

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, 2003

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 30, 2003
Common Stock, \$0.01 par value	15,083,761

PORTFOLIO RECOVERY ASSOCIATES, INC.

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PORTFOLIO RECOVERY ASSOCIATES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2003 and December 31, 2002
(unaudited)

	June 30, 2003	December 31, 2002
Assets		
Cash and cash equivalents	\$ 7,979,359	\$17,938,730
Finance receivables, net	86,688,557	65,526,235
Property and equipment, net	5,059,344	3,794,254
Deferred tax asset	8,915,343	—
Income tax receivable	2,122,054	—
Other assets	1,303,360	1,008,168
	<u>\$112,068,017</u>	<u>\$88,267,387</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 1,314,051	\$ 1,363,833
Accrued expenses	353,186	745,754
Income taxes payable	—	937,231
Accrued payroll and bonuses	2,351,255	2,861,336
Deferred tax liability	—	286,882
Long-term debt	1,829,362	965,582
Obligations under capital lease	540,089	499,151
	<u>6,387,943</u>	<u>7,659,769</u>
Commitments and contingencies (Note 8)		
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 - 15,083,761 at June 30, 2003, and 13,520,000 at December 31, 2002	150,838	135,200
Additional paid in capital	93,622,551	78,308,754
Retained earnings	11,906,685	2,163,664
	<u>105,680,074</u>	<u>80,607,618</u>
Total stockholders' equity	105,680,074	80,607,618
	<u>\$112,068,017</u>	<u>\$88,267,387</u>

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

PORTFOLIO RECOVERY ASSOCIATES, INC.
CONSOLIDATED STATEMENTS OPERATIONS
For the Three and Six Months Ended June 30, 2003 and 2002
(unaudited)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Revenues:				
Income recognized on finance receivables	\$20,618,193	\$12,836,318	\$38,236,016	\$24,017,807
Commissions	784,845	440,520	1,482,587	816,437
Net gain on cash sales of defaulted consumer receivables	—	100,156	—	100,156
Total revenue	21,403,039	13,376,994	39,718,603	24,934,400
Operating expenses:				
Compensation and employee services	7,678,853	5,144,403	14,071,905	10,212,055
Outside legal and other fees and services	3,276,513	1,950,316	6,093,861	3,241,582
Communications	666,733	479,942	1,300,377	929,452
Rent and occupancy	310,009	189,923	554,960	362,447
Other operating expenses	455,642	369,273	928,960	675,571
Depreciation	371,018	222,462	671,182	433,623
Total operating expenses	12,758,770	8,356,318	23,621,245	15,854,730
Income from operations	8,644,268	5,020,676	16,097,359	9,079,670
Other income and (expense):				
Interest income	8,248	—	28,225	1,699
Interest expense	(83,291)	(588,721)	(159,237)	(1,116,713)
Income before income taxes	8,569,225	4,431,955	15,966,346	7,964,656
Provision for income taxes	3,324,454	—	6,223,325	—
Net income	\$ 5,244,771	\$ 4,431,955	\$ 9,743,021	\$ 7,964,656
Pro forma income taxes		1,713,394		3,079,177
Pro forma net income		\$ 2,718,561		\$ 4,885,479
Net income/Pro forma net income per common share				
Basic	\$ 0.37	\$ 0.27	\$ 0.70	\$ 0.49
Diluted	\$ 0.33	\$ 0.24	\$ 0.62	\$ 0.43
Weighted average number of shares outstanding				
Basic	14,240,782	10,000,000	13,892,891	10,000,000
Diluted	15,750,936	11,487,509	15,670,972	11,486,128

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

PORTFOLIO RECOVERY ASSOCIATES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2003 and 2002
(unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Operating activities:		
Net income	\$ 9,743,021	\$ 7,964,656
Adjustments to reconcile net income to cash provided by operating activities:		
Increase in equity from vested options and warrants	181,998	—
Tax benefit related to stock option exercise	15,397,882	—
Depreciation	671,182	433,623
Gain on sales of defaulted consumer receivables	—	(100,156)
Deferred income taxes	(9,202,225)	—
Changes in operating assets and liabilities:		
Other assets	(295,192)	288,886
Accounts payable	(49,782)	312,933
Income taxes	(3,059,285)	—
Accrued expenses	(392,568)	(6,519)
Accrued payroll and bonuses	(510,081)	(14,500)
	12,484,950	8,878,923
Cash flows from investing activities:		
Purchases of property and equipment	(1,742,590)	(448,079)
Acquisition of finance receivables, net of buybacks	(38,871,062)	(16,232,137)
Collections applied to principal on finance receivables	17,708,740	13,163,179
Proceeds from sale of finance receivables, net of allowances for returns	—	100,756
	(22,904,912)	(3,416,281)
Cash flows from financing activities:		
Public Offering costs	(386,445)	—
Proceeds from exercise of warrants	136,000	—
Distribution of capital	—	(2,196,477)
Proceeds from long-term debt	975,000	500,000
Payments on long-term debt	(111,220)	(37,012)
Payments on capital lease obligations	(152,744)	(189,069)
	460,591	(1,922,558)
Net (decrease)/increase in cash and cash equivalents	(9,959,371)	3,540,084
Cash and cash equivalents, beginning of period	17,938,730	4,780,399
	\$ 7,979,359	\$ 8,320,483
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 156,136	\$ 1,000,836
Noncash investing and financing activities:		
Capital lease obligations incurred	193,681	38,896
Basis - swap contract	—	434,156

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 owns all of the membership units of PRA III, LLC, a special purpose borrowing entity ("PRA III"), PRA Funding, LLC, whose name was changed from PRA AG Funding, LLC in February 2003 ("PRA Funding"), and PRA Holding I, LLC, an entity established to hold real property ("PRA Holding I"). 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 in substantially all cases either purchased from the credit originator 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. Secondly, the Company has contracted with independent attorneys to allow the Company to undertake legal action to satisfy the outstanding debt.

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

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, 2003, its results of operations for the three and six month periods ended June 30, 2003 and 2002, and its cash flows for the six month periods ended June 30, 2003 and 2002, respectively. The results of operations of the Company for the three and six month periods ended June 30, 2003 and 2002 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, 2002.

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, 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 ensure complete amortization of the carrying balance at the end of each pool's life.

In the event that 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, we do not maintain an allowance for credit losses.

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.

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

Changes in finance receivables for the three and six months ended June 30, 2003 and 2002 were as follows:

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Balance at beginning of period	\$ 74,418,221	\$ 46,824,583	\$ 65,526,235	\$ 47,986,744
Acquisitions of finance receivables, net of buybacks	21,221,472	10,620,472	38,871,062	16,232,137
Cash collections	(29,569,329)	(19,226,271)	(55,944,756)	(37,180,986)
Income recognized on finance receivables	20,618,193	12,836,918	38,236,016	24,017,807
Cash collections applied to principal	(8,951,136)	(6,389,353)	(17,708,740)	(13,163,179)
Cost of finance receivables sold, net of allowance for returns	—	(600)	—	(600)
Balance at end of period	\$ 86,688,557	\$ 51,055,102	\$ 86,688,557	\$ 51,055,102
Estimated Remaining Collections ("ERC") ¹	\$267,154,592	\$164,594,938	\$267,154,592	\$164,594,938

(1) Estimated Remaining Collections refers to the sum of all future projected cash collections on the Company's owned portfolios. ERC is not a balance sheet item, however, it is provided here for informational purposes.

At the time of acquisition, the life of each pool is generally set at between 60 and 72 months based upon the proprietary models of the Company. As of June 30, 2003 the Company has \$86,688,557 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:

June 30, 2004	\$27,167,661
June 30, 2005	25,036,036
June 30, 2006	19,761,654
June 30, 2007	10,184,119
June 30, 2008	3,687,261
June 30, 2009	851,826

3. Revolving Lines of Credit:

On September 18, 2001, PRA III arranged with a commercial lender to provide financing under a revolving line of credit of up to \$40 million. The agreement was amended on December 18, 2002 to reduce the available credit to \$25 million. The December 2002 amendment also allowed for a reduction in the borrowing spread and an increase in the unused line fee. This line of credit is collateralized by all receivables, collections on receivables and assets of PRA III along with a lien on Company assets excluding PRA Funding and certain other excluded assets. The agreement expires September 15, 2005. Interest is variable based on LIBOR. No amount was outstanding at June 30, 2003 and December 31, 2002. Restrictive covenants under this agreement include:

- restrictions on monthly borrowings in excess of \$4 million per month and quarterly borrowings in excess of \$10 million;
- a maximum leverage ratio, defined as total liabilities less subordinated debt divided by tangible net worth plus subordinated debt, of not greater than 4 to 1 and quarterly net income of at least \$0.01, calculated on a consolidated basis;
- a restriction on distributions in excess of 75% of annual net income;

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

- compliance with certain special purpose vehicle and corporate separateness covenants; and
- restrictions on change of control.

As of June 30, 2003 the Company is in compliance with all of the covenants of this agreement.

