Investment  
Trust, Inc.

Education:  
BS, Economics, Wharton School  
of the University of  
Pennsylvania

SKILLS AND QUALIFICATIONS

Mr. Roberts has been involved with PRA since its formation in 1996, has been a director of PRA since 2002 and currently serves as Lead Director. As Chief Operating Officer of Angelo, Gordon & Co. and a member of its executive committee, Mr. Roberts helped to start and grow a number of the firm's businesses, including opportunistic real estate, private equity and net lease real estate, and RMBS. Currently he is the Chief Executive Officer of the firm's publicly-traded REIT, AG Mortgage Investment Trust, Inc. Mr. Roberts, through his role at Angelo, Gordon & Co., helped to guide the Company through its transition from a small private company to a major, publicly-traded company. Prior to joining Angelo, Gordon & Co., Mr. Roberts was a principal at Gordon Investment Corporation, a Canadian merchant bank, from 1989 to 1993, where he participated in a wide variety of transactions. Prior to that he worked in the Corporate Finance Department at L.F. Rothschild where he specialized in mergers and acquisitions. Mr. Roberts' qualifications to serve on the Board include his extensive knowledge of the Company and his financial expertise in business development, operations and strategic planning. Mr. Roberts is also familiar with, and has a deep understanding of the industries in which the Company does business.

## COMMITTEES OF THE BOARD OF DIRECTORS

The standing committees of the Company's Board include an Audit Committee, a Compensation Committee, a Compliance Committee and a Nominating and Corporate Governance Committee. Each non-employee director serves on two committees of the Board. The committees of the Board regularly report on their activities and results of meetings to the full Board. Only independent non-employee directors that have been determined by the Board to be independent as defined by the associated NASDAQ rules may serve on Board committees.

A copy of the charter for the Audit Committee, Compensation Committee, Compliance Committee and/or Nominating and Governance Committee will be mailed to any stockholder who makes a request to the Corporate Secretary at 140 Corporate Boulevard, Norfolk, Virginia 23502 Attention: Corporate Secretary, and is also available online at the Corporate Governance section of the Investor Relations page on the Company's corporate website, [www.portfoliorecovery.com](http://www.portfoliorecovery.com).

The following table shows the current membership for each of the standing committees of the Board as of the Record Date.

Name	Committee Memberships			
	Audit	Compensation	Compliance <sup>(1)</sup>	Nominating and Corporate Governance
Steven D. Fredrickson, Chairman		Chair		X
David N. Roberts, Lead Director		X		
Marjorie M. Connelly <sup>(2)</sup>	X	X		
John H. Fain	X	X		
Penelope W. Kyle <sup>(2)</sup>			X	Chair
James A. Nussle <sup>(2)</sup>			Chair	X
Scott M. Tabakin <sup>(2)</sup>	Chair		X	
James M. Voss <sup>(2)</sup>	X	X		
Number of Meetings in 2013	10	6	0	2

<sup>(1)</sup> The Compliance Committee was formed at the end of 2013.

<sup>(2)</sup> On November 12, 2013 Scott M. Tabakin left the Compensation Committee to become a member of the newly formed Compliance Committee. James Voss and Marjorie Connelly joined the Compensation Committee. Marjorie Connelly also joined the Audit Committee. James Nussle became the Chair of the Compliance Committee and joined the Nominating and Corporate Governance Committee. Penelope Kyle joined the Compliance Committee.

## Audit Committee

The Audit Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities.

The Audit Committee's primary duties and responsibilities are to:

- Monitor and review the integrity of the Company's financial reports and monitor and provide oversight of the Company's systems of internal controls regarding finance and accounting compliance;
- Engage and monitor the independence and performance of the Company's independent auditors;
- Monitor the independence and performance of the Company's internal auditors; and
- Provide an avenue of communication between the independent auditors, management, the internal audit department and the Board.

The Audit Committee has the authority to conduct or authorize investigations into any matter within the scope of its responsibilities and it shall have direct access to the independent auditors, as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or advisors it deems necessary in the performance of its duties or to assist in the conduct of any investigation.

The Board has adopted a written charter for the Audit Committee, which is available on our website at [www.portfoliorecovery.com](http://www.portfoliorecovery.com). The Audit

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Committee shall perform any other activities consistent with its Charter, the Company's by-laws and governing law, as the Audit Committee or the Board deems necessary or appropriate.

Audit Committee members shall meet the independence and other requirements of the SEC, the NASDAQ Stock Market and the Sarbanes-Oxley Act of 2002. All four members of the Audit Committee are independent and financial experts. During Fiscal 2013, our Audit Committee consisted of John H. Fain, Marjorie M. Connelly, Scott M. Tabakin and James M. Voss. Marjorie M. Connelly joined the Audit Committee on November 12, 2013.

