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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number: 000-50058

Portfolio Recovery Associates, Inc.

(Exact name of registrant as specified in its charter)

Delaware	75-3078675
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
120 Corporate Boulevard, Norfolk, Virginia	23502
(Address of principal executive offices)	*(zip code)*

(888) 772-7326

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ☒ NO ☐

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 27, 2004
Common Stock, $0.01 par value	15,335,706

PORTFOLIO RECOVERY ASSOCIATES, INC.

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2004 and December 31, 2003
(unaudited)

	June 30, 2004	December 31, 2003
Assets		
Cash and cash equivalents	$ 42,351,771	$ 24,911,841
Finance receivables, net	96,270,285	92,568,557
Property and equipment, net	6,022,344	5,166,380
Deferred tax asset	—	2,009,426
Income tax receivable	147,522	351,861
Other assets	1,332,552	1,385,706
Total assets	$146,124,474	$126,393,771
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 1,049,386	$ 1,290,332
Accrued expenses	557,430	513,687
Accrued payroll and bonuses	3,404,431	3,233,409
Deferred tax liability	5,630,575	—
Long-term debt	2,173,546	1,656,972
Obligations under capital lease	678,473	551,325
Total liabilities	13,493,841	7,245,725
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, par value $0.01, authorized shares, 2,000,000,issued and outstanding shares - 0	—	—
Common stock, par value $0.01, authorized shares, 30,000,000, issued and outstanding shares - 15,330,706 at June 30, 2004, and 15,294,676 at December 31, 2003	153,307	152,947
Additional paid in capital	96,838,828	96,117,932
Retained earnings	35,638,498	22,877,167
Total stockholders' equity	132,630,633	119,148,046
Total liabilities and stockholders' equity	$146,124,474	$126,393,771

The accompanying notes are an integral part of these consolidated financial statements.

PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2004 and 2003
(unaudited)

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Revenues:				
Income recognized on finance receivables	$26,890,303	$20,618,193	$50,797,889	$38,236,016
Commissions	1,253,263	784,845	2,610,510	1,482,587
Total revenue	28,143,566	21,403,038	53,408,399	39,718,603
Operating expenses:				
Compensation and employee services	9,211,032	7,678,853	17,748,291	14,071,905
Outside legal and other fees and services	5,449,950	3,276,513	9,691,251	6,093,861
Communications	810,794	666,733	1,818,299	1,300,377
Rent and occupancy	433,039	310,009	862,037	554,960
Other operating expenses	689,103	455,642	1,379,753	928,960
Depreciation	462,655	371,018	910,334	671,182
Total operating expenses	17,056,573	12,758,768	32,409,965	23,621,245
Income from operations	11,086,993	8,644,270	20,998,434	16,097,358
Other income and (expense):				
Interest income	24,999	8,248	28,582	28,225
Interest expense	(67,681)	(83,291)	(137,068)	(159,237)
Income before income taxes	11,044,311	8,569,227	20,889,948	15,966,346
Provision for income taxes	4,294,088	3,324,454	8,128,617	6,223,325
Net income	$ 6,750,223	$ 5,244,773	$12,761,331	$ 9,743,021
Net income per common share				
Basic	$ 0.44	$ 0.37	$ 0.83	$ 0.70
Diluted	$ 0.43	$ 0.33	$ 0.81	$ 0.62
Weighted average number of shares outstanding				
Basic	15,322,337	14,240,782	15,313,111	13,892,891
Diluted	15,775,659	15,750,492	15,775,073	15,670,419

The accompanying notes are an integral part of these consolidated financial statements.

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2004 and 2003
(unaudited)

	2004	2003
Operating activities:		
Net income	$ 12,761,331	$ 9,743,021
Adjustments to reconcile net income to cash provided by operating activities:		
Increase in equity from vested options and warrants	247,031	181,998
Income tax benefit from stock option exercises	278,635	15,397,882
Depreciation	910,334	671,182
Deferred tax expense	7,640,001	(9,202,225)
Changes in operating assets and liabilities:		
Other assets	53,154	(343,891)
Accounts payable	(240,946)	(8,838)
Income taxes	204,339	(3,059,285)
Accrued expenses	43,743	(384,813)
Accrued payroll and bonuses	171,022	(510,081)
Net cash provided by operating activities	22,068,644	12,484,950
Cash flows from investing activities:		
Purchases of property and equipment	(1,469,388)	(1,742,590)
Acquisition of finance receivables, net of buybacks	(26,804,287)	(38,871,062)
Collections applied to principal on finance receivables	23,102,559	17,708,740
Net cash used in investing activities	(5,171,116)	(22,904,912)
Cash flows from financing activities:		
Public offering costs	—	(386,445)
Proceeds from exercise of options and warrants	195,590	136,000
Proceeds from long-term debt	750,000	975,000
Payments on long-term debt	(233,426)	(111,220)
Payments on capital lease obligations	(169,762)	(152,744)
Net cash provided by financing activities	542,402	460,591
Net increase/(decrease) in cash and cash equivalents	17,439,930	(9,959,371)
Cash and cash equivalents, beginning of period	24,911,841	17,938,730
Cash and cash equivalents, end of period	$ 42,351,771	$ 7,979,359
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 137,068	$ 156,136
Cash paid for income taxes	$ —	$ 3,084,498
Noncash investing and financing activities:		
Capital lease obligations incurred	$ 296,910	$ 193,681

The accompanying notes are an integral part of these consolidated financial statements.

PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Business:

Portfolio Recovery Associates, LLC ("PRA") was formed March 20, 1996. Portfolio Recovery Associates, Inc. ("PRA Inc") was formed in August 2002. On November 8, 2002, PRA Inc completed its initial public offering ("IPO") of common stock. As a result, all of the membership units and warrants of PRA were exchanged on a one to one basis for warrants and shares of a single class of common stock of PRA Inc. PRA Inc now owns all outstanding membership units of PRA and PRA Receivables Management, LLC (d/b/a Anchor Receivables Management) ("Anchor"). PRA Inc, a Delaware corporation, and its subsidiaries (collectively, the "Company") purchases, collects and manages portfolios of defaulted consumer receivables. The defaulted consumer receivables the Company collects are either purchased from the sellers of finance receivables or are collected on behalf of clients on a commission fee basis. This is primarily accomplished by maintaining a staff of highly skilled collectors whose purpose is to contact the customers and arrange payment of the debt. Secondarily, the Company has contracted with independent attorneys with which the Company can undertake legal action in order to satisfy the outstanding debt.

The consolidated financial statements of the Company include the accounts of PRA Inc, PRA, PRA Holding I, and Anchor.

The accompanying unaudited financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position as of June 30, 2004, its results of operations for the three and six month periods ended June 30, 2004 and 2003, and its cash flows for the six month periods ended June 30, 2004 and 2003, respectively. The results of operations of the Company for the three and six month periods ended June 30, 2004 and 2003 may not be indicative of future results. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, as amended, filed for the year ended December 31, 2003.

2. Finance Receivables:

The Company accounts for its investment in finance receivables using the interest method under the guidance of Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans." Static pools of relatively homogenous accounts are established. Once a static pool is established, the receivable accounts in the pool are not changed. Each static pool is recorded at cost which includes certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Income on finance receivables is accrued monthly based on each static pool's effective interest rate. This interest rate is estimated based on the timing and amount of anticipated cash flows using the Company's proprietary collection models. Monthly cash flows greater than the interest accrual will reduce the carrying value of the static pool. Likewise, monthly cash flows that are less than the monthly accrual will accrete the carrying balance. Each pool is reviewed monthly and compared to the Company's models to drive complete amortization of the carrying balance at the end of each pool's life. The cost recovery method prescribed by Practice Bulletin 6 is used when collections on a particular portfolio cannot be reasonably predicted. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the portfolio. Additionally, a pool can become fully amortized (zero carrying balance on the Statement of Financial Position) while still generating cash collections. In this case, all cash collections are recognized as revenue when received

In the event that anticipated cash collections would be inadequate to amortize the carrying balance, an impairment charge would be taken with a corresponding write-off of the receivable balance. Accordingly, the Company does not maintain an allowance for credit losses.

PORTFOLIO RECOVERY ASSOCIATES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The Company capitalizes certain fees paid to the third parties related to the direct acquisition of a portfolio of accounts. These fees are added to the acquisition cost of the portfolio and accordingly are amortized over the life of the portfolio using the interest method. During the three and six months ended June 30, 2004, respectively, the Company capitalized $258,376 and $334,014 of these direct acquisition fees. During the three and six months ended June 30, 2003, respectively, the Company capitalized $582,214 and $812,557 of these direct acquisition fees. During the three and six months ended June 30, 2004, respectively, the Company amortized $291,930 and $570,405 of these direct acquisition fees. During the three and six months ended June 30, 2003, respectively, the Company amortized $285,313 and $554,709 of these direct acquisition fees. The balance of the unamortized capitalized fees at June 30, 2004 and 2003 was $1,035,153 and $1,279,284, respectively.

At June 30, 2004 the Company wrote-off $530,580 related to the capitalization of fees paid to third parties for address correction and other customer data associated with the acquisition of portfolios purchased over the past 5 years. As a result of a review of the company's accounting, the company determined these capitalized acquisition fees should be expensed.

The agreements to purchase the aforementioned receivables include general representations and warranties from the sellers covering account holder death or bankruptcy, and accounts settled or disputed prior to sale. The representation and warranty period permitting the return of these accounts from the Company to the seller is typically 90 to 180 days. Any funds received from the seller of finance receivables as a return of purchase price are referred to as buybacks. Buyback funds are simply applied against the finance receivable balance received. They are not included in the Company's cash collections from operations nor are they included in the Company's cash collections applied to principal amount.

Gains on sale of finance receivables, representing the difference between the sales price and the unamortized value of the finance receivables sold, are recognized when finance receivables are sold.

The Company applies a financial components approach that focuses on control when accounting and reporting for transfers and servicing of financial assets and extinguishments of liabilities. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, eliminates financial assets when control has been surrendered, and eliminates liabilities when extinguished. This approach provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. Importantly, these funds derived from sales are not included in our cash collections from finance receivables figure. They are reported separately under FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Changes in finance receivables for the three and six months ended June 30, 2004 and 2003 were as follows:

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Balance at beginning of period	$ 95,627,786	$ 74,418,221	$ 92,568,557	$ 65,526,235
Acquisitions of finance receivables, net of buybacks	12,125,947	21,221,472	26,804,287	38,871,062
Cash collections	(38,373,751)	(29,569,329)	(73,900,448)	(55,944,756)
Income recognized on finance receivables	26,890,303	20,618,193	50,797,889	38,236,016
Cash collections applied to principal	(11,483,448)	(8,951,136)	(23,102,559)	(17,708,740)
Balance at end of period	$ 96,270,285	$ 86,688,557	$ 96,270,285	$ 86,688,557

At the time of acquisition, the life of each pool is generally set at between 60 and 84 months based upon the proprietary models of the Company. As of June 30, 2004 the Company has $96,270,285 in finance receivables included in the Statement of Financial Position. Based upon current projections, cash collections applied to principal will be as follows for the twelve months in the periods ending:

PORTFOLIO RECOVERY ASSOCIATES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

June 30, 2005	$32,186,971
June 30, 2006	29,093,156
June 30, 2007	20,334,032
June 30, 2008	10,635,992
June 30, 2009	3,555,955
June 30, 2010	382,905
June 30, 2011	81,274
	$96,270,285

3. Revolving Lines of Credit:

The Company maintains a $25.0 million revolving line of credit pursuant to an agreement entered into on November 28, 2003. The credit facility bears interest at a spread over LIBOR and extends through November 28, 2004. The agreement calls for:

- restrictions on monthly borrowings are limited to 20% of Estimated Remaining Collections;
- a debt coverage ratio of a least 8.0 to 1.0 calculated on a rolling twelve-month average;
- a debt to tangible net worth ratio of less than 0.40 to 1.00;
- net income per quarter of at least $1.00, calculated on a consolidated basis, and;
- restrictions on change of control.