In addition, PRA Funding maintains a \$2.5 million revolving line of credit with RBC Centura Bank. This line of credit had an expiration date of July 2003; however, in June 2003, this facility was extended for an additional period of 90 days. The facility now expires on September 30, 2003. The line of credit bears interest at a spread over LIBOR. The terms of this agreement require that PRA maintain a current ratio of 1.6:1.0 or greater, the current ratio being defined to include finance receivables as a current asset and to include the credit facility in place as of June 30, 2003 as a current liability. The agreement further requires that PRA maintain a debt to tangible net worth ratio of 1.5:1.0 or less and a minimum balance sheet cash position at month end of \$2 million. Distributions are limited under the terms of the facility to 75% of net income. As of June 30, 2003, the Company is in full compliance with these covenants. This \$2.5 million facility had no amounts outstanding as of June 30, 2003 or December 31, 2002.

4. Property and Equipment:

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

	June 30, 2003	December 31, 2002
Software	\$ 1,737,176	\$ 1,431,938
Computer equipment	2,045,548	1,435,795
Furniture and fixtures	1,153,538	942,178
Equipment	1,550,682	1,037,372
Leasehold improvements	628,057	343,329
Building and improvements	1,138,925	1,136,762
Land	100,515	100,515
Less accumulated depreciation	(3,295,097)	(2,633,635)
Net property and equipment	<u>\$ 5,059,344</u>	<u>\$ 3,794,254</u>

5. Hedging Activity:

During 2001, the Company entered into an interest rate swap for the purpose of managing exposure to fluctuations in interest rates related to variable rate financing. The interest rate swap effectively fixed the interest rate on \$10 million of the Company's outstanding debt. The swap required payment or receipt of the difference between a fixed rate of 5.33% and a variable rate of interest based on 1-month LIBOR. The unrealized gains and losses associated with the change in market value of the interest rate swap are recognized as other comprehensive income. This swap transaction, which was to expire in May 2004, was paid in full and terminated in September 2002.

Expenses incurred related to the swap agreement were interest expenses of \$85,845 and \$175,093 for the three and six months ending June 30, 2002. The net interest payments are a component of "Interest Expense" on the income statement and a reduction of net income in the cash flow statement.

6. Long-Term Debt:

In July 2000, the Company purchased a building in Hutchinson, Kansas. The building was financed with a commercial loan for \$550,000 with a variable interest rate based on LIBOR. This commercial loan is collateralized by the real estate in Kansas. Interest rates varied between 3.35% and 3.79% in the first six months of 2003 and 3.83% and 4.37% in the first six months of 2002. Monthly principal payments on the loan are \$4,583 for an

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

amortized term of 10 years. A balloon payment of \$275,000 is due July 21, 2005, which results in a five-year principal payout. The loan matures on July 21, 2005.

On February 9, 2001, the Company purchased a generator for its Norfolk location. The generator was financed with a commercial loan for \$107,000 with a fixed rate of 7.9%. This commercial loan is collateralized by the generator. Monthly payments on the loan are \$2,170 and the loan matures on February 1, 2006.

On February 20, 2002, the Company completed the construction of a satellite parking lot at its Norfolk location. The parking lot was financed with a commercial loan for \$500,000 with a fixed rate of 6.47%. The loan is collateralized by the parking lot. The loan required only interest payments during the first six months. Beginning October 1, 2002, monthly payments on the loan are \$9,797 and the loan matures on September 1, 2007.

On May 1, 2003, the Company entered into a commercial loan agreement for \$975,000 at a fixed rate of 4.25%. The loan is collateralized by equipment purchased for the new Hampton, VA location. Monthly payments on the loan are \$18,096 and the loan matures on May 1, 2008.

Annual payments including interest on all loans outstanding as of June 30, 2003 are as follows:

2003	\$ 163,478
2004	433,402
2005	682,609
2006	339,059
2007	305,328
2008	90,481
	<hr/>
	1,923,876
Less amount representing interest	(94,514)
	<hr/>
Principal due	\$1,829,362
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Under each of the commercial loans discussed above, the Company is subject to certain covenants, the most restrictive of which include minimum net worth requirements and the maintenance of certain financial ratios. As of June 30, 2003 and December 31, 2002, the Company was in compliance with all such debt covenants.

7. Stockholders' Equity:

As a result of the IPO on November 8, 2002, the Company issued 3,470,000 shares of common stock at a public offering price of \$13.00 per share, resulting in net proceeds of \$12.09 per share. In addition, another 1,015,000 shares were sold by a non-employee stockholder, PRA Investments, LLC, which did not result in any additional proceeds being received by the Company. Immediately following the IPO, the Company had 13,470,000 shares outstanding, not including any shares issued for reserved options or warrants. The IPO resulted in all outstanding units of PRA, and all outstanding warrants to acquire units of PRA, being exchanged for shares and options in PRA Inc on a one to one basis.

Prior to the IPO, 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 vest within 3 years. Warrants have 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.

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

The following summarizes all warrant and option related transactions from December 31, 1999 through June 30, 2003:

	Warrants and Options Outstanding	Weighted Average Exercise Price
December 31, 1999	2,325,000	\$ 4.17
Granted	65,000	4.20
Exercised	—	—
Cancelled	(230,000)	4.20
December 31, 2000	2,160,000	4.17
Granted	155,000	4.20
Exercised	—	—
Cancelled	(120,000)	4.20
December 31, 2001	2,195,000	4.17
Granted	870,000	12.88
Exercised	(50,000)	4.20
Cancelled	(22,150)	9.03
December 31, 2002	2,992,850	\$ 6.66
Granted	—	—
Exercised	(1,866,000)	4.20
Cancelled	(52,825)	10.22
June 30, 2003	1,074,025	\$10.76

At June 30, 2003, the Company had 270,000 exercisable warrants outstanding. All but 125,000 were issued to employees of the Company. The 125,000 were issued to an affiliate of Angelo, Gordon & Company, AG 1999, which vested immediately upon issuance in 1999.

The Company had total stock options outstanding of 804,025 at June 30, 2003, none of which were exercisable. All of the stock options except for 20,000 which were issued to the board of directors were issued to employees at the time of the Company's IPO.

During the six months ended June 30, 2003, no warrants or options were issued. During the six months ended June 30, 2002, 50,000 warrants were issued to an employee of the Company and no options were issued.

The following information is as of June 30, 2003:

Exercise Prices	Warrants and Options Outstanding			Warrants and Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$4.20	145,000	2.78	\$ 4.20	145,000	\$ 4.20
\$3.60	125,000	1.75	\$ 3.60	125,000	\$ 3.60
\$13.00	789,025	6.35	\$ 13.00	—	\$ 13.00
\$16.16	15,000	6.35	\$ 16.16	—	\$ 16.16
Total at June 30, 2003	1,074,025	5.33	\$ 10.76	270,000	\$ 3.92

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

At June 30, 2003, the Company has one stock-based employee compensation plan. Prior to 2002, the Company accounted for warrants issued under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in pro forma net income for the six months ended June 30, 2002. 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. Awards under the company's plan vest over a five year period. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2002 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS 123. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net income/Pro forma net income:				
As reported	\$5,244,771	\$2,718,561	\$9,743,021	\$4,885,479
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	55,689	—	108,104	—
Less: Total stock based compensation expense determined under intrinsic value method for all awards, net of related tax effects	(55,689)	(2,654)	(108,104)	(5,307)
Pro forma net income	<u>\$5,244,771</u>	<u>\$2,715,907</u>	<u>\$9,743,021</u>	<u>\$4,880,172</u>
Earnings per share:				
Basic - as reported	\$ 0.37	\$ 0.27	\$ 0.70	\$ 0.49
Basic - pro forma	\$ 0.37	\$ 0.27	\$ 0.70	\$ 0.49
Diluted - as reported	\$ 0.33	\$ 0.24	\$ 0.62	\$ 0.43
Diluted - pro forma	\$ 0.33	\$ 0.24	\$ 0.62	\$ 0.42

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

Warrants issue year:	2002	2001	2000
Expected life from vest date (in years):			
Employees	3.00	4.00	0.00
Operating members	0.00	0.00	5.00
Risk-free interest rates	4.53%	4.66%-4.77%	6.30%
Volatility	N/A	N/A	N/A
Dividend yield	N/A	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,

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

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, 2001 and 2000 was \$1.24, \$0.35, and \$0.21, respectively.

Effective December 30, 1999, PRA's management committee issued warrants to acquire 125,000 membership units to an affiliate of Angelo, Gordon & Co. The warrants immediately vested and are exercisable at \$3.60 per unit. The warrants are exercisable in whole or in part and expire March 31, 2005. As these warrants are not issued as compensation to an employee or operating member of the Company, an expense of \$0 and \$8,534 was incurred and recognized during the six months ended June 30, 2003 and 2002, respectively. The value of the warrants was calculated using the fair value approach as designated by SFAS 123, which utilizes a comparison of the discounted value of the underlying units discounted using a risk-free interest rate at the date of grant.

Effective August 18, 1999, PRA's management committee issued warrants to acquire 200,000 membership units to SMR Research Corporation ("SMR"). The warrants were to vest over a 60 month period and are exercisable at \$4.20 per unit. The warrants vested as to 80,000 membership units and the remaining 120,000 membership units were cancelled upon the termination of an agreement between the Company and SMR Research Corporation. The value of the warrants was calculated using the intrinsic method and no expense was recognized on these warrants. The fair value approach was then applied, as designated by SFAS 123, which utilizes a comparison of the discounted value of the underlying units discounted using a risk-free interest rate at the date of grant. As a result, these warrants were shown to have a negative present value and as such no expense has been recorded. All warrants issued to SMR have been exercised and none are outstanding as of June 30, 2003.