#### Compensation Committee

The Compensation Committee oversees the development and administration of the Company's compensation and benefits policies and programs. 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, the other NEOs and other executive officers who report directly to the CEO;

- Assure that the Company's executives are compensated consistent with such compensation philosophy, internal equity considerations, market practice and the requirements of the appropriate employment and other applicable laws and regulatory bodies;

- Ensure pay for performance decisions take into consideration compliance with all applicable laws and regulations that have an impact on our business in order to maintain the highest standards of integrity and ethical conduct;

- 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;

- Review compensation programs and policies for features that may encourage excessive risk taking, and determine the extent to which there may be a connection between compensation and risk; and

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

The Board has adopted a written charter for the Compensation Committee, which is available on our website at [www.portfoliorecovery.com](http://www.portfoliorecovery.com). As stated in its charter, the Compensation Committee has sole authority to retain and terminate an independent consulting firm. Pursuant to this authority, the Compensation Committee has engaged FW Cook to assist in the evaluation of executive compensation. 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. For more information on the responsibilities and activities of the Compensation Committee, see the "Compensation Discussion and Analysis" section in this Proxy Statement.

#### Compensation Committee Interlocks and Insider Participation

During fiscal 2013, our Compensation Committee consisted of Marjorie M. Connelly, John H. Fain, David N. Roberts, Scott M. Tabakin and James M. Voss. Marjorie M. Connelly and James M. Voss joined the Compensation Committee on November 12, 2013. Scott M. Tabakin left the Compensation Committee on November 12, 2013 to become a member of the newly formed Compliance Committee. During fiscal 2013, all of the members of the Compensation Committee were independent directors, no member was an employee or former employee of the Company and no member had any related party transactions which would require disclosure under SEC rules. During fiscal 2013, no NEO of the Company served on any compensation committee (or its equivalent) or board of directors of any other company whose executive officer served on our Compensation Committee or Board.

#### Compliance Committee

The Compliance Committee oversees the Company's implementation of compliance programs, policies and procedures and as has oversight responsibility for the Company's compliance and ethics programs, policies and procedures. During fiscal 2013, our Compliance Committee consisted of Penelope W. Kyle, James A. Nussle and Scott M. Tabakin. As more fully described in its charter, the Compliance Committee has the following responsibilities:

- Oversee matters of non-financial compliance, significant legal or regulatory compliance exposure and material reports or inquiries



from government or regulatory agencies;

• Monitor the Company's efforts to implement compliance programs, policies and procedures in response to compliance and regulatory risks;

• Will oversee, and may request, investigations into any significant potential noncompliance issues with laws or internal programs, policies or procedures or potential compliance violations;

• Regularly review the Company's compliance risk assessment plan with the Company's Chief Compliance Officer; and

• Review compliance related complaints from internal and external sources.

The Board has adopted a written charter for the Compliance Committee, which is available on our website at [www.portfoliorecovery.com](http://www.portfoliorecovery.com).

#### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee ensures that the Board has an effective corporate governance program in place by reviewing the Company's corporate governance practices and related public issues important to the Company, and making recommendations to the Board on such issues. During fiscal 2013, our Nominating and Corporate Governance Committee consisted of John E. Fuller, Penelope W. Kyle, James A. Nussle and David N. Roberts. James A. Nussle joined the Nominating and Corporate Governance Committee on November 12, 2013. John E. Fuller left the Nominating and Corporate Governance Committee on May 31, 2013. As more fully described in its charter, the Nominating and Corporate Governance Committee is responsible for:

• Conducting annual reviews of the composition of all committees;

• Making recommendations concerning Board dynamics;

• Developing and monitoring the Company's succession plan for key positions within the Company's leadership team;

• Overseeing director education and development; and

• Ensuring that the Board and its committees conduct and discuss their annual self-evaluations.

The Nominating and Corporate Governance Committee is also responsible for identifying, reviewing and recommending nominees for election to the Board. In addition to considering the qualifications of candidates suggested by current directors and officers of the Company, they also consider any candidates who may be recommended by stockholders in accordance with Section 2.11 of the Company's By-laws and Article Five of the Company's Amended and Restated Certificate of Incorporation. For more information on the procedures for submission of stockholder proposals, see the "Submission of Stockholder Proposals" section. The Nominating and Corporate Governance Committee uses the same criteria in evaluating any candidates nominated by a stockholder and current directors and officers of the Company.