This facility had no amounts outstanding at June 30, 2004. As of June 30, 2004 the Company is in compliance with all of the covenants of this agreement.

4. Property and Equipment:

Property and equipment, at cost, consist of the following as of the dates indicated:

	June 30, 2004	December 31, 2003
Software	$ 2,311,754	$ 2,030,403
Computer equipment	2,746,104	2,193,386
Furniture and fixtures	1,643,560	1,283,748
Equipment	1,777,954	1,602,547
Leasehold improvements	1,156,991	801,516
Building and improvements	1,138,924	1,138,924
Land	100,515	100,515
Less accumulated depreciation	(4,853,458)	(3,984,659)
Property and equipment, net	$ 6,022,344	$ 5,166,380

5. Stock-Based Compensation:

The Company has a stock option and restricted share plan. The Amended and Restated Portfolio Recovery 2002 Stock Option Plan and 2004 Restricted Stock Plan were approved by the Company's shareholders at its Annual Meeting of Shareholders on May 12, 2004, enabling the Company to issue to its employees and directors restricted shares of stock, as well as stock options. Also, in connection with the reorganization of the Company's initial public offering, all existing PRA warrants that were owned by certain individuals and entities were exchanged for an equal number of PRA Inc warrants. Prior to 2002, the Company accounted for stock compensation issued under the

PORTFOLIO RECOVERY ASSOCIATES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

recognition and measurement provisions of APB Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees,” and related Interpretations.

Effective January 1, 2002, the Company adopted the fair value recognition provisions of FASB Statement No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation,” prospectively to all employee awards granted, modified, or settled after January 1, 2002. All stock-based compensation measured under the provisions of APB 25 became fully vested during 2002. All stock-based compensation expense recognized thereafter was derived from stock-based compensation based on the fair value method prescribed in SFAS 123.

Stock Warrants

The PRA management committee was authorized to issue warrants to partners, employees or vendors to purchase membership units. Generally, warrants granted had a term between 5 and 7 years and vested within 3 years. Warrants had been issued at or above the fair market value on the date of grant. Warrants vest and expire according to terms established at the grant date. All outstanding warrants were issued to employees of the Company and are fully vested. During the three and six months ended June 30, 2004 and 2003, no warrants were issued.

The following summarizes all warrant related transactions from December 31, 2001 through June 30, 2004:

	Warrants Outstanding	Weighted Average Exercise Price
December 31, 2001	2,195,000	$ 4.17
Granted	50,000	10.00
Exercised	(50,000)	4.20
Cancelled	(10,000)	4.20
December 31, 2002	2,185,000	4.30
Exercised	(2,026,000)	4.17
Cancelled	(51,500)	9.72
December 31, 2003	107,500	4.20
Exercised	(31,000)	4.20
June 30, 2004	76,500	$ 4.20

The following information is as of June 30, 2004:

	Warrants Outstanding			Warrants Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$4.20	76,500	1.77	$ 4.20	76,500	$ 4.20
Total at June 30, 2004	76,500	1.77	$ 4.20	76,500	$ 4.20

PORTFOLIO RECOVERY ASSOCIATES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Had compensation cost for granted warrants been determined pursuant to SFAS 123, the Company's net income prior to 2003 would have decreased. Using a fair-value (minimum value calculation), the following assumptions were used:

Warrants issue year:	2002	2001
Expected life from vest date (in years)	3.00	4.00
Risk-free interest rates	4.53 %	4.66%-4.77%
Volatility	N/A	N/A
Dividend yield	N/A	N/A

The fair value model utilizes the risk-free interest rate at grant with an expected exercise date sometime in the future generally assuming an exercise date in the first half of 2005. In addition, warrant valuation models require the input of highly subjective assumptions, including the expected exercise date and risk-free interest rates. Prior to the IPO, the Company's warrants had characteristics significantly different from those of traded warrants, and changes in the subjective input assumptions can materially affect the fair value estimate. Based upon the above assumptions, the weighted average fair value of employee warrants granted during the years ended December 31, 2002 and 2001 was $1.24 and $0.35, respectively.

Stock Options

The Company created the 2002 Stock Option Plan (the "Plan") on November 7, 2002. The Plan was amended in 2004 to enable the Company to issue restricted shares of stock to its employees and directors. The Plan, as amended (the "Amended Plan") was approved by the Company's shareholders at its Annual Meeting on May 12, 2004. Up to 2,000,000 shares of common stock may be issued under the Amended Plan. The Amended Plan expires November 7, 2012. All options and restricted shares issued under the Plan vest ratably over 5 years. Granted options expire seven years from grant date. Expiration dates range between November 7, 2009 and January 16, 2011. Options granted to a single person cannot exceed 200,000 in a single year. As of June 30, 2004, 895,000 options have been granted under the Plan, of which 54,755 have been cancelled.

Options are expensed under SFAS 123 and are included in operating expenses as a component of compensation. The Company issued 0 and 20,000 options to non-employee directors during the three and six months ended June 30, 2004, respectively. All of the stock options which have been issued under the Plan were issued to employees of the Company except for 40,000 which were issued to non-employee directors.

The following summarizes all option related transactions from December 31, 2001 through June 30, 2004:

	Options Outstanding	Weighted Average Exercise Price
December 31, 2001	—	$ —
Granted	820,000	13.06
Cancelled	(12,150)	13.00
December 31, 2002	807,850	13.06
Granted	55,000	27.88
Exercised	(50,915)	13.00
Cancelled	(14,025)	13.00
December 31, 2003	797,910	14.09
Granted	20,000	28.79
Exercised	(5,030)	13.00
Cancelled	(28,580)	13.00
June 30, 2004	784,300	$ 14.51

The following information is as of June 30, 2004:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$13.00	694,300	5.2	$ 13.00	99,900	$ 13.00
$16.16	15,000	5.4	$ 16.16	3,000	$ 16.16
$26.81 - $29.79	75,000	6.2	$ 28.12	—	$ —
Total at June 30, 2004	784,300	5.3	$ 14.51	102,900	$ 13.09

The Company utilizes the Black-Scholes option pricing model to calculate the value of the stock options when granted. This model was developed to estimate the fair value of traded options, which have different characteristics than employee stock options. In addition, changes to the subjective input assumptions can result in materially different fair market value estimates. Therefore, the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options.

Options issue year:	2004	2003	2002
Weighted average fair value of options granted	$2.85	$5.84	$2.73
Expected volatility	13.26% - 13.55%	15.70% - 15.73%	15.70%
Risk-free interest rate	3.16% - 3.37%	2.92% - 3.19%	2.92%
Expected dividend yield	0.00%	0.00%	0.00%
Expected life (in years)	5.00	5.00	5.00

Utilizing these assumptions, each employee stock option granted in 2002 is valued at $2.71 per share and each director stock option granted in 2002 is valued at $3.37 per share. For stock options issued to employees in 2003, the per share values range between $5.80 and $6.25. Each director stock option granted in 2004 is valued between $2.62 and $2.92.

Restricted Stock

Restricted stock shares are permitted to be issued as an incentive to attract new employees and, effective commensurate with the meeting of shareholders held on May 12, 2004, are permitted to be issued to directors and existing employees. During the three and six months ended June 30, 2004, respectively, the Company issued 0 and 5,000 shares of restricted stock as inducements to individuals becoming employed by the Company. The terms of the restricted share awards are similar to those of the stock option awards, wherein the shares are issued at or above market values and vest ratably over 5 years. Restricted stock is expensed over its vesting period. The Company has issued 18,045 restricted stock shares as of June 30, 2004, none of which have vested. On July 20, 2004, the board of directors voted to allow the issuance of up to 55,200 shares of restricted stock to approximately 240 employees. Mssrs. Fredrickson, Stevenson, and Grube received no shares.

6. Commitments and Contingencies:

Employment Agreements:

The Company has employment agreements with all of its executive officers and with several members of its senior management group, the terms of which expire on March 31, 2005, December 31, 2005 or December 31, 2006. Such agreements provide for base salary payments as well as bonuses which are based on the attainment of specific management goals. Estimated remaining compensation under these agreements is approximately $2,699,981. The agreements also contain confidentiality and non-compete provisions.

Leases:

The Company is party to various operating and capital leases with respect to its facilities and equipment. Please refer to the Company's consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K, as amended, as filed with the Securities and Exchange Commission for discussion of these leases.

Litigation:

The Company is from time to time subject to routine litigation incidental to its business. The Company believes that the results of any pending legal proceedings will not have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statements Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements. All statements, other than statements of historical fact, are forward-looking statements, including statements regarding overall trends, gross margin trends, operating cost trends, liquidity and capital needs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The risks, uncertainties and assumptions referred to above may include the following:

- changes in the business practices of sellers of consumer receivables in terms of selling defaulted consumer receivables or outsourcing defaulted consumer receivables to third-party contingent fee collection agencies;
- changes in government regulations that affect the Company's ability to collect sufficient amounts on its acquired or serviced receivables;
- the Company's ability to employ and retain qualified employees, especially collection personnel;
- changes in the credit or capital markets, which affect the Company's ability to borrow money or raise capital to purchase or service defaulted consumer receivables;
- the degree and nature of the Company's competition; and
- the risk factors listed from time to time in the Company's filings with the Securities and Exchange Commission.