The Company created the 2002 Stock Option Plan (the "Plan") on November 7, 2002. Up to 2,000,000 shares of common stock may be issued under this program. The Plan expires November 7, 2012. All options issued under the Plan vest ratably over 5 years. Granted options expire seven years from grant date which ranges between November 7 and November 19, 2009 as of June 30, 2003. No grant of options to a single person can exceed 200,000 in a single year. As of June 30, 2003, 820,000 options have been granted under the Plan of which 15,975 have been cancelled. See tables above for average price information. These options are accounted for under SFAS 123 and all expense for 2003 and 2002 are included in earnings as a component of compensation.

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.

	2002
Options issue year:	
Weighted average fair value of options granted	\$ 2.73
Expected volatility	15.70%
Risk-free interest rate	2.92%
Expected dividend yield	0.00%
Expected life (in years)	5.00

Utilizing these assumptions, each employee stock option is valued at \$2.71 per share and each director stock option is valued at \$3.37 per share. No stock options have been issued in 2003.

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

8. 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, 2004 or December 31, 2005. 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 \$2,793,403. 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. On June 27, 2003, the Company entered into a lease for an additional 25,000 square feet of office space at its Norfolk, VA headquarters. The lease is for a term of 10 years, beginning on January 1, 2004, at an annualized rent of \$447,000.

In addition, the Company amended its existing lease for its Norfolk, VA headquarters to extend the term of that lease an additional 90 months. This lease now expires December 31, 2013. Beginning in 2004, annualized rental expense in conjunction with this lease will be \$691,000.

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.

9. Income Taxes:

Prior to November 8, 2002, the Company was organized as a limited liability company, taxed as a partnership, and as such was not subject to federal or state income taxes. Immediately before the IPO, the Company was reorganized as a corporation and became subject to income taxes.

The income tax expense recognized for the three and six months ended June 30, 2003 is composed of the following:

	Federal	State	Total
For the three months ended June 30, 2003:			
Current tax expense	\$2,667,054	498,984	\$3,166,038
Deferred tax expense	141,077	17,339	158,416
	<u> </u>	<u> </u>	<u> </u>
Total income tax expense	\$2,808,131	\$516,323	\$3,324,454
	<u> </u>	<u> </u>	<u> </u>
	Federal	State	Total
For the six months ended June 30, 2003:			
Current tax expense	\$5,032,455	951,753	\$5,984,208
Deferred tax expense	230,026	9,091	239,117
	<u> </u>	<u> </u>	<u> </u>
Total income tax expense	\$5,262,481	\$960,844	\$6,223,325
	<u> </u>	<u> </u>	<u> </u>

The Company also recognized a net deferred tax asset of \$8,915,343 as of June 30, 2003 and a net deferred tax liability of \$286,882 as of December 31, 2002. The components of this net asset and liability are:

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

	June 30, 2003	December 31, 2002
Deferred tax assets:		
Net operating loss - tax	\$9,441,341	\$ —
Deferred compensation	15,600	14,872
FAS123 expense	118,310	47,997
	<u>9,575,251</u>	<u>62,869</u>
Deferred tax liabilities:		
Depreciation	434,603	260,125
Prepaid expenses	225,305	89,626
	<u>659,908</u>	<u>349,751</u>
Net deferred tax asset/(liability)	<u>\$8,915,343</u>	<u>\$ (286,882)</u>

A valuation allowance has not been provided at June 30, 2003 or December 31, 2002 since management believes it is more likely than not that the deferred tax assets will be realized.

The Company presented pro forma tax information assuming it has been a taxable corporation since inception and assuming tax rates equal to the rates that would have been in effect had it been required to report income tax expense in such years. A reconciliation of the Company's statutory tax rates to the effective tax rates for the three and six months ended June 30, 2003 and the pro forma income tax expense for the three and six months ended June 30, 2002, consists of the following components:

	For the Three Months Ended June 30, 2003	For the Three Months Ended June 30, 2002	For the Six Months Ended June 30, 2003	For the Six Months Ended June 30, 2002
Federal tax at statutory rates	\$3,008,721	\$1,551,184	\$5,597,713	\$2,750,574
State tax expense, net of federal benefit	335,611	172,846	624,548	319,162
Other	(19,878)	(10,636)	1,064	9,441
	<u>\$3,324,454</u>	<u>\$1,713,394</u>	<u>\$6,223,325</u>	<u>\$3,079,177</u>

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 credit originators 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,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues:				
Income recognized on finance receivables	96.3%	96.0%	96.3%	96.3%
Commissions	3.7%	3.3%	3.7%	3.3%
Net gain on sales of defaulted consumer receivables	0.0%	0.7%	0.0%	0.4%
Total revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Compensation and employee services	35.9%	38.5%	35.4%	41.0%
Outside legal and other fees and services	15.3%	14.6%	15.3%	13.0%
Communications	3.1%	3.6%	3.3%	3.7%
Rent and occupancy	1.4%	1.4%	1.4%	1.5%
Other operating expenses	2.1%	2.8%	2.3%	2.7%
Depreciation	1.7%	1.7%	1.7%	1.7%
Total operating expenses	59.6%	62.5%	59.5%	63.6%
Income from operations	40.4%	37.5%	40.5%	36.4%
Other income and (expense):				
Interest income	0.0%	0.0%	0.1%	0.0%
Interest expense	-0.4%	-4.4%	-0.4%	-4.5%
Income before income taxes	40.0%	33.1%	40.2%	31.9%
Provision for income taxes	15.5%	0.0%	15.7%	0.0%
Net income	24.5%	33.1%	24.5%	31.9%
Pro forma income taxes		12.8%		12.3%
Pro forma net income ⁽¹⁾		20.3%		19.6%

- (1) Until November 8, 2002, the Company was structured as a limited liability company. As a limited liability company the Company was not subject to Federal or state corporate income taxes. For comparison purposes, the Company has presented pro forma net income for the three and six months ended June 30, 2002, which reflects income taxes assuming the Company had been a corporation since the time of its formation and assuming tax rates equal to the rates that would have been in effect had the Company been required to report tax expense in such years.

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, 2003 Compared To Three Months Ended June 30, 2002

Revenue

Total revenue was \$21.4 million for the three months ended June 30, 2003, an increase of \$8.0 million or 59.7% compared to total revenue of \$13.4 million for the three months ended June 30, 2002.

Income Recognized on Finance Receivables

Income recognized on finance receivables was \$20.6 million for the three months ended June 30, 2003, an increase of \$7.8 million or 60.9% compared to income recognized on finance receivables of \$12.8 million for the three months ended June 30, 2002. The majority of the increase was due to an increase in the Company's cash collections on its owned defaulted consumer receivables to \$29.6 million from \$19.2 million, an increase of 54.2%. The

Company's amortization rate on owned portfolio for the three months ended June 30, 2003 was 30.3% while for the three months ended June 30, 2002 it was 32.7%. During the three months ended June 30, 2003, the Company acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$698.3 million at a cost of \$20.8 million. During the three months ended June 30, 2002, the Company acquired defaulted consumer receivable portfolios with an aggregate face value of \$384.4 million at a cost of \$10.8 million. The Company's relative cost basis of acquiring defaulted consumer receivable portfolios increased from 2.80% of face value for the three months ended June 30, 2002 to 2.98% of face value for the three months ended June 30, 2003.

Commissions

Commissions were \$785,000 for the three months ended June 30, 2003, an increase of \$344,000 or 78.0% compared to commissions of \$441,000 for the three months ended June 30, 2002. Commissions increased as a result of a growing inventory of accounts bearing a higher commission rate.

Net gain on cash sales of defaulted consumer receivables

Net gain on cash sales of defaulted consumer receivables were \$0 for the three months ended June 30, 2003, a decrease of \$100,000 compared to net gain on cash sales of defaulted consumer receivables of \$100,000 for the three months ended June 30, 2002. The Company completed one small sale transaction in June 2002.

Operating Expenses

Total operating expenses were \$12.8 million for the three months ended June 30, 2003, an increase of \$4.4 million or 52.4% compared to total operating expenses of \$8.4 million for the three months ended June 30, 2002. Total operating expenses, including compensation and employee services expenses, were 42.1% of cash receipts excluding sales for the three months ended June 30, 2003 compared with 42.9% for the same period in 2002.

Compensation and Employee Services

Compensation and employee services expenses were \$7.7 million for the three months ended June 30, 2003, an increase of \$2.6 million or 51.0% compared to compensation and employee services expenses of \$5.1 million for the three months ended June 30, 2002. Compensation and employee services expenses increased as total employees grew to 719 at June 30, 2003 from 527 at June 30, 2002. Compensation and employee services expenses as a percentage of cash receipts excluding sales decreased to 25.3% for the three months ended June 30, 2003 from 26.0% of cash receipts excluding sales for the same period in 2002.

Outside Legal and Other Fees and Services

Outside legal and other fees and services expenses were \$3.3 million for the three months ended June 30, 2003, an increase of \$1.3 million or 65.0% compared to outside legal and other fees and services expenses of \$2.0 million for the three months ended June 30, 2002. 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.

Communications

Communications expenses were \$667,000 for the three months ended June 30, 2003, an increase of \$187,000 or 39.0% compared to communications expenses of \$480,000 for the three months ended June 30, 2002. 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 49.2% of this increase, while the remaining 50.8% is attributable to higher telephone expenses.