The Nominating and Corporate Governance Committee seeks to determine 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 Nominating and Corporate Governance Committee arranges and conducts personal interviews of candidates, as appropriate. In addition, the Nominating and Corporate Governance Committee will consider whether the candidate assists in achieving a mix of members that represents a diversity of backgrounds and experience, including with respect to age, gender, international background, race and specialized experience.

The Nominating and Corporate Governance Committee recommended to the Board the candidates for re-election who 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 or her election than votes for his or her election shall tender his or her resignation for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will then consider the best interests of the Company and its stockholders and will recommend to the full Board the action to be taken with respect to the tendered resignation. The Board has adopted a written charter for the Nominating and Corporate Governance Committee, which is available on our website at [www.portfoliorecovery.com](http://www.portfoliorecovery.com). The duties and responsibilities of the Nominating and Corporate Governance Committee are specified in its charter,

which was amended in February 2013.

The Company did not receive any recommendations of potential director candidates from stockholders for consideration at the 2013 annual meeting of stockholders.

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## COMPENSATION OF DIRECTORS

The Board, upon the recommendation of the Compensation Committee, 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 Company also makes annual equity awards to non-employee directors in order to align each director's interests with the long-term interests of the Company's stockholders. At the end of 2013, FW Cook provided the Compensation Committee with a peer group analysis of the compensation of the directors of companies in the Compensation Peer Group listed on page 30 of this Proxy Statement. The peer group analysis recommended median compensation levels for the newly formed Compliance Committee and indicated that the compensation of the Company's non-employee directors for participation in the Compensation Committee was below the median. Based on this analysis, the Compensation Committee established the compensation levels for the Compliance Committee and recommended an adjustment in the compensation for participation in the Compensation Committee, which was approved by the Board effective as of January 1, 2014.

The chart below provides a summary and comparison of total non-employee director compensation in 2013 and approved 2014 compensation. The Company makes annual equity awards as part of non-employee director compensation. These awards will remain unchanged at the current level until reviewed at a future date.

Compensation Element	2013	2014
Annual Retainer (Cash Portion)	\$60,000	\$60,000
Annual Retainer (Company Stock Portion)	\$110,000	\$110,000
Annual Committee Chair Retainers		
• Audit Committee	\$25,000	\$25,000
• Compensation Committee	\$12,500	\$15,000
• Compliance Committee	N/A	\$15,000
• Nominating and Corporate Governance Committee	\$10,000	\$10,000
Annual Committee Retainers		
• Audit Committee	\$12,500	\$12,500
• Compensation Committee	\$6,250	\$7,500
• Compliance Committee	N/A	\$7,500
• Nominating and Corporate Governance Committee	\$5,000	\$5,000
Lead Director Retainer	\$15,000	\$15,000

On the date of the 2013 annual meeting of stockholders, each non-employee director was awarded non-vested shares valued at approximately \$110,000. 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 stockholders. 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 five times the director's annual retainer (cash portion), exclusive of Committee retainers. Directors are expected to acquire and maintain this share ownership threshold within five years after joining the Board. In 2013, the Company offered no compensation to its directors other than their annual retainers and stock awards; however, each director is reimbursed for travel expenses in connection with attendance at Board meetings and for all reasonable expenses associated with continuing education programs. The Company offers no retirement benefits or other perquisites to directors. The Company maintains policies of directors' and officers' liability insurance covering all directors. The Company's CEO received no additional compensation for his service as a director and Chairman of the Board.

## 2013 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash	Stock Awards <sup>(1)</sup>	Option Awards <sup>(2)</sup>	Total Compensation
Marjorie M. Connelly	\$15,000	\$109,977	0	\$124,977
John H. Fain	\$78,750	\$109,903	0	\$188,653
Penelope W. Kyle	\$82,500	\$109,903	0	\$192,403
John E. Fuller <sup>(3)</sup>	\$35,625	\$0	0	\$35,625
James A. Nussle	\$15,000	\$109,950	0	\$124,950
David N. Roberts	\$92,500	\$109,903	0	\$202,403
Scott M. Tabakin	\$78,750	\$109,903	0	\$188,653
James M. Voss	\$85,000	\$109,903	0	\$194,903

(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 non-vested 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) The Company discontinued its practice of granting stock options to directors in 2004. There are no outstanding options.

(3) John Fuller left the Board of Directors on May 31, 2013.

## SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table contains information about the shares of the Company's common stock beneficially owned as of the Record Date by the NEOs named therein, including the Company's CEO, CFO, each of the Company's non-employee directors, and all directors and NEOs as a group. 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. To the knowledge of the Company, none of the persons named in the table below have pledged any of the shares of common stock beneficially owned by them as security. There are no outstanding stock options currently exercisable or exercisable within 60 days of the Record Date and all non-vested shares vesting within 60 days of the Record Date are deemed outstanding for the purpose of the table below.