Results of Operations

The following table sets forth certain operating data as a percentage of total revenue for the periods indicated:

	For the Three Months Ended June 30, 2004	2003	For the Six Months Ended June 30, 2004	2003
Revenues:				
Income recognized on finance receivables	95.5%	96.3%	95.1%	96.3%
Commissions	4.5%	3.7%	4.9%	3.7%
Total revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Compensation and employee services	32.7%	35.9%	33.2%	35.4%
Outside legal and other fees and services	19.4%	15.3%	18.1%	15.3%
Communications	2.9%	3.1%	3.4%	3.3%
Rent and occupancy	1.5%	1.4%	1.6%	1.4%
Other operating expenses	2.4%	2.1%	2.6%	2.3%
Depreciation	1.6%	1.7%	1.7%	1.7%
Total operating expenses	60.6%	59.6%	60.7%	59.5%
Income from operations	39.4%	40.4%	39.3%	40.5%
Other income and (expense):				
Interest income	0.1%	0.0%	0.1%	0.1%
Interest expense	-0.2%	-0.4%	-0.3%	-0.4%
Income before income taxes	39.2%	40.0%	39.1%	40.2%
Provision for income taxes	15.3%	15.5%	15.2%	15.7%
Net income	24.0%	24.5%	23.9%	24.5%

The Company uses the following terminology throughout its reports. “Cash Receipts” refers to all collections of cash, regardless of the source. “Cash Collections” refers to collections on the Company’s owned portfolios only, exclusive of commission income and sales of finance receivables. “Cash Sales of Finance Receivables” refers to the sales of the Company’s owned portfolios. “Commissions” refers to fee income generated from the Company’s wholly-owned contingent fee subsidiary.

Three Months Ended June 30, 2004 Compared To Three Months Ended June 30, 2003

Revenue

Total revenue was $28.1 million for the three months ended June 30, 2004, an increase of $6.7 million or 31.3% compared to total revenue of $21.4 million for the three months ended June 30, 2003.

Income Recognized on Finance Receivables

Income recognized on finance receivables was $26.9 million for the three months ended June 30, 2004, an increase of $6.3 million or 30.6% compared to income recognized on finance receivables of $20.6 million for the three months ended June 30, 2003. The majority of the increase was due to an increase in the Company’s cash collections on its owned defaulted consumer receivables to $38.4 million from $29.6 million, an increase of 29.7%. The Company’s amortization rate on owned portfolio for the three months ended June 30, 2004 was 29.9% while for the three months ended June 30, 2003 it was 30.3%. During the three months ended June 30, 2004, the Company acquired defaulted consumer receivables portfolios with an aggregate face value amount of $1.5 billion at a cost of $12.9 million. During the three months ended June 30, 2003, the Company acquired defaulted consumer receivable portfolios with an aggregate face value of $698.3 million at a cost of $20.8 million. The Company’s relative cost basis of acquiring defaulted consumer receivable portfolios decreased from 2.98% of face value for the three months ended June 30, 2003 to 0.86% of face value for the three months ended June 30, 2004. In any period, the Company acquires defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectibility. The Company may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on the Company's particular buying activity in that period. During the three months ended June 30, 2004, the Company bought a higher concentration of older, lower priced portfolios which resulted in a lower purchase price when compared to the three months ended June 30, 2003. However, regardless of the average purchase price, the Company intends to target a similar internal rate of return in pricing its portfolio acquisitions, therefore, the absolute rate paid is not necessarily relevant to estimated profitability of a period's buying.

Commissions

Commissions were $1.3 million for the three months ended June 30, 2004, an increase of $515,000 or 65.6% compared to commissions of $785,000 for the three months ended June 30, 2003. Commissions increased as a result of a growing inventory of accounts.

Operating Expenses

Total operating expenses were $17.1 million for the three months ended June 30, 2004, an increase of $4.3 million or 33.6% compared to total operating expenses of $12.8 million for the three months ended June 30, 2003. Total operating expenses, including compensation and employee services expenses, were 43.0% of cash receipts excluding sales for the three months ended June 30, 2004 compared with 42.1% for the same period in 2003.

Compensation and Employee Services

Compensation and employee services expenses were $9.2 million for the three months ended June 30, 2004, an increase of $1.5 million or 19.5% compared to compensation and employee services expenses of $7.7 million for the three months ended June 30, 2003. Compensation and employee services expenses increased as total employees grew to 851 at June 30, 2004 from 719 at June 30, 2003. Compensation and employee services expenses as a percentage of cash receipts excluding sales decreased to 23.1% for the three months ended June 30, 2004 from 25.3% of cash receipts excluding sales for the same period in 2003.

Outside Legal and Other Fees and Services

Outside legal and other fees and services expenses were $5.5 million for the three months ended June 30, 2004, an increase of $2.2 million or 66.7% compared to outside legal and other fees and services expenses of $3.3 million for the three months ended June, 2003. Approximately $1.7 million of the increase was attributable to the increased cash collections resulting from the increased number of accounts referred to independent contingent fee attorneys. This increase is consistent with the growth the Company experienced in its portfolio of defaulted consumer receivables, and a portfolio management strategy shift implemented in mid 2002. This strategy resulted in the Company referring to the legal suit process more previously unsuccessfully liquidated accounts that have an identified means of repayment but that are nearing their legal statute of limitations, than had been referred historically. Legal cash collections represented 28.9% of total cash collections for the three months ended June 30, 2004, up from 24.5% for the three months ended June 30, 2003. Total legal expenses for the three months ended June 30, 2004 were 33.1% of legal cash collections compared to 33.2% for the three months ended June 30, 2003. Legal fees and costs increased from $2.5 million for the three months ended June 30, 2003 to $3.8 million, or 52.0%, for the three months ended June 30, 2004. In addition, $531,000 was expensed during the three months ended June 30, 2004 related to the capitalization of fees paid to third parties for address correction and other customer data associated with the acquisition of portfolios purchased over the past 5 years. As a result of a review of the company's accounting, the company determined these capitalized acquisition fees should be expensed.

Communications

Communications expenses were $811,000 for the three months ended June 30, 2004, an increase of $144,000 or 21.6% compared to communications expenses of $667,000 for the three months ended June 30, 2003. The increase was attributable to growth in mailings and higher telephone expenses incurred to collect on a greater number of defaulted consumer receivables owned and serviced. Mailings were responsible for 88.8% of this increase, while the remaining 11.2% is attributable to higher telephone expenses.

Rent Occupancy

Rent and occupancy expenses were $433,000 for the three months ended June 30, 2004, an increase of $123,000 or 39.7% compared to rent and occupancy expenses of $310,000 for the three months ended June 30, 2003. The increase was attributable to increased leased space at the Company's new Norfolk, VA location which accounted for $110,000 of the increase. The remaining increase was attributable to increased utility charges resulting from the increased space in Norfolk.

Other Operating Expenses

Other operating expenses were $689,000 for the three months ended June 30, 2004, an increase of $233,000 or 51.1% compared to other operating expenses of $456,000 for the three months ended June 30, 2003. The increase was due to increases in repairs and maintenance, insurance expenses, travel and meals and miscellaneous expenses. Repairs and maintenance expenses increased by $41,000, insurance expenses increased by $125,000, travel and meals increased by $25,000 and miscellaneous expenses increased by $42,000.

Depreciation

Depreciation expenses were $463,000 for the three months ended June 30, 2004, an increase of $92,000 or 24.8% compared to depreciation expenses of $371,000 for the three months ended June 30, 2003. The increase was attributable to continued capital expenditures on equipment, software and computers related to the Company's growth and systems upgrades.

Interest Income

Interest income was $25,000 for the three months ended June 30, 2004, an increase of $17,000 compared to interest income of $8,000 for the three months ended June 30, 2003. This increase is the result of an increase in the average invested amount in auction rate certificates from $1.4 million for the three months ended June 30, 2003 to $10.3 million for the three months ended June 30, 2004.

Interest Expense

Interest expense was $68,000 for the three months ended June 30, 2004, a decrease of $15,000 or 18.1% compared to interest expense of $83,000 for the three months ended June 30, 2003. The decrease is due to a lower unused line fee under the new revolving credit arrangement.

Six Months Ended June 30, 2004 Compared To Six Months Ended June 30, 2003

Revenue

Total revenue was $53.4 million for the six months ended June 30, 2004, an increase of $13.7 million or 34.5% compared to total revenue of $39.7 million for the six months ended June 30, 2003.

Income Recognized on Finance Receivables

Income recognized on finance receivables was $50.8 million for the six months ended June 30, 2004, an increase of $12.6 million or 33.0% compared to income recognized on finance receivables of $38.2 million for the six months ended June 30, 2003. The majority of the increase was due to an increase in the Company's cash collections on its owned defaulted consumer receivables to $73.9 million from $55.9 million, an increase of 32.2%. The Company's amortization rate on owned portfolio for the six months ended June 30, 2004 was 31.3% while for the six months ended June 30, 2003 it was 30.1%. During the six months ended June 30, 2004, the Company acquired defaulted consumer receivables portfolios with an aggregate face value amount of $2.10 billion at a cost of $27.9 million. During the six months ended June 30, 2003, the Company acquired defaulted consumer receivable portfolios with an aggregate face value of $1.53 billion at a cost of $38.5 million. The Company's relative cost basis of acquiring defaulted consumer receivable portfolios decreased from 2.52% of face value for the six months ended June 30, 2003 to 1.33% of face value for the six months ended June 30, 2004. In any period, the Company acquires defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectibility. The Company may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on the Company's particular buying activity in that period. During the six months ended June 30, 2004, the Company bought a higher concentration of older, lower priced portfolios which resulted in a lower purchase price when compared to the six months ended June 30, 2003. However, regardless of the average purchase price, the Company intends to target a similar internal rate of return in pricing its portfolio acquisitions, therefore, the absolute rate paid is not necessarily relevant to estimated profitability of a period's buying.

Commissions

Commissions were $2.6 million for the six months ended June 30, 2004, an increase of $1.1 million or 73.3% compared to commissions of $1.5 million for the six months ended June 30, 2003. Commissions increased as a result of a growing inventory of accounts.

Operating Expenses

Total operating expenses were $32.4 million for the six months ended June 30, 2004, an increase of $8.8 million or 37.3% compared to total operating expenses of $23.6 million for the six months ended June 30, 2003. Total operating expenses, including compensation and employee services expenses, were 42.4% of cash receipts excluding sales for the six months ended June 30, 2004 compared with 41.1% for the same period in 2003.

Compensation and Employee Services

Compensation and employee services expenses were $17.7 million for the six months ended June 30, 2004, an increase of $3.6 million or 25.5% compared to compensation and employee services expenses of $14.1 million for the six months ended June 30, 2003. Compensation and employee services expenses increased as total employees grew to 851 at June 30, 2004 from 719 at June 30, 2003. Compensation and employee services expenses as a percentage of cash receipts excluding sales decreased to 23.1% for the six months ended June 30, 2004 from 24.6% of cash receipts excluding sales for the same period in 2003.