Rent and Occupancy

Rent and occupancy expenses were \$310,000 for the three months ended June 30, 2003, an increase of \$120,000 or 63.2% compared to rent and occupancy expenses of \$190,000 for the three months ended June 30, 2002. The increase was attributable to increased leased space due to the opening of a call center in Hampton, Virginia, a storage facility, an off-site administrative and mail handling site and contractual increases in annual rental rates. The Hampton call center accounted for \$90,000 of the increase, the new storage facility accounted for \$6,000 of the increase and the administrative/mail site accounted for \$8,000 of the increase. The remaining increase was attributable to contractual increases in annual rental rates.

Other Operating Expenses

Other operating expenses were \$456,000 for the three months ended June 30, 2003, an increase of \$87,000 or 23.6% compared to other operating expenses of \$369,000 for the three months ended June 30, 2002. The increase was due to changes in taxes, fees and licenses, hiring and insurance expenses and offset in part by decreases in travel and meals and miscellaneous expenses. Taxes, fees and licenses increased by \$48,000, hiring expenses increased by \$13,000, insurance expenses increased by \$68,000, travel and meals decreased by \$22,000, and miscellaneous expenses decreased by \$20,000.

Depreciation

Depreciation expenses were \$371,000 for the three months ended June 30, 2003, an increase of \$149,000 or 67.1% compared to depreciation expenses of \$222,000 for the three months ended June 30, 2002. The increase was attributable to continued capital expenditures on equipment, software and computers related to the Company's continued growth and systems upgrades, especially with the March 2003 opening of its new Hampton office and an associated \$1.2 million in equipment purchases and accounted for 49.0% of the increase in depreciation expenses. The remaining increase of 51.0% was the result of other system upgrades.

Interest Income

Interest income was \$8,000 for the three months ended June 30, 2003, an increase of \$8,000 compared to interest income of \$0 for the three months ended June 30, 2002. This increase is the result of investing in short term federally tax-exempt Auction Rate Certificates in 2003, as compared to keeping cash in the Company's depository bank and earning fee credit offsets in 2002.

Interest Expense

Interest expense was \$83,000 for the three months ended June 30, 2003, a decrease of \$506,000 or 85.9% compared to interest expense of \$589,000 for the three months ended June 30, 2002. This decrease is primarily the result of having no outstanding debt on the revolving line of credit at June 30, 2003 versus \$25 million outstanding during the three months ended June 30, 2002.

Six Months Ended June 30, 2003 Compared To Six Months Ended June 30, 2002

Revenue

Total revenue was \$39.7 million for the six months ended June 30, 2003, an increase of \$14.8 million or 59.4% compared to total revenue of \$24.9 million for the six months ended June 30, 2002.

Income Recognized on Finance Receivables

Income recognized on finance receivables was \$38.2 million for the six months ended June 30, 2003, an increase of \$14.2 million or 59.2% compared to income recognized on finance receivables of \$24.0 million for the six months ended June 30, 2002. The majority of the increase was due to an increase in the Company's cash collections on its owned defaulted consumer receivables to \$55.9 million from \$37.2 million, an increase of 50.3%. The Company's

amortization rate on owned portfolio for the six months ended June 30, 2003 was 31.7% while for the six months ended June 30, 2002 it was 35.1%. During the six months ended June 30, 2003, the Company acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$1,529.7 million at a cost of \$38.5 million. During the six months ended June 30, 2002, the Company acquired defaulted consumer receivable portfolios with an aggregate face value of \$588.0 million at a cost of \$16.3 million. The Company's relative cost basis of acquiring defaulted consumer receivable portfolios decreased from 2.77% of face value for the six months ended June 30, 2002 to 2.52% of face value for the six months ended June 30, 2003.

Commissions

Commissions were \$1.5 million for the six months ended June 30, 2003, an increase of \$700,000 or 87.5% compared to commissions of \$816,000 for the six months ended June 30, 2002. Commissions increased as a result of a growing inventory of accounts bearing a higher commission rate.

Net gain on cash sales of defaulted consumer receivables

Net gain on cash sales of defaulted consumer receivables were \$0 for the six months June 30, 2003, a decrease of \$100,000 compared to net gain on cash sales of defaulted consumer receivables of \$100,000 for six months ended June 30, 2002. The Company completed one small sale transaction in June 2002.

Operating Expenses

Total operating expenses were \$23.6 million for the six months ended June 30, 2003, an increase of \$7.7 million or 48.4% compared to total operating expenses of \$15.9 million for the six months ended June 30, 2002. Total operating expenses, including compensation and employee services expenses, were 41.1% of cash receipts excluding sales for the six months ended June 30, 2003 compared with 41.8% for the same period in 2002.

Compensation and Employee Services

Compensation and employee services expenses were \$14.1 million for the six months ended June 30, 2003, an increase of \$3.9 million or 38.2% compared to compensation and employee services expenses of \$10.2 million for the six months ended June 30, 2002. Compensation and employee services expenses increased as total employees grew to 719 at June 30, 2003 from 527 at June 30, 2002. Compensation and employee services expenses as a percentage of cash receipts excluding sales decreased to 24.6% for the six months ended June 30, 2003 from 26.8% of cash receipts excluding sales for the same period in 2002.

Outside Legal and Other Fees and Services

Outside legal and other fees and services expenses were \$6.1 million for the six months ended June 30, 2003, an increase of \$2.9 million or 90.6% compared to outside legal and other fees and services expenses of \$3.2 million for the six months ended June 30, 2002. 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.

Communications

Communications expenses were \$1.3 million for the six months ended June 30, 2003, an increase of \$400,000 or 44.4% compared to communications expenses of \$929,000 for the six months ended June 30, 2002. 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 48.4% of this increase, while the remaining 51.6% is attributable to higher telephone expenses.

Rent and Occupancy

Rent and occupancy expenses were \$555,000 for the six months ended June 30, 2003, an increase of \$193,000 or 53.3% compared to rent and occupancy expenses of \$362,000 for the six months ended June 30, 2002. The increase was attributable to increased leased space due to the opening of a call center in Hampton, Virginia, a storage facility, an off-site administrative and mail handling site and contractual increases in annual rental rates. The Hampton call center accounted for \$120,000 of the increase, the new storage facility accounted for \$12,000 of the increase and the administrative/mail site accounted for \$16,000 of the increase. The remaining increase was attributable to contractual increases in annual rental rates.

Other Operating Expenses

Other operating expenses were \$929,000 for the six months ended June 30, 2003, an increase of \$253,000 or 37.4% compared to other operating expenses of \$676,000 for the six months ended June 30, 2002. The increase was due to changes in taxes, fees and licenses, travel and meals, hiring, insurance and miscellaneous expenses. Taxes, fees and licenses increased by \$90,000, travel and meals increased by \$36,000, hiring expenses increased by \$27,000, insurance expenses increased by \$98,000 and miscellaneous expenses increased by \$2,000.

Depreciation

Depreciation expenses were \$671,000 for the six months ended June 30, 2003, an increase of \$237,000 or 54.6% compared to depreciation expenses of \$434,000 for the six months ended June 30, 2002. The increase was attributable to continued capital expenditures on equipment, software and computers related to the Company's continued growth and system upgrades, especially with the March 2003 opening of its new Hampton office and an associated \$1.2 million in equipment purchases and accounted for 39.8% of the increase in depreciation expenses. The remaining increase of 60.2% was the result of other system upgrades.

Interest Income

Interest income was \$28,000 for the six months ended June 30, 2003, an increase of \$26,000 or 1300.0% compared to interest income of \$2,000 for the six months ended June 30, 2002. This increase is the result of investing in short term federally tax-exempt Auction Rate Certificates in 2003, as compared to keeping cash in the Company's depository bank and earning fee credit offsets in 2002.

Interest Expense

Interest expense was \$159,000 for the six months ended June 30, 2003, a decrease of \$958,000 or 87.1% compared to interest expense of \$1.1 million for the six months ended June 30, 2002. This decrease is primarily the result of having no outstanding debt on the revolving line of credit at June 30, 2003 versus \$25 million outstanding during the six months ended June 30, 2002.

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, 2003.