Name of Beneficial Owner	Shares Owned	Shares Not Vested	Shares Vesting Within 60 Days of 4/4/14	Total Shares Beneficially Owned	Percentage of Shares Owned
Marjorie M. Connelly	225	1,871	—	225	—%
John H. Fain	11,802	3,369	2,169	13,971	—%
Penelope W. Kyle	25,011	2,169	2,169	27,180	0.1%
James A. Nussle	—	2,193	—	—	—%
David N. Roberts	50,694	2,169	2,169	52,863	0.1%
Scott M. Tabakin	28,701	2,169	2,169	30,870	0.1%
James M. Voss	23,202	2,169	2,169	25,371	0.1%
Steven D. Fredrickson	196,722	134,943	—	196,722	0.4%
Kevin P. Stevenson	142,333	51,405	—	142,333	0.3%
Michael J. Petit	52,248	129,029	—	52,248	0.1%
Neal Stern	31,842	34,963	—	31,842	0.1%
Christopher B. Graves	34,468	28,755	—	34,468	0.1%
All NEOs & Directors	597,248	395,204	10,845	608,093	1.2%

## 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 based on their most recent filings.

Title of Class	Name & Address of Beneficial Owner	Shares Beneficially Owned <sup>(1)</sup>	Percent of Class <sup>(2)</sup>
Common Stock	BlackRock, Inc. <sup>(3)</sup> 40 East 52 <sup>nd</sup> Street New York, NY 10022	4,516,671	9.02%
Common Stock	The Vanguard Group, Inc. <sup>(4)</sup> 100 Vanguard Blvd. Malvern, PA 19355	4,050,485	8.09%
Common Stock	Riverbridge Partners, LLC <sup>(5)</sup> 80 S. Eight St., Suite 1200 Minneapolis, MN 55402	2,778,891	5.55%

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

(2) Ownership percentage is based on 50,059,852 shares of common stock outstanding as of the Record Date.

(3) Based on information in a Schedule 13G/A filed with the SEC on January 30, 2014, in which BlackRock, Inc. is reported as the beneficial owner of 4,516,671 shares of the Company's common stock with sole power to vote or direct the vote and with sole power to dispose or to direct the disposition of these 4,516,671 shares.

(4) Based on information in a Schedule 13G/A filed with the SEC on February 11, 2014, in which The Vanguard Group, Inc. is reported as the beneficial owner of 4,050,485 shares of the Company's common stock, with sole power

to vote or direct the vote of 68,403 shares held by its wholly-owned subsidiary, Vanguard Fiduciary Trust Company, sole power to vote or direct the vote of 3,700 shares held by its wholly-owned subsidiary, Vanguard Investments Australia, Ltd., sole power to dispose or direct the disposition

of 3,982,082 shares, and shared power with its wholly-owned subsidiary, Vanguard Fiduciary Trust Company, to dispose or direct the disposition of 68,403 shares.

(5) Based on information in a Schedule 13G/A filed with the SEC on February 5, 2014, in which Riverbridge Partners, LLC is reported as the beneficial owner of 2,220,996 shares of the Company's common stock with sole power to vote or direct the vote and with sole power to dispose or to direct the disposition of these 2,778,891 shares.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act of 1934 (Exchange Act) requires the Company's NEOs and directors as well as persons who beneficially own ten percent (10%) or more 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 NEOs 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 NEOs and directors. Based on a review of the Section 16(a) reports filed by the Company on behalf of its directors and NEOs or furnished to the Company by beneficial owners of 10% or more of its common stock (if applicable) and a review of written representations from certain reporting persons, the Company believes that all such filing requirements of its directors and NEOs were complied with on a timely basis during 2013, with the exception of late Form 4's for Mr. Fredrickson (March 13, 2013) and for Mr. Graves (October 8, 2013).

#### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The table below reflects the number of shares as of December 31, 2013 subject to outstanding awards and the amount available for future issuance. All share awards are in the form of grants of shares of non-vested shares, including long-term equity incentive ("LTI") shares.

Plan Category	Number of Securities Authorized for Issuance Under the Plan <sup>(1)</sup>	Number of Securities to be Issued Upon Exercise of Outstanding Nonvested Shares	Weighted-Average Exercise Price of Outstanding Nonvested Shares	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans <sup>(2)</sup>
Equity compensation plans approved by stockholders	5,400,000	829,259	\$0.00	4,254,243