Outside Legal and Other Fees and Services

Outside legal and other fees and services expenses were $9.7 million for the six months ended June 30, 2004, an increase of $3.6 million or 59.0% compared to outside legal and other fees and services expenses of $6.1 million for the six months ended June 30, 2003. Approximately $3.1 million of the increase was attributable to the increased cash collections resulting from the increased number of accounts referred to independent contingent fee attorneys. This increase is consistent with the growth the Company experienced in its portfolio of defaulted consumer receivables, and a portfolio management strategy shift implemented in mid 2002. This strategy resulted in the Company referring to the legal suit process previously unsuccessfully liquidated accounts that have an identified means of repayment but that are nearing their legal statute of limitations. Legal cash collections represented 27.7% of total cash collections for the six months ended June 30, 2004, up from 23.7% for the six months ended June 30, 2003. Total legal expenses for the six months ended June 30, 2004 were 33.7% of legal cash collections compared to 33.8% for the six months ended June 30, 2003. Legal fees and costs increased from $4.6 million for the six months ended June 30, 2003 to $7.1 million, or 54.3%, for the six months ended June 30, 2004. In addition, $531,000 was expensed during the six months ended June 30, 2004 related to the capitalization of fees paid to third parties for address correction and other customer data associated with the acquisition of portfolios purchased over the past 5 years. As a result of a review of the company's accounting, the company determined these capitalized acquisition fees should be expensed.

Communications

Communications expenses were $1.8 million for the six months ended June 30, 2004, an increase of $482,000 or 37.1% compared to communications expenses of $1.3 million for the six months ended June 30, 2003. The increase was attributable to growth in mailings and higher telephone expenses incurred to collect on a greater number of defaulted consumer receivables owned and serviced. Mailings were responsible for 88.5% of this increase, while the remaining 11.5% is attributable to higher telephone expenses.

Rent and Occupancy

Rent and occupancy expenses were $862,000 for the six months ended June 30, 2004, an increase of $307,000 or 55.3% compared to rent and occupancy expenses of $555,000 for the six months ended June 30, 2003. The increase was attributable to increased leased space due to the opening of a call center in Hampton, Virginia in March 2003 and at the Company's new Norfolk, VA location which opened in January 2004. The new Hampton call center accounted for $59,000 of the increase and the new Norfolk location accounted for $220,000 of the increase. The remaining increase was attributable to increased utility charges resulting from the increased space in Norfolk and Hampton.

Other Operating Expenses

Other operating expenses were $1.4 million for the six months ended June 30, 2004, an increase of $451,000 or 48.5% compared to other operating expenses of $929,000 for the six months ended June 30, 2003. The increase was due to changes in taxes, fees and licenses, travel and meals, repairs and maintenance, insurance and miscellaneous expenses. Taxes, fees and licenses increased by $20,000, travel and meals increased by $19,000, repairs and maintenance expenses increased by $81,000, insurance expenses increased by $257,000 and miscellaneous expenses increased by $74,000.

Depreciation

Depreciation expenses were $910,000 for the six months ended June 30, 2004, an increase of $239,000 or 35.6% compared to depreciation expenses of $671,000 for the six months ended June 30, 2003. The increase was attributable to continued capital expenditures on equipment, software and computers related to the Company's growth and systems upgrades.

Interest Income

Interest income was $29,000 for the six months ended June 30, 2004, an increase of $1,000 compared to interest income of $28,000 for the six months ended June 30, 2003. These amounts are the result of investing in tax-exempt auction rate certificates in 2004 and 2003.

Interest Expense

Interest expense was $137,000 for the six months ended June 30, 2004, a decrease of $21,000 or 13.2% compared to interest expense of $159,000 for the six months ended June 30, 2003. The decrease is due to a lower unused line fee under the new revolving credit arrangement.

Supplemental Performance Data

Owned Portfolio Performance:

The following table shows the Company's portfolio buying activity by year, setting forth, among other things, the purchase price, actual cash collections and estimated remaining cash collections as of June 30, 2004.

($ in thousands)

Purchase Period	Purchase Price[1]	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections[2]	Total Estimated Collections[3]	Total Estimated Collections to Purchase Price[4]
1996	$ 3,080	$ 9,115	$ 142	$ 9,257	301%
1997	$ 7,685	$ 21,945	$ 299	$ 22,245	289%
1998	$ 11,089	$ 30,212	$ 1,018	$ 31,230	282%
1999	$ 18,899	$ 50,920	$ 4,610	$ 55,530	294%
2000	$ 25,016	$ 70,359	$ 13,948	$ 84,307	337%
2001	$ 33,453	$ 89,213	$ 29,078	$ 118,291	354%
2002	$ 42,275	$ 69,617	$ 61,502	$ 131,118	310%
2003	$ 61,765	$ 48,885	$ 108,874	$ 157,759	255%
2004	$ 28,176	$ 4,842	$ 64,769	$ 69,611	247%

(1) Purchase price refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized costs , less the purchase price refunded by the seller due to the return of non-compliant accounts (also defined as buybacks). Non-compliant refers to the contractual representations and warranties provided for in the purchase and sale contract between the seller and the Company. These representations and warranties from the sellers generally cover account holders' death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or repurchase these accounts.

(2) Estimated remaining collections refers to the sum of all future projected cash collections on our owned portfolios. This estimate is derived from the Company's level yield accounting model.

(3) Total estimated collections refers to the actual cash collections, including cash sales, plus estimated remaining collections.

(4) Total estimated collections to purchase price refers to the total estimated collections divided by the purchase price.

When the Company acquires a portfolio of defaulted accounts, it generally does so with a forecast of future total estimated collections to purchase price paid of no more than 2.6 times. Only after the portfolio has established probable and estimable performance in excess of that projection will estimated remaining collections be increased. If actual cash collections are less than the original forecast, the Company moves aggressively to lower estimated remaining collections to appropriate levels.

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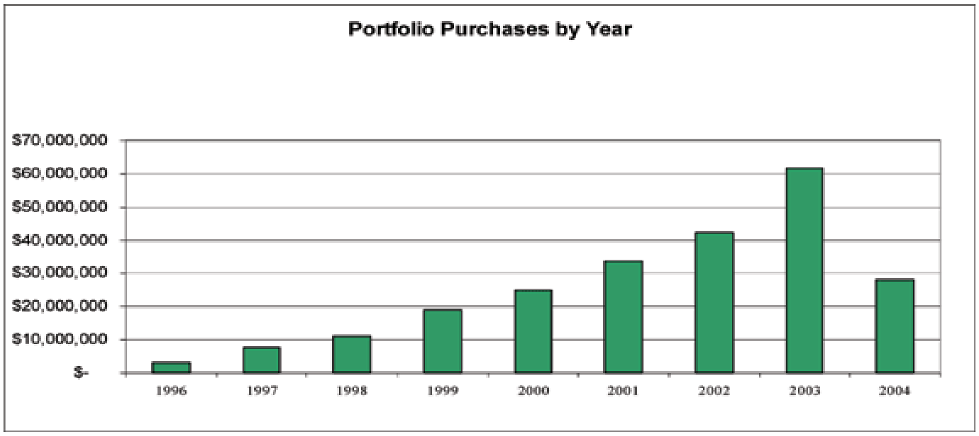
The following graph shows the Company's purchase price in its owned portfolios by year beginning in 1996 and includes the year to date acquisition amount as of June 30, 2004. This purchase price number represents the cash paid to the seller to acquire defaulted consumer receivables, plus certain capitalized costs , less the purchase price refunded by the seller due to the return of non-compliant accounts.



The Company utilizes a long-term approach to collecting its owned pools of receivables. This approach has historically caused the Company to realize significant cash collections and revenues from purchased pools of finance receivables years after they are originally acquired. As a result, the Company has in the past been able to reduce its level of current period acquisitions without a corresponding negative current period impact on cash collections and revenue.

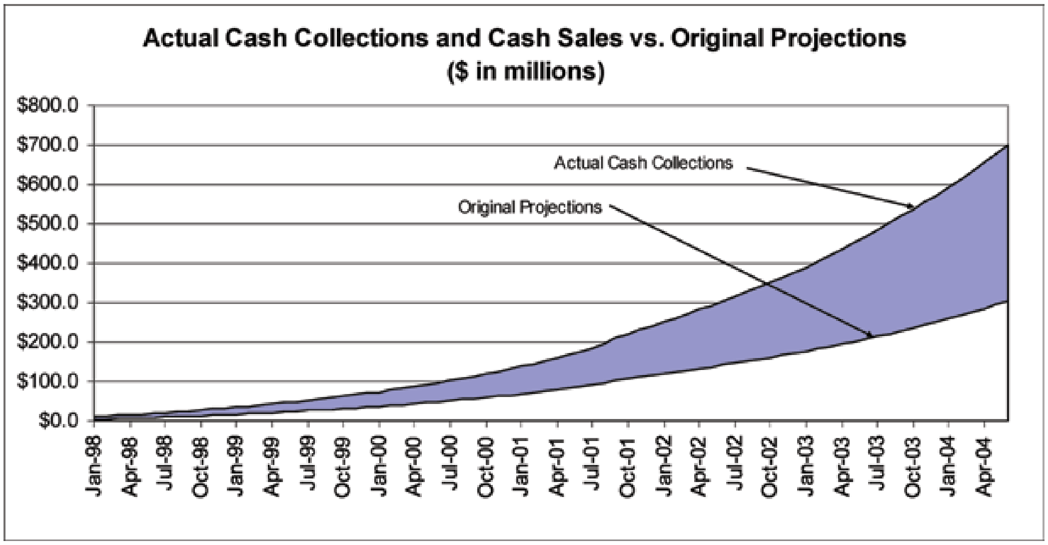
The following table, which excludes any proceeds from cash sales of finance receivables, demonstrates the Company's ability to realize significant multi-year cash collection streams on its owned pools as of June 30, 2004:

Cash Collections By Year, By Year of Purchase

($ in thousands)

Purchase Period	Purchase Price	Cash Collection Period 1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
1996	$ 3,080	$548	$2,484	$ 1,890	$ 1,348	$ 1,025	$ 730	$ 496	$ 398	$ 135	$ 9,054
1997	7,685	—	2,507	5,215	4,069	3,347	2,630	1,829	1,324	551	$ 21,472
1998	11,089	—	—	3,776	6,807	6,398	5,152	3,948	2,797	1,274	$ 30,152
1999	18,899	—	—	—	5,138	13,069	12,090	9,598	7,336	2,997	$ 50,228
2000	25,016	—	—	—	—	6,894	19,498	19,478	16,628	7,400	$ 69,898
2001	33,453	—	—	—	—	—	13,048	28,831	28,003	13,840	$ 83,722
2002	42,275	—	—	—	—	—	—	15,073	36,258	18,286	$ 69,617
2003	61,765	—	—	—	—	—	—	—	24,308	24,577	$ 48,885
2004	28,176	—	—	—	—	—	—	—	—	4,842	$ 4,842
Total	$231,438	$548	$4,991	$10,881	$17,362	$30,733	$53,148	$79,253	$117,052	$73,901	$387,869

When the Company acquires a new pool of finance receivables, a 60 — 84 month projection of cash collections is created. The following chart shows the Company's historical cash collections (including cash sales of finance receivables) in relation to the aggregate of the total estimated collection projections made at the time of each respective pool purchase, adjusted for buybacks.