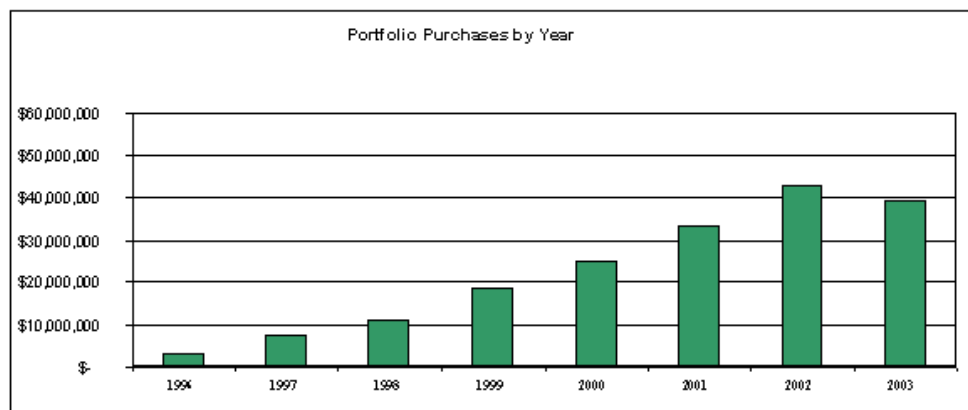
(\$ in thousands)

Purchase Period	Purchase Price ⁽¹⁾	Actual Cash Collections	Estimated	Total	Total Estimated
		Including Cash Sales	Remaining	Estimated	Collections to
			Collections ⁽²⁾	Collections ⁽³⁾	Purchase Price ⁽⁴⁾
1996	\$ 3,080	\$ 8,757	\$ 371	\$ 9,128	296%
1997	\$ 7,685	\$ 20,737	\$ 1,049	\$ 21,786	283%
1998	\$ 11,122	\$ 27,671	\$ 2,576	\$ 30,246	272%
1999	\$ 18,912	\$ 44,481	\$ 9,550	\$ 54,031	286%
2000	\$ 25,067	\$ 55,127	\$ 23,651	\$ 78,778	314%
2001	\$ 33,534	\$ 61,911	\$ 47,117	\$ 109,028	325%
2002	\$ 42,668	\$ 34,184	\$ 90,320	\$ 124,504	292%
2003	\$ 39,139	\$ 7,233	\$ 92,521	\$ 99,754	255%

- (1) Purchase price refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized expenses, 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. The Company refers to repurchased accounts as buybacks.
- (2) Estimated remaining collections refers to the sum of all future projected cash collections on our owned portfolios.
- (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 2.4 to 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.

The following graph shows the Company's purchase price in its owned portfolios by year beginning in 1996 and includes the year to date as of June 30, 2003 acquisition amount. This purchase price number represents the cash paid to the seller to acquire defaulted consumer receivables, plus certain capitalized expenses, 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.

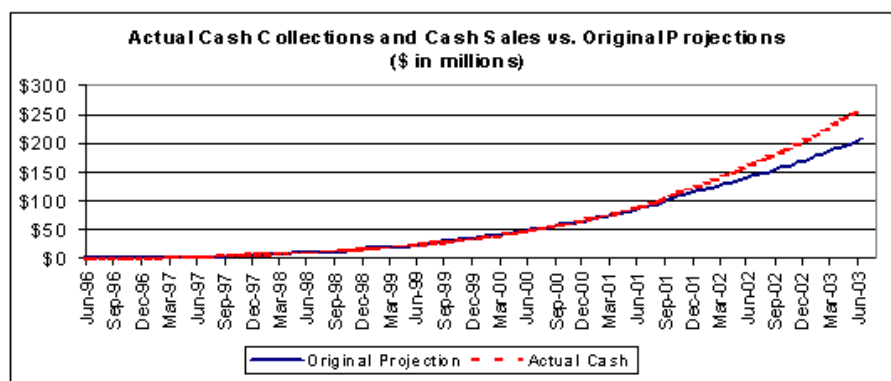
The following table, which excludes any proceeds from cash sales of finance receivables, demonstrates the Company's ability to realize significant multi-year cash collection streams on its owned pools as of June 30, 2003.

Cash Collections By Year, By Year of Purchase

(\$ in thousands)

Purchase Period	Cash Collection Period								
	1996	1997	1998	1999	2000	2001	2002	2003	Total
1996	\$548	\$2,484	\$ 1,890	\$ 1,347	\$ 1,025	\$ 730	\$ 496	\$ 175	\$ 8,695
1997	—	2,507	5,215	4,069	3,347	2,630	1,829	686	20,283
1998	—	—	3,776	6,807	6,398	5,152	3,948	1,509	27,590
1999	—	—	—	5,139	13,069	12,090	9,598	3,893	43,789
2000	—	—	—	—	6,894	19,498	19,478	8,795	54,665
2001	—	—	—	—	—	13,047	28,833	14,542	56,423
2002	—	—	—	—	—	—	15,072	19,112	34,184
2003	—	—	—	—	—	—	—	7,233	7,233
Total	\$548	\$4,991	\$10,881	\$ 17,362	\$ 30,733	\$53,148	\$79,254	\$55,944	\$252,863

When the Company acquires a new pool of finance receivables, a 60 to 72 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.



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	06/30/03
One year + ¹	109	151	210	227
Less than one year ²	180	218	223	298
Total ²	289	369	433	525

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	6/30/03
One year + ²	\$14,081	\$15,205	\$16,927	\$18,669
Less than one year ³	7,482	7,740	8,689	8,420

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.

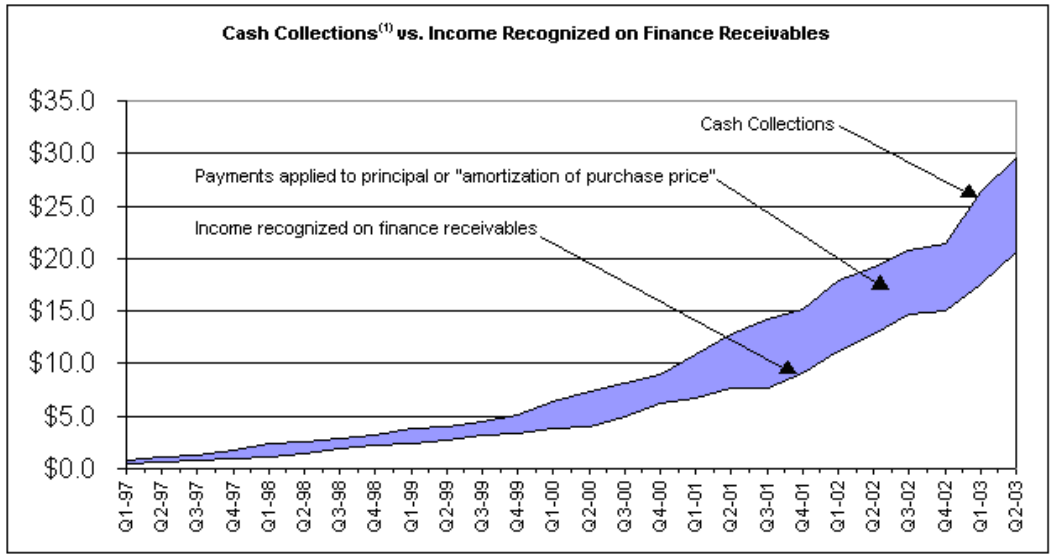
³ Calculated using weighted average YTD monthly cash collections of all collectors with less than one year of tenure, including those in training.

YTD Cash Collections per Hour Paid ¹

Average performance YTD	12/31/00	12/31/01	12/31/02	6/30/03
Total cash collections	\$64.37	\$77.20	\$96.37	\$111.21
Non-legal cash collections	\$53.31	\$66.87	\$77.72	\$ 84.12

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

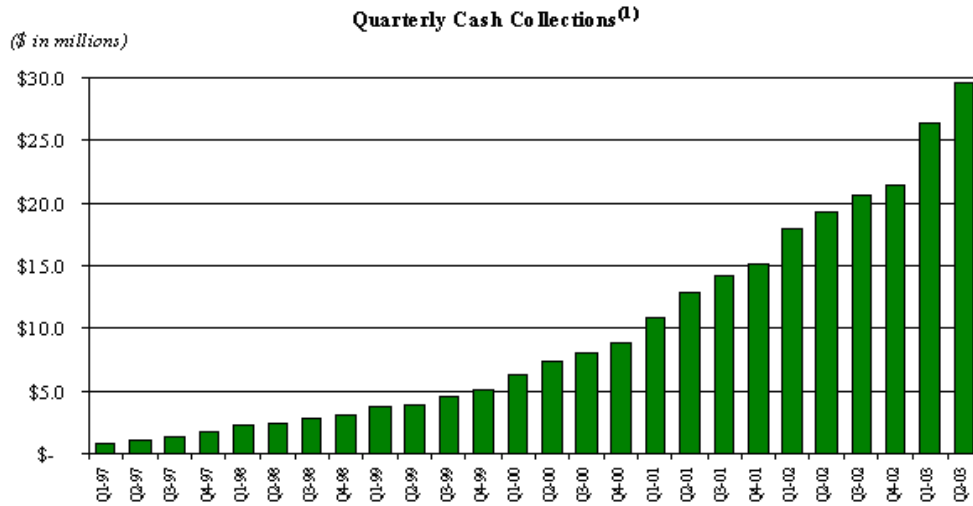
Cash collections have substantially exceeded revenue in each quarter since the Company's formation. The following chart illustrates the consistent excess of the Company's cash collections on its owned portfolios over the income recognized on finance receivables on a quarterly basis. The difference between 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.