Owned Portfolio Personnel Performance:

The Company measures the productivity of each collector each month, breaking results into groups of similarly tenured collectors. The following three tables display various productivity measures tracked by the Company.

Collector by Tenure

Collector FTE at:	12/31/00	12/31/01	12/31/02	12/31/03	06/30/03	06/30/04
One year + [1]	109	151	210	241	227	299
Less than one year [2]	180	218	223	338	298	335
Total[2]	289	369	433	579	525	634

[1] Calculated based on actual employees (collectors) with one year of service or more.

[2] Calculated using total hours worked by all collectors, including those in training to produce a full time equivalent "FTE".

Monthly Cash Collections by Tenure [1]

Average performance YTD	12/31/00	12/31/01	12/31/02	12/31/03	06/30/03	06/30/04
One year + [2]	$14,081	$15,205	$16,927	$18,158	$18,669	$17,926
Less than one year [3]	7,482	7,740	8,689	8,303	8,420	9,859

1 Cash collection numbers include only accounts assigned to collectors. Significant cash collections do occur on "unassigned" accounts.

2 Calculated using average YTD monthly cash collections of all collectors with one year or more of tenure.

3 Calculated using weighted average YTD monthly cash collections of all collectors with less than one year of tenure, including those in training.

YTD Cash Collections per Hour Paid [1]

Average performance YTD	12/31/00	12/31/01	12/31/02	12/31/03	06/30/03	06/30/04
Total cash collections	$64.37	$77.20	$96.37	$108.27	$111.21	$118.49
Non-legal cash collections	$53.31	$66.87	$77.72	$ 80.10	$ 84.12	$ 84.57

[1] Cash collections (assigned and unassigned) divided by total hours paid (including holiday, vacation and sick time) to all collectors (including those in training).

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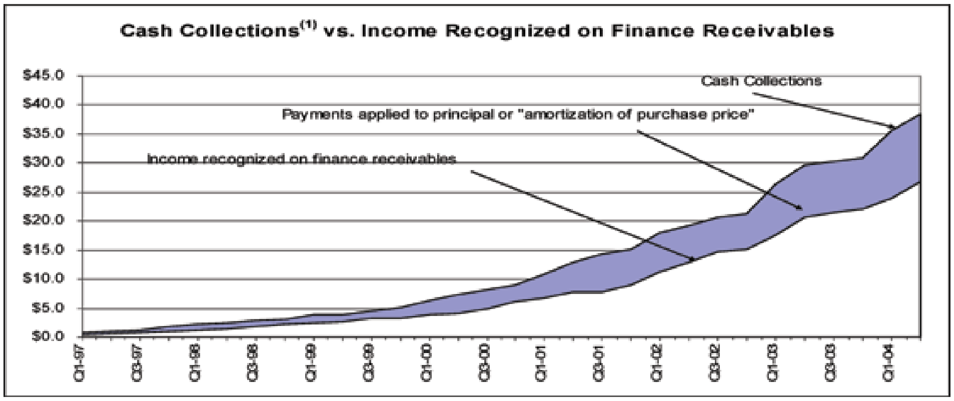
Cash collections have substantially exceeded revenue in each quarter since the Company’s formation. The following chart illustrates the consistent excess of the Company’s cash collections on its owned portfolios over the income recognized on finance receivables on a quarterly basis. The difference between cash collections and income recognized is referred to as Payments Applied to Principal. It is also referred to as Amortization. This amortization is the portion of cash collections that is used to recover the cost of the portfolio investment represented on the Statement of Financial Position.

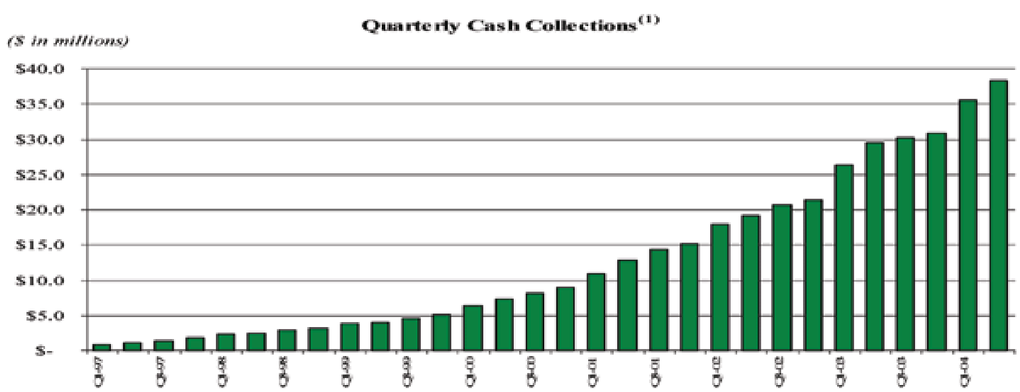


(1) Includes cash collections on finance receivables only. Excludes commission fees and cash proceeds from sales of defaulted consumer receivables.

Seasonality

The Company depends on the ability to collect on its owned and serviced defaulted consumer receivables. Collections tend to be higher in the first and second quarters of the year and lower in the third and fourth quarters of the year, due to consumer payment patterns in connection with seasonal employment trends, income tax refunds, and holiday spending habits. Due to the Company’s historical quarterly increases in cash collections, its growth has partially masked the impact of this seasonality.

Quarterly Cash Collections



(1) Includes cash collections on finance receivables only. Excludes commission fees and cash proceeds from sales of defaulted consumer receivables.

The following table shows the changes in finance receivables, including the amounts paid to acquire new portfolios.

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Balance at beginning of period	$ 95,627,786	$ 74,418,221	$ 92,568,557	$ 65,526,235
Acquisitions of finance receivables, net of buybacks (1)	12,125,947	21,221,472	26,804,287	38,871,062
Cash collections applied to principal (2)	(11,483,448)	(8,951,136)	(23,102,559)	(17,708,740)
Cost of finance receivables sold, net	—	—	—	—
Balance at end of period	$ 96,270,285	$ 86,688,557	$ 96,270,285	$ 86,688,557
Estimated Remaining Collections ("ERC") (3)	$284,240,371	$267,154,592	$284,240,371	$267,154,592

(1) Agreements to purchase receivables typically include general representations and warranties from the sellers covering account holders' death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or repurchase these accounts. The Company refers to repurchased accounts as buybacks.

(2) Cash collections applied to principal (also referred to as amortization) on finance receivables consists of cash collections less income recognized on finance receivables.

(3) Estimated Remaining Collections refers to the sum of all future projected cash collections on the Company's owned portfolios. This estimate is derived from the Company's level yield accounting model. ERC is not a balance sheet item, however, it is provided here for informational purposes.

The following tables categorize the Company's owned portfolios as of June 30, 2004 into the major asset types and account types represented, respectively:

Asset Type	No. of Accounts	%	Life to Date Purchased Face Value of Defaulted Consumer Receivables(1)	%	Finance Receivables, net as of June 30, 2004	%
Visa/MasterCard/Discover	2,074,353	38.7%	$ 5,936,504,989	60.1%	$ 57,721,874	60.0%
Consumer Finance	2,149,733	40.0%	1,819,833,254	18.4%	10,702,936	11.1%
Private Label Credit Cards	1,084,381	20.2%	1,751,593,439	17.7%	25,147,161	26.1%
Auto Deficiency	59,235	1.1%	371,979,557	3.8%	2,698,314	2.8%
Total:	**5,367,702**	**100.0%**	**$ 9,879,911,239**	**100.0%**	**$ 96,270,285**	**100.0%**

(1) The Life to Date Purchased Face Value of Defaulted Consumer Receivables represents the original face amount purchased from sellers and has not been decremented by any adjustments including payments and buybacks.

As shown in the following chart, as of June 30, 2004 a majority of the Company's portfolios are secondary and tertiary accounts but it purchases or services accounts at any point in the delinquency cycle.

Account Type	No. of Accounts	%	Life to Date Purchased Face Value of Defaulted Consumer Receivables(1)	%	Finance Receivables, net as of June 30, 2004	%
Fresh	171,741	3.2%	$ 551,026,153	5.6%	$ 5,957,963	6.2%
Primary	785,723	14.6%	2,186,573,227	22.1%	35,971,615	37.4%
Secondary	1,528,277	28.5%	3,007,574,962	30.4%	40,174,433	41.7%
Tertiary	2,506,775	46.7%	2,801,903,585	28.4%	11,648,050	12.1%
Other	375,186	7.0%	1,332,833,312	13.5%	2,518,224	2.6%
Total:	**5,367,702**	**100.0%**	**$ 9,879,911,239**	**100.0%**	**$ 96,270,285**	**100.0%**

(1) The Life to Date Purchased Face Value of Defaulted Consumer Receivables represents the original face amount purchased from sellers and has not been decremented by any adjustments including payments and buybacks.

The Company also reviews the geographic distribution of accounts within a portfolio because it has found that certain states have more debtor-friendly laws than others and, therefore, are less desirable from a collectibility perspective. In addition, economic factors and bankruptcy trends vary regionally and are factored into the Company's maximum purchase price equation.

As the following chart illustrates, as of June 30, 2004 the Company's overall portfolio of defaulted consumer receivables is generally balanced geographically.

Geographic Distribution	No. of Accounts	%	Life to Date Purchased Face Value of Defaulted Consumer Receivables(1)	%
Texas	1,301,648	24%	$ 1,290,438,614	13%
California	397,677	7%	1,010,953,335	10%
Florida	289,920	5%	830,596,120	8%
New York	225,985	4%	684,214,497	7%
Pennsylvania	126,640	2%	330,177,790	3%
Illinois	180,262	3%	297,160,791	3%
Ohio	144,661	3%	267,909,628	3%
North Carolina	104,093	2%	267,419,477	3%
New Jersey	89,682	2%	267,002,875	3%
Georgia	93,052	2%	233,416,809	2%
Michigan	144,272	3%	225,168,031	2%
Massachusetts	89,386	2%	222,774,603	2%
Missouri	229,084	4%	191,199,265	2%
South Carolina	61,874	1%	165,633,146	2%
Arizona	58,936	1%	156,691,523	2%
Tennessee	65,539	1%	151,707,955	2%
Other	1,764,991	34%	3,287,446,780	33% (2)
Total:	**5,367,702**	**100%**	**$ 9,879,911,239**	**100%**

(1) The Life to Date Purchased Face Value of Defaulted Consumer Receivables represents the original face amount purchased from sellers and has not been decremented by any adjustments including payments and buybacks.

(2) Each state included in "Other" represents under 2% of the face value of total defaulted consumer receivables.

Liquidity and Capital Resources

Historically, the Company's primary sources of cash have been cash flows from operations, bank borrowings, and equity offerings. Cash has been used for acquisitions of finance receivables, repayments of bank borrowings, purchases of property and equipment, and working capital to support the Company's growth.

The Company believes that funds generated from operations, together with existing cash and available borrowings under its credit agreement will be sufficient to finance its current operations, planned capital expenditure requirements, and internal growth at least through the next twelve months. However, the Company could require additional debt or equity financing if it were to make any other significant acquisitions requiring cash during that period.

Cash generated from operations is dependent upon the Company's ability to collect on its defaulted consumer receivables. Many factors, including the economy and the Company's ability to hire and retain qualified collectors and managers, are essential to its ability to generate cash flows. Fluctuations in these factors that cause a negative impact on the Company's business could have a material impact on its expected future cash flows.

The Company's operating activities provided cash of $22.1 million and $12.5 million for the six months ended June 30, 2004 and 2003, respectively. In these periods, cash from operations was generated primarily from net income earned through cash collections and commissions received for the period which increased from $9.7 million for the six months ended June 30, 2003 to $12.8 million for the six months ended June 30, 2004. The change in tax related accounts accounted for $8.1 million and $3.1 million of the increase in operating cash flow for the six months ended June 30, 2004 and 2003, respectively. The remaining increase was due to changes in other accounts related to the operating activities of the Company.

The Company's investing activities used cash of $5.2 million and $22.9 million during the six months ended June 30, 2004 and 2003, respectively. Cash used in investing activities is primarily driven by acquisitions of defaulted consumer receivables, net of cash collections applied to principal on finance receivables.

The Company's financing activities provided cash of $542,000 and $461,000 during the six months ended June 30, 2004 and 2003, respectively. Cash used in financing activities is primarily driven by payments on long term debt and capital lease obligations. During 2004, the Company completed a financing arrangement with its main depository institution to finance equipment purchases at its newly leased Norfolk facility.

Cash paid for interest expenses was $137,000 and $156,000 for the six months ended June 30, 2004 and 2003, respectively. The interest expenses were paid for capital lease obligations and other long-term debt.

The Company maintains a $25.0 million revolving line of credit with RBC Centura Bank ("RBC") pursuant to an agreement entered into on November 28, 2003. The credit facility bears interest at a spread over LIBOR and extends through November 28, 2004. The agreement provides for:

- restrictions on monthly borrowings are limited to 20% of Estimated Remaining Collections;
- a debt coverage ratio of at least 8.0 to 1.0 calculated on a rolling twelve-month average;
- a debt to tangible net worth ratio of less than 0.40 to 1.00;
- net income per quarter of at least $1.00, calculated on a consolidated basis; and
- restrictions on change of control.

This facility had no amounts outstanding at June 30, 2004.

As of June 30, 2004 there are five loans outstanding. On July 20, 2000, PRA Holding I, entered into a credit facility for a $550,000 loan, for the purpose of purchasing a building and land in Hutchinson, Kansas. The loan bears interest at a variable rate based on LIBOR and consists of monthly principal payments for 60 months and a final installment of unpaid principal and accrued interest payable on July 21, 2005. On February 9, 2001, the Company entered into a commercial loan agreement in the amount of $107,000 in order to purchase equipment for its Norfolk, Virginia location. This loan bears interest at a fixed rate of 7.9% and matures on February 1, 2006. On February 20, 2002, PRA Holding I entered into an additional arrangement for a $500,000 commercial loan in order to finance construction of a parking lot at the Company's Norfolk, Virginia location. This loan bears interest at a fixed rate of 6.47% and matures on September 1, 2007. On May 1, 2003, the Company entered into a commercial loan agreement in the amount of $975,000 to finance equipment purchases for its Hampton, Virginia location. This loan bears interest at a fixed rate of 4.25% and matures on May 1, 2008. On January 9, 2004, the Company entered into a commercial loan agreement in the amount of $750,000 to finance equipment purchases at its newly leased Norfolk facility. This loan bears interest at a fixed rate of 4.45% and matures on January 1, 2009.

Contractual Obligations

Obligations of the Company that exist as of June 30, 2004 are as follows:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Operating Leases	$13,728,180	$1,445,000	$2,966,279	$3,122,229	$6,194,671
Long-Term Debt	2,233,416	596,195	1,637,221	—	—
Capital Lease Obligations	749,644	233,722	336,005	179,917	—
Forward Flow Contract	242,611	242,611	—	—	—
Purchase Commitments	461,250	461,250	—	—	—
Total	$17,415,101	$2,978,778	$4,939,505	$3,302,146	$6,194,671

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements as defined by regulation S-K 303(a)(4).

Recent Accounting Pronouncements

In October 2003, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-03, "Accounting for Loans or Certain Securities Acquired in a Transfer." This SOP proposes guidance on accounting for differences between contractual and expected cash flows from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. The SOP would limit the revenue that may be accrued to the excess of the estimate of expected future cash flows over a portfolio's initial cost of accounts receivable acquired. The SOP would require that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of revenue, expense, or on the balance sheet. The SOP would freeze the internal rate of return, referred to as IRR, originally estimated when the accounts receivable are purchased for subsequent impairment testing. Rather than lower the estimated IRR if the original collection estimates are not received, the carrying value of a portfolio would be written down to maintain the original IRR. Increases in expected future cash flows would be recognized prospectively through adjustment of the IRR over a portfolio's remaining life. The SOP provides that previously issued annual financial statements would not need to be restated. Management is in the process of evaluating the application of this SOP.

In March 2004, the Financial Accounting Standards Board issued an Exposure Draft on "Share-Based Payment, an amendment of FASB Statements No. 123 and 95." This proposed Statement would neither change the accounting in FASB Statement No. 123, "Accounting for Stock-Based Compensation," for transactions in which an enterprise exchanges its equity instruments for services of parties other than employees nor change the accounting for stock ownership plans, which are subject to AICPA Statement of Position 93-6, "Employer's Accounting for Employee Stock Ownership Plans." The Board intends to reconsider the accounting for those transactions and plan in a later phase of its project on equity-based compensation. In this proposed Statement, the Board believes that employee services received in exchange for equity instruments give rise to recognizable compensation cost as the services are used in the issuing entity's operations. In addition, the proposed Statement would require that public companies measure the compensation cost related to employee services received in exchange for equity instruments issued based on the grant-date fair value of those instruments. The Board will also consider other items such as streamlining volatility assumptions and addressing the fair value measurement models. Management will continue to assess the potential impact this statement will have on the Company; however, the Company has adopted SFAS 123 and currently expenses all equity-based compensation in the current period.

Critical Accounting Policy

The Company utilizes the interest method under guidance provided by Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans," to determine income recognized on finance receivables. Under this method, each static pool of receivables it acquires is statistically modeled to determine its projected cash flows. A yield is then established which, when applied to the outstanding balance of the receivables, results in the recognition of income at a constant yield relative to the remaining balance in the pool. Each pool is analyzed monthly to assess the actual performance to that expected by the model. If differences are noted, the yield is adjusted prospectively to reflect the estimate of cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

The Company's exposure to market risk relates to interest rate risk with its variable rate credit line. As of June 30, 2004, the Company had no variable rate debt outstanding on its revolving credit lines. The Company did have variable rate debt outstanding on its long-term debt collateralized by the Kansas real estate. A 10% change in future interest rates on the variable rate credit line would not lead to a material decrease in future earnings assuming all other factors remained constant.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting the Company's management to material information relating to the Company required to be included in the Company's Exchange Act reports.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

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PART II. OTHER INFORMATION

Item 4. Submission to a Vote of Security Holders.

On May 12, 2004, the Company convened its Annual Meeting of Stockholders in Norfolk, Virginia. The matters voted on at the meeting were: (1) the election of two directors of the Company, each serving for a term of three years; (2) the approval of the Amended and Restated Portfolio Recovery Associates 2002 Stock Option Plan and 2004 Restricted Stock Plan; and (3) the ratification of the selection of PricewaterhouseCoopers LLP as the Company's accountants and independent auditors for the year ended December 31, 2004.

The voting was as follows for the election of directors:

Election of Directors:	FOR	WITHHELD
William Brophey	14,216,962	124,791
David Roberts	12,675,211	1,666,542

The voting was as follows for the approval of the Amended and Restated Portfolio Recovery Associates 2002 Stock Option Plan and 2004 Restricted Stock Plan:

Approval of Plans:	FOR	WITHHELD	ABSTAIN
2002 Stock Option Plan and the 2004 Restricted Stock Plan	12,318,589	441,096	5,512

The voting was as follows for the ratification of the selection of PricewaterhouseCoopers LLP as the Company's accountants and independent auditors for the year ending December 31, 2004:

Ratification of independent accountants:	FOR	WITHHELD	ABSTAIN
PricewaterhouseCoopers LLP	13,965,025	376,163	565

There were no broker non-votes.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

10.9	Amended and Restated Portfolio Recovery Associates, Inc. 2002 Stock Option Plan and 2004 Restricted Stock Plan.
31.1	Section 302 Certifications of Chief Executive Officer and Chief Financial Officer.
31.2	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer.

(b) Reports on Form 8-K.

Filed April 20, 2004, issuance of a quarterly earnings press release for the three months ended March 31, 2004.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PORTFOLIO RECOVERY ASSOCIATES, INC.
(Registrant)

Date: July 30, 2004

By: /s/ Steven D. Fredrickson
Steven D. Fredrickson
Chief Executive Officer, President and Chairman of the Board of Directors
(Principal Executive Officer)

Date: July 30, 2004

By: /s/ Kevin P. Stevenson
Kevin P. Stevenson
Chief Financial Officer, Executive Vice President, Treasurer and Assistant Secretary
(Principal Financial and Accounting Officer)

EXHIBIT 10.9

AMENDED AND RESTATED PORTFOLIO RECOVERY ASSOCIATES
2002 STOCK OPTION PLAN AND 2004 RESTRICTED STOCK PLAN

Section 1. Purpose

This Amended and Restated Portfolio Recovery Associates 2002 Stock Option Plan and 2004 Restricted Stock Plan constitutes an amendment and restatement of the Portfolio Recovery Associates 2002 Stock Option Plan, and incorporates a Restricted Stock Plan, and shall be referred to hereafter as the "Plan." The purposes of the Plan are to encourage selected employees, key consultants and directors of Portfolio Recovery Associates, Inc., a Delaware corporation (together with any successor thereto, the "Company"), or any present or future Subsidiary (as defined below) of the Company to acquire a proprietary interest in the growth and performance of the Company, to enhance the ability of the Company to attract, retain and reward qualified individuals upon whom, in large measure, the sustained progress, growth and profitability of the Company depend and to motivate such individuals to contribute to the achievement of the Company's business objectives and to align the interest of such individuals with the longer term interests of the Company's stockholders.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Award" shall mean a grant of Options, Restricted Shares, and/or Deferred Stock to a Participant.