(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, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Balance at beginning of period	\$ 74,418,221	\$ 46,824,583	\$ 65,526,235	\$ 47,986,744
Acquisitions of finance receivables, net of buybacks ⁽¹⁾	21,221,472	10,620,472	38,871,062	16,232,137
Cash collections applied to principal on finance receivables ⁽²⁾	(8,951,136)	(6,389,353)	(17,708,740)	(13,163,179)
Cost of finance receivables sold, net of allowance for returns	—	(600)	—	(600)
Balance at end of period	\$ 86,688,557	\$ 51,055,102	\$ 86,688,557	\$ 51,055,102
Estimated Remaining Collections ("ERC") ⁽³⁾	\$267,154,592	\$164,594,938	\$267,154,592	\$164,594,938

- (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. 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, 2003 into the major asset types and account types represented, respectively:

Asset Type	No. of Accounts	%	Face Value of Defaulted Consumer Receivables	%	Finance Receivables, net as of June 30, 2003	%
Visa/MasterCard/Discover	976,549	26.3%	\$ 3,651,902,150	51.6%	\$ 40,819,193	47.1%
Consumer Finance	1,724,121	46.4%	1,551,060,832	21.9%	10,408,959	12.0%
Private Label Credit Cards	965,368	26.0%	1,580,449,653	22.3%	32,841,926	37.9%
Auto Deficiency	46,639	1.3%	294,980,546	4.2%	2,618,478	3.0%
Total:	3,712,677	100.0%	\$ 7,078,393,182	100.0%	\$ 86,688,557	100.0%

As shown in the following chart, as of June 30, 2003 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	%	Face Value of Defaulted Consumer Receivables	%	Finance Receivables, net as of June 30, 2003	%
Fresh	139,694	3.8%	\$ 499,452,072	7.1%	\$ 6,882,882	7.9%
Primary	427,414	11.5%	1,586,800,302	20.9%	22,590,477	26.1%
Secondary	1,156,966	31.2%	2,538,351,699	35.9%	43,556,628	50.2%
Tertiary	1,776,874	50.4%	1,606,010,335	22.7%	10,283,834	15.6%
Other	211,729	5.7%	847,778,773	12.0%	3,374,736	3.9%
Total:	3,712,677	100.0%	\$ 7,078,393,182	100.0%	\$ 86,688,557	100.0%

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, 2003 the Company's overall portfolio of defaulted consumer receivables is generally balanced geographically.

Geographic Distribution	No. of Accounts	%	Face Value of Defaulted Consumer Receivables	%
Texas	1,190,715	32%	\$ 1,100,621,848	16%
California	296,794	8%	777,866,725	11%
Florida	214,320	6%	637,542,056	9%
New York	174,487	4%	572,242,674	8%
Pennsylvania	97,898	3%	266,044,392	4%
North Carolina	78,500	2%	217,131,302	3%
New Jersey	67,492	2%	210,553,468	3%
Illinois	79,415	2%	197,684,622	3%
Ohio	78,080	2%	191,933,442	3%
Georgia	66,799	2%	184,510,396	2%
Massachusetts	66,236	2%	176,158,275	2%
Michigan	63,970	2%	163,160,771	2%
Missouri	173,573	5%	154,235,312	2%
South Carolina	38,734	1%	129,171,796	2%
Arizona	42,611	1%	119,596,959	2%
Virginia	46,015	1%	117,029,624	2%
Tennessee	46,871	1%	115,694,741	2%
Maryland	40,021	1%	115,301,283	2%
Other	850,146	23%	1,631,913,496	22%(1)
Total:	3,712,677	100%	\$ 7,078,393,182	100%

(1) 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 \$12.5 million and \$8.9 million for the six months ended June 30, 2003 and 2002, respectively. In these periods, cash from operations was generated primarily from net income earned through cash collections, commissions received and gains on cash sales of defaulted consumer receivables for the period which increased from \$8.0 million for the six months ended June 30, 2002 to \$9.7 million for the six months ended June 30, 2003.

The Company's investing activities used cash of \$22.9 million and \$3.4 million during the six months ended June 30, 2003 and 2002, 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 \$461,000 and used cash of \$1.9 million during the six months ended June 30, 2003 and 2002, respectively. Cash used in financing activities is primarily driven by distributions of capital and payments on long term debt and capital lease obligations. During 2003, the Company completed a financing arrangement with its main depository institution to finance equipment purchases at its new location in Hampton, VA.

Cash paid for interest expenses was \$156,000 and \$1.0 million for the six months ended June 30, 2003 and 2002, respectively. The majority of interest expenses were paid for lines of credit used to finance acquisitions of defaulted consumer receivable portfolios, capital lease obligations and other long-term debt.

PRA III, LLC, our wholly owned subsidiary, maintains a \$25.0 million revolving line of credit with Westside Funding Corporation ("Westside") pursuant to an agreement entered into on September 18, 2001 and amended on December 18, 2002. The Company, excluding PRA Funding, as well as Anchor and PRA Holding I, which are wholly-owned subsidiaries of the Company are guarantors to this agreement. The credit facility bears interest at a spread over LIBOR and extends through September 15, 2005. The agreement provides for:

- restrictions on monthly borrowings in excess of \$4 million per month and quarterly borrowings in excess of \$10 million;
- a maximum leverage ratio, defined as total liabilities less subordinated debt divided by tangible net worth plus subordinated debt, of not greater than 4.0 to 1.0 and quarterly net income of at least \$0.01, calculated on a consolidated basis;
- a restriction on distributions in excess of 75% of the Company's net income for any year;
- compliance with certain special purpose vehicle and corporate separateness covenants; and
- restrictions on change of control.

The facility had no amounts outstanding at June 30, 2003.

In addition, PRA Funding maintains a \$2.5 million revolving line of credit, pursuant to an agreement entered into with RBC Centura Bank on June 30, 2002. The credit facility, bearing interest at a spread over LIBOR, which was due to expire in July, 2003, was extended in June, 2003 for a period of 90 days. This line of credit now expires on September 30, 2003. The agreement provides:

- that the Company maintain a current ratio of 1.6 to 1.0 (the current ratio being defined to include finance receivables as a current asset and to include the outstanding balance of the credit facility with Westside as a current liability);

- that the Company maintain a debt to tangible net worth ratio of not more than 1.5 to 1.0;
- for a minimum balance sheet cash position at month end of \$2 million; and
- a restriction on distributions by the Company to 75% of net income.

This \$2.5 million facility had no amounts outstanding at June 30, 2003. In addition, on February 20, 2003, the name of PRA AG Funding, LLC was changed to PRA Funding, LLC. No changes were made with regards to the terms of the facility agreement.

As of June 30, 2003 there are four additional loans outstanding. On July 20, 2000, PRA Holding I, entered into a credit facility with Bank of America, N.A., 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 with Bank of America, N.A. 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 with Bank of America, N.A. 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 with RBC Centura Bank 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.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation ("FIN") No. 46, Consolidation of Variable Interest Entities. FIN No. 46 is an interpretation of ARB No. 51 and addresses consolidation by business enterprises of variable interest entities ("VIEs"). This interpretation is based on the theory that an enterprise controlling another entity through interests other than voting interests should consolidate the controlled entity. Business enterprises are required under the provisions of this interpretation to identify VIEs, based on specified characteristics, and then determine whether they should be consolidated. An enterprise that holds a majority of the variable interests is considered the primary beneficiary, the enterprise that should consolidate the VIE. The primary beneficiary of a VIE is also required to include various disclosures in interim and annual financial statements. Additionally, an enterprise that holds a significant variable interest in a VIE, but that is not the primary beneficiary, is also required to make certain disclosures. This interpretation is effective for all enterprises with variable interest in VIEs created after January 31, 2003. A public entity with variable interests in a VIE created before February 1, 2003, is required to apply the provisions of this interpretation to that entity by the end of the first interim or annual reporting period beginning after June 15, 2003. The adoption of this interpretation is not expected to have a material impact on the Company's financial position or the results of operations.

Critical Accounting Policy

The Company utilizes the interest method under guidance of Practice Bulletin 6 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. The Company terminated its only derivative financial instrument to manage or reduce market risk in September 2002. As of June 30, 2003, 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.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

The effective date of the Company's registration statement (Registration No. 333-99225) filed on Form S-1 relating to its initial public offering of Common Stock was November 6, 2002. In its initial public offering, the Company sold 3,470,000 shares of Common Stock at a price of \$13.00 per share and PRA Investments, L.L.C., the selling stockholder, sold 1,015,000 shares of Common Stock at a price of \$13.00 per share. The Company's initial public offering was managed on behalf of the underwriters by William Blair & Company and U.S. Bancorp Piper Jaffray. The offering commenced on November 8, 2002 and closed on November 14, 2002. Gross proceeds to the Company from its initial public offering totaled \$45.1 million. Underwriting discounts of \$3.2 million were charged to the Company and deducted from the net proceeds remitted to the Company. None of the expenses incurred in the Company's initial public offering were direct or indirect payments to its directors, officers, general partners or their associates, to persons owning 10% or more of any class of the Company's equity securities or to its affiliates. Of the \$41.9 million raised, \$29.0 million has been used for repayment of outstanding indebtedness. In addition, the Company has utilized \$1.6 million for offering related expenses such as accountant fees, attorney fees and SEC and Nasdaq filing fees. A further \$9.9 million of proceeds has been used to purchase defaulted consumer receivables portfolios. The remaining \$1.4 million was used for working capital and general corporate purposes.

The effective date of the Company's secondary registration statement (Registration No. 333-105035) filed on Form S-1 relating to its secondary offering of common stock was May 22, 2003. The secondary offering resulted in no additional cash proceeds to the Company.

Item 4. Submission to a Vote of Security Holders.

On May 12, 2003, the Company convened its first 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; and (2) the ratification of the selection of PricewaterhouseCoopers, LLP as the Company's accountants and independent auditors for the year ending December 31, 2003.

The voting was as follows for the election of directors:

<u>Election of Directors:</u>	<u>FOR</u>	<u>AGAINST</u>
Steven D. Fredrickson	11,951,520	149,380
Peter Cohen	10,186,959	1,913,951

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, 2003:

<u>Ratification of independent accountants:</u>	<u>FOR</u>	<u>AGAINST</u>	<u>ABSTAIN</u>
PricewaterhouseCoopers, LLP	10,085,459	1,803,947	0

There were no broker non-votes.

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

(a) Exhibits.

- 10.19 First Amendment to Business Loan Agreement, dated June 18, 2003, by and between PRA Funding, LLC and RBC Centura Bank.
- 10.20 Riverside Commerce Center II Office Lease, dated June 27, 2003, by and between Riverside Investors, L.C. and Portfolio Recovery Associates, LLC.
- 10.21 Third Amendment to Riverside Commerce Center Office Lease, dated June 27, 2003, by and between Riverside Investors, L.C. and Portfolio Recovery Associates, LLC.
- 31 Section 302 Certificates of Chief Executive Officer and Chief Financial Officer
- 32 Section 906 Certificates of Chief Executive Officer and Chief Financial Officer

(b) Reports on Form 8-K.

Filed July 30, 2003, issuance of a quarterly earnings press release for the three and six months ended June 30, 2003.

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 31, 2003

By: /s/ Steven D. Fredrickson

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

Date: July 31, 2003

By: /s/ Kevin P. Stevenson

Kevin P. Stevenson
Chief Financial Officer, Senior Vice President,
Treasurer and Assistant Secretary
(Principal Financial and Accounting Officer)

CHANGE IN TERMS AGREEMENT

Borrower: PRA Funding, LLC
120 Corporate Boulevard, Suite 100
Norfolk, VA 23502

Lender: RBC CENTURA BANK
Twin Oaks
Lending Service Center
57000 Lake Wright Dr. Ste#400
Norfolk, VA 23502

Principal Amount: \$2,500,000.00

Initial Rate: 4.320%

Date of Agreement: June 18, 2003

DESCRIPTION OF EXISTING INDEBTEDNESS.

Customer No. 2671883 Note No. 101 Draw No. 001

This Change in Terms Agreement modifies Note dated June 28, 2002, between PRF Funding, LLC (Borrower) and RBC Centura Bank (Lender).

DESCRIPTION OF CHANGE IN TERMS.

Extend Maturity date to September 30, 2003

The Bank hereby agrees to add Portfolio Recovery Associates, Inc. as Guarantor to the above referenced Note.

The Bank hereby agrees to release PRA II, LLC as Guarantor from any and all responsibilities and liabilities from the above referenced Note.

PROMISE TO PAY. PRA Funding, LLC ("Borrower") promises to pay to RBC CENTURA BANK ("Lender"), or order, in lawful money of the United States of America, the principal amount of Two Million Five Hundred Thousand & 00/100 Dollars (\$2,500,000.00) or so much as may be outstanding, together with the interest unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance. The interest rate will not increase above 25.000%.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on September 30, 2003. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning July 1, 2003, with all subsequent interest payments to be due on the same day of each month after that. Interest on this Agreement is computed on a 365/360 simple interest basis: that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Agreement is subject to change from time to time based on changes in an index which is the LIBOR Base Rate (the "Index"). The "LIBOR Base Rate" is the London Interbank Offer Rate for U.S. Dollars for a term of one month which appears on Telerate Page 3750, Bloomberg Professional screen BBAM (or any generally recognized successor method or means of publication) as of 11:00 a.m., London time, two (2) London business days prior to the day on which the rate will become effective. This index for the first month or part thereof will initially become effective on the date of the Note as shown on the rate hereof. Thereafter, the rate will change and a new rate will become effective on the first calendar day of each succeeding month. If for any reason, the London Interbank Offer Rate is not available, the LIBOR Base Rate shall mean the rate per annum which banks charge each other in a market comparable to England's Eurodollar market on short-term money in U.S. Dollars for an amount substantially equivalent to the principal amount due under this Note, as determined at 11:00 a.m. London time, two (2) London business days prior to the day on which the rate will become effective, as determined in Bank's sole discretion. Bank's determination of such interest rate shall be conclusive, absent manifest error. Lender will tell Borrower the current index rate upon Borrower's request. The interest rate change will not occur more often than each first calendar day of each succeeding month. Borrower understands that Lender may make loans based on other rates as well. The Index currently is 1.320% per annum. The interest rate to be applied to the unpaid principal balance of the Note will be at a rate of 3.000 percentage points over the index, resulting in an initial rate of 4.320% per annum. Notwithstanding the foregoing, the variable interest rate or rates provided for in the Note will be subject to the following maximum rate. **NOTICE:** Under no circumstances will the interest rate on the Note be more than (except for any higher default rate shown below) the lesser of 25.000% per annum or the maximum rate allowed by applicable law.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, early payments will reduce the principal balance due. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Agreement, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: RBC CENTURA BANK, Twin Oaks, Lending Service Center, 5700 Lake Wright Dr. Ste# 400, Norfolk, VA 23502.

LATE CHARGE. If a payment is 15 days or more late, Borrower will be charged 5.000% of the unpaid portion of the regularly scheduled payment.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, Lender, at its option, may, if permitted under applicable law, increase the variable interest rate on this Agreement to 18.000% per annum. The interest rate will not exceed the maximum rate permitted by applicable law.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the indebtedness.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of the Borrower's property or Borrower's ability to perform Borrower's obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The dissolution or termination of Borrower's existence as a going business or the death of any member, or trustee or receiver is appointed for Borrower or for all or a substantial portion of the assets of Borrower, or Borrower makes a general assignment for the benefit of Borrower's creditors, or Borrower files for bankruptcy, or an involuntary bankruptcy petition is filed against Borrower and such involuntary petition remains undismissed for sixty (60) days.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceedings, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the indebtedness. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness evidenced by this Note. In the event of a death, Lender, at its option, may, but shall not be required to, permit the Guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure any Event of Default.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as

reasonably practical.

LENDER'S RIGHT. Upon default, Lender may declare the entire unpaid principal balance on this Agreement and all accrued unpaid interest, together with all other applicable fees, costs and charges, if any, immediately due and payable, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Subject to any limits under applicable law, upon default, Borrower agrees to pay Lender's attorneys' fees and all of Lender's other collection expenses, whether or not there is a lawsuit, including without limitation legal expenses for bankruptcy proceedings.

GOVERNING LAW. This Agreement will be governed by, construed and enforced in accordance with federal law and the laws of the Commonwealth of Virginia. This Agreement has been accepted by Lender in the Commonwealth of Virginia.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the applicable courts for the City of Norfolk, Commonwealth of Virginia.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$25.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorized Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the debt against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

COLLATERAL. Collateral securing other loans with Lender may also secure this loan. To the extent collateral previously has been given to Lender by any person which may secure this Indebtedness, whether directly or indirectly, it is specifically agreed that, to the extent prohibited by law, all such collateral consisting of household goods will not secure this Indebtedness. In addition, if any collateral requires the giving of a right of rescission under Truth in Lending for this Indebtedness, such collateral also will not secure this Indebtedness unless and until all required notices of that right have been given.

LINE OF CREDIT. This Agreement evidences a revolving line of credit. Advances under this Agreement, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person or (B) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Agreement at any time may be evidenced by endorsements on this Agreement or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Agreement if: (A) Borrower or any guarantor is in default of the terms of this Agreement or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Agreement; (B) Borrower or any guarantor ceases doing business or is insolvent; (C) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Agreement or any other loan with Lender; (D) Borrower has applied funds provided pursuant to this Agreement for purposes other than those authorized by Lender; or (E) Lender in good faith believes itself insecure.

CONTINUING VALIDITY. Except as expressly changed by this Agreement, the terms of the original obligation or obligations, including all agreements evidenced or securing the obligation(s), remain unchanged and in full force and effect. Consent by Lender to this Agreement does not waive Lender's right to strict performance of the obligation(s) as changed, nor obligate Lender to make any future change in terms. Nothing in this Agreement will constitute a satisfaction of the obligation(s). It is the intention of Lender to retain as liable parties all makers and endorsers of the original obligation(s), including accommodation parties, unless a party is expressly released by Lender in writing. Any maker or endorser, including accommodation makers, will not be released by virtue of this Agreement. If any person who signed the original obligation does not sign this Agreement below, then all persons signing below acknowledge that this Agreement is given conditionally, based on the representation to Lender that the non-signing party consents to the changes and provisions of this Agreement or otherwise will not be released by it. This waiver applies not only to any initial extension, modification or release, but also to all such subsequent actions.

DESCRIPTION OF PRINCIPAL AMOUNT. The Principal Amount stated above refers to the principal amount of this loan, and does not reflect the outstanding principal balance as of the date of this Change in Terms Agreement.

SUCCESSORS AND ASSIGNS. Subject to any limitations stated in the Agreement on transfer of Borrower's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their heirs, personal representatives, successors and assigns. If ownership of the Collateral becomes vested in a person other than the Borrower, Lender, without notice to Borrower, may deal with Borrower's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Borrower from the obligations of this Agreement or liability under the Indebtedness.

MISCELLANEOUS PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Agreement without losing them. Borrower and any other person who signs, guarantees or endorses this Agreement, to the extent allowed by law, waive presentment, demand for payment, and notice or dishonor. Upon any change in the terms of this Agreement, and unless otherwise expressly stated in writing, no party who signs this Agreement, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

CONTINUED ON NEXT PAGE

**CHANGE IN TERMS AGREEMENT
(Continued)**

PRIOR TO SIGNING THIS AGREEMENT, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS AGREEMENT, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS, BORROWER AGREES TO THE TERMS OF THE AGREEMENT.