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(d) "Committee" shall mean the Compensation Committee of the Board of Directors of the Company (the "Board"). The Committee shall consist of two or more members of the Board, not less than two (2) of whom shall be both an "outside director" within the meaning of Section 162(m) of the Code and a "non-employee director" within the meaning of Rule 16b-3, as from time to time amended ("Rule 16b-3"), promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(e) "Fair Market Value" shall mean, with respect to Shares or other securities, the fair market value of the Shares or other securities determined by such methods or procedures as shall be established from time to time by the Committee in good faith or in accordance with applicable law. Unless otherwise determined by the Committee, the Fair Market Value of Shares shall mean (i) the closing price per Share of the Shares on the principal exchange on which the Shares are then trading, if any, on such date, or, if the Shares were not traded on such date, then on the next preceding trading day during which a sale occurred; or (ii) if the Shares are not traded on an exchange but are quoted on the Nasdaq Stock Market or a successor quotation system, (1) the last sales price (if the Shares are then listed as a National Market Issue on the Nasdaq Stock Market) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the Shares on such date as reported by the Nasdaq Stock Market or such successor quotation system; or (iii) if the Shares are not publicly traded on an exchange and not quoted on the Nasdaq Stock Market or a successor quotation system, the mean between the closing bid and asked prices for the Shares on such date as determined in good faith by the Committee. Notwithstanding the foregoing, the Fair Market Value of any Options granted prior to the Company's initial public offering shall be deemed to be the initial public offering price as determined by the Company's underwriters.

(f) "Incentive Stock Option" shall mean an option granted under the Plan that is designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.

(g) "Independent Director" shall mean each member of the Board who meets the test for an "independent" director as promulgated by the Securities and Exchange Commission and the stock exchange or quotation system on which the Shares are then listed or quoted.

(h) "Key Employee" shall mean any officer, director or other employee who is a regular full-time employee of the Company or its present and future Subsidiaries.

(i) "Non-Qualified Stock Option" shall mean an Option granted under the Plan that is not designated as an Incentive Stock Option.

(j) "Non-Employee Restricted Shares" shall mean Restricted Shares of the Common Stock of the Company which are available under the Plan for award to any person who on the date of Grant is a member of the Board of Directors of the Company and is not an employee of the Company or of any Subsidiary of the Company, as defined in Code Section 424(f).

(k) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(l) "Option Agreement" or "Restricted Stock Agreement" shall mean a written agreement, contract or other instrument or document evidencing an Option or Restricted Share, respectively, granted under the Plan, and shall specify the Date of the Grant, the Price for Grants of Options, vesting provisions and any restrictions with respect to Grants of Restricted Shares.

(m) "Participant" shall mean a Key Employee, key consultant (as determined by the Committee) or non-employee Director who has been granted Restricted Shares under the Plan.

(n) "Performance Based Restricted Shares" shall mean Shares awarded to Participants as an incentive to achieve certain performance goals.

(o) "Person" shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization or government or political subdivision thereof.

(p) “Restricted Share” shall mean a share of Common Stock, restricted as to transferability or sale for such time, and/or under such conditions, as the Committee shall determine, awarded to a Participant pursuant to Section 3, and subject to the terms and restrictions set forth in a Restricted Share Agreement, upon the award of the Restricted Share to the Participant.

(q) “Restricted Share Agreement” shall mean a written agreement, contract or other instrument or document evidencing a Restricted Share granted under the Plan.

(r) “Rule 16b-3” shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or any successor rule or regulation thereto.

(s) “Shares” shall mean the common stock of the Company, $0.01 par value, and such other securities or property as may become the subject of Options or Restricted Shares pursuant to the Plan.

(t) “Subsidiary” shall have the meaning ascribed thereto in Code Section 424(f).

(u) “Ten Percent Stockholder” shall mean a Person, who together with his or her spouse, children and trusts and custodial accounts for their benefit, immediately at the time of the grant of an Option and assuming its immediate exercise, would beneficially own, within the meaning of Section 424(d) of the Code, Shares possessing more than ten percent (10%) of the total combined voting power of all of the outstanding capital stock of the Company or any Subsidiary of the Company.

Section 3. Administration

(a) Generally. The Plan shall be administered by the Committee or its delegates. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Option or Restricted Share shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive, and binding upon all Persons, including the Company, any Participant, any holder or beneficiary of any Option or Restricted Share, any stockholder of the Company and any employee of the Company.

(b) Powers. Subject to the terms of the Plan and applicable law and except as provided in Section 7 hereof, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Options to be granted to each Participant under the Plan, (iii) make awards of Restricted Shares (“Restricted Share Awards”, and sometimes collectively with the grant of Options, “Grants”); (iv) determine the number of Shares to be awarded; (v) determine the terms and conditions of any Grant; (vi) determine whether, to what extent, and under what circumstances Options may be settled or exercised in cash, Shares, other Options, or other property, or canceled, forfeited, or suspended, and the method or methods by which Options may be settled, exercised, canceled, forfeited, or suspended; (vii) interpret and administer the Plan and any instruments or agreements relating to, Grants made under, the Plan; (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. The Committee may delegate to one or more of its members or to one or more agents or entities such administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan. The Committee shall have the authority in its discretion to delegate powers to specified officers of the Company, consistent with the terms of this Plan and subject to such restrictions, if any, as the Committee may specify when making such delegation.

Section 4. Shares Available for Options and Restricted Shares

(a) Shares Available. Subject to adjustment as provided herein:

(b) Limitation on Number of Shares. The total aggregate number of Options and Restricted Shares that may be issued under the Plan are limited such that the maximum aggregate number of Shares which may be issued pursuant to, or by reason of, Grants of Options or Restricted Shares is 2,000,000. Further, no Participant shall be granted more than 200,000 Restricted Shares, or granted Options to purchase more than 200,000 Shares, or granted any combination of Options and Restricted Shares, which taken together would total more than 200,000 in any one fiscal year; provided, however, that the Committee may adopt procedures for the counting of Shares relating to any grant of Options or Restricted Shares to ensure appropriate counting, avoid double counting, and provide for adjustments in any case in which the number of Shares actually distributed differs from the number of Shares previously counted in connection with such Grant. To the extent that an Option or Restricted Share granted ceases to remain outstanding by reason of termination of rights granted thereunder, forfeiture or otherwise, the Restricted Shares or Shares subject to such Option shall again become available for award under the Plan.

(c) Sources of Shares Any Shares delivered pursuant to an Option or Restricted Share award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

(c) Adjustments. In the event that the Committee shall determine that any change in corporate capitalization, such as a dividend or other distribution of Shares, or a corporate transaction, such as a merger, consolidation, reorganization or partial or complete liquidation of the Company or other similar corporate transaction or event, affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be made under the Plan, adjust any or all of (x) the number and type of Shares which thereafter may be made the subject of Grants of Restricted Shares or Options, (y) the number and type of Shares subject to outstanding Options, and (z) the grant, purchase, or exercise price with respect to any Option or Restricted Share, the purchase, or exercise price with respect to any Option, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding Option or Restricted Share; provided, however, in each case, that (i) with respect to Incentive Stock Options no such adjustment shall be authorized to the extent that such adjustment would cause the Plan to violate Section 422 of the Code or any successor provision thereto; (ii) such adjustment shall be made in such manner as not to adversely affect the status of any Option or Grant of Restricted Shares as "performance-based compensation" under Section 162(m) of the Code; and (iii) the number of Shares subject to any Option denominated in Shares shall always be a whole number. Any determinations made by the Committee pursuant to this provision shall be conclusive.

(d) Limits on Transfers. Subject to Code Section 422, no Options or Restricted Shares, and no rights thereto, shall be assignable, alienable, saleable or transferable by a Participant otherwise than by will or by the laws of descent and distribution, and any such Options, and all rights under any such Options shall be exercisable during the Participant's lifetime, only by the Participant or, if permissible under applicable law (including Code Section 422, in the case of an Incentive Stock Option), by the Participant's guardian or legal representative. No Options or Restricted Shares, and no rights under any such Options or Restricted Shares, may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment, or encumbrance thereof shall be void and unenforceable against the Company. Notwithstanding the foregoing, the Committee may, in its discretion, provide that Non-Qualified Stock Options or Restricted Shares may be transferable, without consideration, to immediate family members (i.e., children, grandchildren or spouse), to trusts for the benefit of such immediate family members and to partnerships in which such family members are the only partners. The Committee may attach to such transferability feature such terms and conditions as it deems advisable. Any beneficiary, guardian, legal representative or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Option Agreement or Restricted Share Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional restrictions deemed necessary or appropriate by the Committee.

a) Tax Withholding. The Company or any Subsidiary is authorized to withhold from any Option granted or from any Restricted Share Award any payment relating to an Option or Restricted Share under the Plan, any amounts of federal, state or local withholding and other taxes due in connection with any transaction involving the grant of an Option or Restricted Share, and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Option or Restricted Share. This authority shall include authority to withhold or receive Shares (which shall be valued at the fair market value on the date of payment) or other property, and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations.

(e) Regulatory Requirements. There is no obligation under the Plan that any Participant be advised by the Committee of the existence of the tax or the amount required to be withheld. Notwithstanding any other provision of this Plan, the Committee may impose conditions on payment of any other obligations as may be required to satisfy applicable regulatory requirements, including without limitation, any applicable requirements of the Exchange Act.

Section 5. Eligibility

In determining the Persons to whom Options or Restricted Shares shall be granted and the number of Restricted Shares or Options to be granted, the Committee shall take into account the nature of the Person's duties, such Person's present and potential contributions to the success of the Company and such other factors as it shall deem relevant in connection with accomplishing the purposes of the Plan. A Key Employee who has been granted Options or Restricted Shares under the Plan may be granted additional Options or Restricted Shares, subject to such limitations as may be imposed by the Code on the grant of Incentive Stock Options. Notwithstanding anything herein to the Contrary, no Participant shall have any right or entitlement to continued employment for any period, or to receive any Options or Restricted Shares. Incentive Stock Options and Restricted Shares constituting performance based compensation within the meaning of Section 162(m) of the Code) may be granted only to Key Employees of the Company or of any Subsidiary of the Company.

Section 6. Options

The Committee is hereby authorized to grant Options to Participants upon the following terms and the conditions (except to the extent otherwise provided in Section 7) and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine:

(a) Exercise Price. The exercise price per Share purchasable under Options shall be determined by the Committee at the time the Option is granted but generally shall not be less than the Fair Market Value of the Shares covered thereby at the time the Option is granted.

(b) Option Term. The term of each Non-Qualified Stock Option shall be fixed by the Committee but generally shall not exceed ten (10) years from the date of grant.

(c) Time and Method of Exercise. The Committee shall determine the time or times at which the right to exercise an Option may vest, and the method or methods by which, and the form or forms in which, payment of the option price with respect to exercises of such Option may be made or deemed to have been made (including, without limitation, (i) cash, Shares, outstanding Options or other consideration, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant option price and (ii) a broker-assisted cashless exercise program established by the Committee), provided in each case that such methods avoid "short-swing" profits to the Participant under Section 16(b) of the Securities Exchange Act of 1934, as amended. The payment of the exercise price of an Option may be made in a single payment or transfer, in installments, or on a deferred basis, in each case in accordance with rules and procedures established by the Committee.

(d) Incentive Stock Options. All terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision thereto, and any regulations promulgated thereunder including that, (i)(A) in the case of a grant to a Person that is not a Ten Percent Stockholder the purchase price per Share purchasable under Incentive Stock Options shall not be less than the Fair Market Value of a Share on the date of grant and (B) in the case of a grant to a Ten Percent Stockholder the purchase price per Share purchasable under Incentive Stock Options shall not be less than 110% of the Fair Market Value of a Share on the date of grant and (ii) the term of each Incentive Stock Option shall be fixed by the Committee but shall in no event be more than ten (10) years from the date of grant, or in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, five (5) years from the date of grant.

Section 7. Restricted Shares

The Committee is hereby authorized to grant Awards of Performance-Based Restricted Shares or Non-employee Director Restricted Shares to Participants upon the following terms and conditions and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine. Each Restricted Share Award under the Plan shall be evidenced by a stock certificate of the Company, registered in the name of the Participant, accompanied by a Restricted Stock Agreement in such form as the Committee shall prescribe from time to time. The Restricted Share Awards shall comply with the following terms and conditions and with such other terms and conditions not inconsistent with the terms of this Plan as the Committee, in its discretion, shall establish.

(a). Stock Legends; Prohibition on Disposition. Certificates for Shares of Restricted Share shall bear an appropriate legend referring to the restrictions to which they are subject, and any attempt to dispose of any Shares of Stock in contravention of such restrictions shall be null and void and without effect. The certificates representing Shares of Restricted Share shall be held by the Company until the restrictions are satisfied. Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee, the restrictions applicable to Restricted Shares shall lapse, and, a certificate for such Shares may be delivered, free of all such restrictions, to the Participant or the Participant's beneficiary or estate, as the case may be.

(b). Termination of Service and Forfeiture. In the case of Participants who are employees of the Company or any of its Subsidiaries, the Committee shall determine the extent to which the restrictions on any Restricted Share Award shall lapse upon the termination of the employee Participant's service to the Company and its Subsidiaries, due to death, disability, retirement or for any other reason. Except as otherwise determined by the Compensation Committee, upon termination of employment for any reason whatsoever, during the restriction period, any portion of a Restricted Share Award which is still subject to restriction shall be forfeited by the Participant and reacquired by the Company, in which case, the Participant, shall forthwith deliver to the Secretary of the Company such instruments of transfer, if any, as may reasonably be requested or required to transfer the Shares back to the Company.

(c). Effect of Attempted Transfer.

No interest in any Restricted Share Award shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such attempted action shall be void. No such interest in any Restricted Share Award shall be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of any Participant or beneficiary. If any Participant or beneficiary shall attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit payable under or interest in any Restricted Share Award, then the Committee, in its discretion, may hold, or may apply such benefit or interest or any part thereof to or for the benefit of such Participant, beneficiary, spouse, children, blood relatives or other dependents, or any of them, in any such manner and such proportions as the Committee may consider proper.

(d). Rights as a Stockholder. Unless the Board otherwise provides, holders of unvested Restricted Shares shall have no rights as shareholders of the Company. A Participant shall not be entitled to delivery of a stock certificate until the Shares vest, any applicable restricted period shall have lapsed, and the Participant has paid the $.01 per Share par value of the Shares awarded. All distributions, if any, received by a Participant with respect to Restricted Shares as a result of any stock split, stock dividend, combination of Shares or other similar transaction shall be subject to the restrictions applicable to the original award.

(e). Performance-Based Restricted Shares. Awards of Performance-Based Restricted Shares are intended to qualify as performance-based for the purposes of Section 162(m) of the Code. The Committee shall provide that the Restricted Period applicable to such Restricted Shares shall lapse if certain pre-established objectives are attained within pre-established time frames. Performance goals may be based on any of the following, or other criteria: (i) Company earnings or earnings per share, (ii) revenues, (iii) expenses, (iv) one or more operating ratios, (v) stock price and/or (vi) similar performance criteria. The Committee shall establish one or more objective performance goals for each such Award of Restricted Shares on the date of Grant. The performance goals selected in any case may be particular to an employee's function, and the Committee may also consider the Participant's contributions, responsibilities, current compensation and current ownership of Shares of the Company's Stock or Stock Options. The Committee shall determine whether the Participant's performance goals were attained, and such determination shall be final and conclusive. The Committee may impose such other restrictions and conditions (in addition to the performance-based restrictions described above) on any Award of Shares of Performance-Based Restricted Shares as the Committee may deem appropriate, and may waive any such restrictions and conditions.

Section 8. Restricted Shares Awarded to Non-Employee Directors

Each non-employee Director who was not a member of the Board as of the date of the approval of the Amended Plan by the Company's stockholders shall be granted 2,000 Restricted Shares at the time such Independent Director joins the Board, and shall be entitled to receive 1,000 Restricted Shares annually thereafter, beginning on the first anniversary date of their appointment. Any such Grant of Restricted Shares shall be subject to the terms of a Restricted Stock Agreement, which shall provide that such Shares shall vest over a period five (5) years, in equal annual installments, beginning on the first anniversary date of their appointment. Each non-employee Director who was a member of the Board prior to the approval of the offering shall automatically be granted 1,000 Shares of Restricted Stock annually, beginning on November 7, 2004, and 1,000 Shares of Restricted Stock each year thereafter, on the anniversary of their initial appointment. Such Shares shall be subject to the terms of a Restricted Stock Agreement, which shall provide that such Shares shall vest in five (5) equal annual installments on the anniversary of the initial date of such Grants. All such Grants shall be made exclusively to Directors of the Company who are not employees of the Company or any of its Subsidiaries. The Committee may impose such additional restrictions and conditions on any award of Shares of non-employee Director Restricted Stock as the Committee deems appropriate, and may waive any such additional restrictions and conditions applicable to such Shares. Grants of Restricted Stock shall have their restrictions accelerated (a) three (3) months after the date a non-employee Director ceases to serve as a Director of the Company due to physical or mental disability, (b) in the event of a non-employee Director's death; or (c) in event a non-employee Director reaches the age of seventy-five (75), having served on the Board for not less than five consecutive years. In such event, the Shares related to such Grant shall be delivered to the Director or, in the event of death, to such Director's beneficiary as soon as administratively feasible after such event.

Section 9. Amendment and Termination

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Option or Restricted Stock Agreement or in the Plan:

(a) Amendments to the Plan. The Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board, but no amendment shall be effective without the approval of the stockholders of the Company if such approval would be required under Sections 162(m) or 422 of the Code, Rule 16b-3, by any other law or rule of any governmental authority, the Nasdaq Stock Exchange, or other self-regulatory organization to which the Company may then be subject. Except as may be otherwise provided herein, neither the amendment, suspension nor termination of the Plan shall, without the consent of the holder of such Option or Restricted Share, alter or impair any rights or obligations theretofore granted.

(b) Correction of Defects, Omissions, and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Option or grant of Restricted Shares in the manner and to the extent it shall deem desirable to carry the Plan into effect.

Section 10. General Provisions

(a) No Rights to Awards. No Key Employee shall have any claim to be granted any Restricted Shares or Option under the Plan, and there is no obligation for uniformity of treatment of Key Employees or holders or beneficiaries of Options or Restricted Shares under the Plan. The terms and conditions of Options or Restricted Shares need not be the same with respect to each recipient. If any Shares subject to an Option Grant or Restricted Share Award are forfeited, canceled, exchanged or surrendered or if a Grant otherwise terminates or expires without a distribution of Shares to the Participant, the shares of Common Stock with respect to such Grant shall, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for Grants under the Plan.

(b) No Right to Employment. The grant of an Option or of Restricted Shares shall not be construed as giving a Participant the right to be retained in the employ of the Company. Further, the Company may at any time dismiss a Participant from employment, free from any liability, or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Option Agreement or Restricted Share Agreement. In the event of termination of employment and termination or loss of rights to Shares granted hereunder, by forfeiture or otherwise, any such Shares shall again become available for award under the Plan.

(c) Governing Law and Legality. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law. Any issuance or transfer of Options and Shares pursuant to this Plan are subject to all applicable federal and state laws, rules and regulations and to such approvals by any regulatory or government agency which may be necessary or advisable in connection therewith. Without limiting the generality of the foregoing, no Grants may be made under this Plan and no Options or Shares shall be issued by the Company until in any such case all legal requirements applicable to the issuance have been complied with. In connection with any Option or Stock issuance or transfer, the person acquiring the Shares or Option shall, if requested by the Company, give assurance to the Company with respect to such matters as may be necessary to assure compliance with all applicable legal requirements.

(d) Severability. If any provision of the Plan or any Option or Restricted Share Agreement is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or would disqualify the Plan or any Option or Restricted Share Agreement under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, such provision shall be deemed void, stricken and the remainder of the Plan and any such Option or Restricted Share Agreement shall remain in full force and effect.

(e) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Option or Restricted Share, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be cancelled, terminated, or otherwise eliminated.

(f) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision hereof.

Section 11. Effective Date of the Plan

The Plan originally became effective as of November 4, 2002. The Plan as amended hereby, will become effective upon the adoption thereof by the affirmative vote of a majority of stockholders of the Company, present in person or represented by proxy, and entitled to vote thereon at the Company's 2004 Annual Meeting of Stockholders.

Section 12. Term of the Plan

The Plan shall continue until the earlier of (i) the date on which all Options or Shares issuable hereunder have been issued, (ii) the termination of the Plan by the Board or (iii) November 4, 2012, which is the 10^{th} anniversary of the effective date of the original Plan. However, unless otherwise expressly provided in the Plan or in an applicable Option Agreement or Restricted Share Agreement, any Option theretofore granted may extend beyond such date and the authority of the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Option or Restricted Share, or to waive any conditions or rights under any such Option or Restricted Share Agreement, and the authority of the Board to amend the Plan, shall extend beyond such date.

Exhibit 31.1

I, Steven D. Fredrickson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Portfolio Recovery Associates, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Reserved;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

By: /s/ Steven D. Fredrickson

Steven D. Fredrickson
Chief Executive Officer, President and Chairman
of the Board of Directors
(Principal Executive Officer)

I, Kevin P. Stevenson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Portfolio Recovery Associates, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Reserved;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

By: /s/ Kevin P. Stevenson
Kevin P. Stevenson
Chief Financial Officer, Executive Vice President, Treasurer and Assistant Secretary
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Portfolio Recovery Associates, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven D. Fredrickson, Chief Executive Officer, President and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: July 30, 2004

By: /s/ Steven D. Fredrickson
Steven D. Fredrickson
Chief Executive Officer, President and Chairman
of the Board of Directors
(Principal Executive Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Portfolio Recovery Associates, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin P. Stevenson, Chief Financial Officer, Executive Vice President, Treasurer and Assistant Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: July 30, 2004

By: /s/ Kevin P. Stevenson
Kevin P. Stevenson
Chief Financial Officer, Executive Vice President, Treasurer
and Assistant Secretary
(Principal Financial and Accounting Officer)