THIS AGREEMENT IS GIVEN UNDER SEAL AND IT IS INTENDED THAT THIS AGREEMENT IS AND SHALL CONSTITUTE AND HAVE THE EFFECT OF A SEALED INSTRUMENT ACCORDING TO LAW.

CIT SIGNERS:

PRA FUNDING, LLC

PORTFOLIO RECOVERY ASSOCIATES, LLC, Member of PRA Funding, LLC

By: */s/* Kevin P. Stevenson _____ (Seal)

Kevin P. Stevenson, Manger/Sr Vice President of
Portfolio Recovery Associates, LLC

GUARANTORS

PORTFOLIO RECOVERY ASSOCIATES, LLC

By: */s/* Kevin P. Stevenson _____ (Seal)

Kevin P. Stevenson, Manger/Sr Vice President of
Portfolio Recovery Associates, LLC

PRA RECEIVABLES MANAGEMENT, LLC

PORTFOLIO RECOVERY ASSOCIATES, LLC, Member of PRA Receivables Management LLC

By: */s/* Kevin P. Stevenson _____ (Seal)

Kevin P. Stevenson, Manger/Sr Vice President of
Portfolio Recovery Associates, LLC

PRA HOLDING I, LLC

PORTFOLIO RECOVERY ASSOCIATES, LLC, of PRA Holding I, LLC

By: */s/* Kevin P. Stevenson _____ (Seal)

Kevin P. Stevenson, Manger/Sr Vice President of
Portfolio Recovery Associates, LLC

Property Address: Riverside Commerce Center II
Riverside Corporate Center
Norfolk, Virginia 23502

Lessor: Riverside Crossing, L.C.

Lessee: Portfolio Recovery Associates, LLC

OFFICE LEASE

THIS LEASE is made as of June 27, 2003, by and between Riverside Crossing, L.C., a Virginia limited liability company, ("Lessor"), and Portfolio Recovery Associates, LLC, a Delaware limited liability company, ("Lessee").

1. DESCRIPTION OF PREMISES. Lessor, in consideration of the rents to be paid by Lessee and other covenants of Lessee contained herein, does hereby lease to Lessee the premises described below (the "Premises"):

Suite 100, consisting of approximately 25,000 rentable square feet, located in a building (the "Building") commonly known as Riverside Commerce Center II located in Riverside Corporate Center, Norfolk, VA 23502.

2. TERM. The term of this lease (the "Term") shall be for a period of one hundred twenty (120) months, commencing on the 1st day of January, 2004 (the "Commencement Date"), and ending at midnight on the 31st day of December, 2013 (the "Expiration Date").

3. RENT. Lessee agrees to pay Lessor, without demand, deduction or offset, annual rent for the Term of this lease in the amount of Three Hundred Ninety Thousand and No/100 Dollars (\$390,000.00) per annum, payable monthly in advance on the Commencement Date and on the first business day of each and every subsequent month in the amount of Thirty Two Thousand Five Hundred and NO/100 Dollars (\$32,500.00). If the Term of this lease shall commence or expire on a day other than the first day of a calendar month, the rent for any partial month shall be pro-rated. All rent payments shall be paid to Lessor's Managing Agent at its address specified in paragraph 31 below, or such other place as Lessor designates in writing.

4. ACCEPTANCE OF PREMISES. Occupancy of the Premises by Lessee shall constitute its acceptance of same, except for latent defects and deficiencies specified in writing by Lessee to Lessor within ten (10) days after Lessee's occupancy, or hidden defects or deficiencies which could not be detected from a reasonable inspection of the Premises. Lessor will promptly repair such hidden defects or deficiencies after notice from Lessee, as provided for

herein. Lessee acknowledges that Lessor has not made any warranties or representations, oral or written, as to the use or fitness of the Premises for any particular purpose, except for general office use. Lessor shall not be responsible for obtaining any governmental approvals or permits necessary to enable Lessee to occupy or use the Premises (other than the certificate of occupancy and other approvals related to work done by Lessor to construct the Premises), same being the sole responsibility of Lessee. Lessor shall not be responsible for obtaining any certificates of occupancy or other approvals required in connection with construction work done by Lessee or contractors engaged by Lessee.

5. (a) DELAY IN COMMENCEMENT. If Lessor, due to delay in construction or for any other reason whatsoever, cannot deliver possession of the Premises to Lessee on the Commencement Date, this lease shall not be void or voidable and, except as otherwise provided for herein, Lessor shall not be liable to Lessee for any loss or damage resulting therefrom, but shall confirm in writing the actual Commencement Date and Expiration Date of this lease in a form substantially similar to Exhibit A. Lessee shall not be responsible for the payment of any rent prior to the delivery of the Premises by Lessor in substantial conformity with the final Plans and Specifications for the Premises, and acceptance of the Premises by local authorities for occupancy by Lessee. If delivery of possession of the Premises to Lessee is delayed beyond February 28, 2004 due to delay in construction or for any other reason whatsoever other than a Lessee caused delay, Lessee may at its option, in writing to the Lessor within ten (10) days thereafter, void this lease. In such an event, cancellation of the lease by Lessee in this manner shall not be considered an event of default and Lessee will not be liable for any payment of any amounts whatsoever.

(b) EARLY POSSESSION. If Lessee occupies the Premises prior to the Commencement Date, the Commencement Date shall be considered the date such occupancy begins and shall not advance the termination date; however, Lessee shall pay rent for such period.

6. USE AND COMPLIANCE WITH LAW. The Premises shall be used only for general office purposes, and for no other purpose without Lessor's prior written consent. General office purposes will be understood to include the use of the Premises as a telephone collection center and office site. Lessee shall not use the Premises for any unlawful purpose or so as to constitute a nuisance. Lessee covenants and agrees to comply with all restrictive covenants and ordinances and regulations of governmental authorities applicable to the Premises; provided, however, that Lessee shall not be required to modify the Premises to comply with any subsequently enacted governmental requirements unless same are applicable because of Lessee's particular use of the Premises (other than general office use).

7. SIGNS. Lessee shall not, without the prior written consent of Lessor and the architectural review committee having jurisdiction over the Building, place any signs or advertising matter or material on the exterior or interior of the Building, which exceeds the signage on the building currently occupied by Lessee in Riverside Commerce Center. If Lessor approves any additional signage or advertising matter or material, Lessee shall remove same at the termination or expiration of this lease. It is expressly acknowledged that Lessee desires to place signage upon the Building and that Lessor will approve such signage in its reasonable discretion.

8. QUIET ENJOYMENT AND COVENANT OF TITLE. Lessor covenants that it has full right and power to execute this lease and to grant the estate demised herein, and the Lessee, upon payment of the rents herein reserved and performing the terms, conditions, and covenants herein contained, shall peacefully and quietly have, hold, and enjoy the Premises during the full Term of this lease, and any extension hereof, from all persons claiming through Lessor.

9. LESSOR'S SERVICES. (a) Lessor shall furnish the following services to Lessee at Lessor's cost on and during each business day.

- (i) Daily janitorial service and supplies for the Premises, Monday through Friday, except on national holidays.
- (ii) Heating and air conditioning during the appropriate seasons at levels similar to those maintained in similar one-story office buildings during normal business hours (7:00 a.m. to 10:00 p.m. Monday through Friday and 7:00 a.m. to 2:00 p.m. Saturday).
- (iii) Hot and cold water as required for drinking, cleaning and lavatory purposes.
- (iv) Electricity supplied through the Building's 110-volt 20 amp circuits for lighting purposes and for operation of small business machines and equipment (e.g., typewriters, adding machines, personal computers and similar equipment). If Lessee desires dedicated or 220-volt electrical circuits, or wishes to install electrical equipment which will cause usage of electricity within the Premises to be above normal electrical usage for general office space, Lessee shall obtain Lessor's written consent prior to installing such equipment or circuits. Any additional electrical circuits approved shall be installed by Lessor at Lessee's expense.

(b) Lessor shall not be liable for the interruption of any of the above-mentioned services caused by strikes, lockouts, accidents or other causes beyond the reasonable control of Lessor. Any interruption of service shall never be deemed an eviction or disturbance of Lessee's use and possession of the Premises or any part thereof, or render Lessor liable to Lessee for damages, or relieve Lessee from performance of Lessee's obligation under this lease, unless the interruption is the result of gross negligence by Lessor. Lessor shall use its best efforts to restore the interrupted service within a reasonable time after interruption if the cause of interruption is subject to Lessor's control.

(c) Lessor shall also provide exterior maintenance of the Building and its appurtenant grounds and facilities (the "Project"), including, but not limited to, parking lot repairs, landscape maintenance, structural repairs and roof repairs.

(d) Lessor shall make all necessary repairs to the Premises at its expense, except when the repairs are required as a result of misuse or neglect by Lessee or by persons under Lessee's control or on the Premises at Lessee's invitation, in which event, Lessee shall make such repairs at its own expense.

10. OVERTIME HVAC. INTENTIONALLY DELETED.

11. ALTERATIONS BY LESSEE. Lessee shall not make any alterations to the Premises without obtaining Lessor's prior written consent, which consent shall not be unreasonably withheld as to non-structural alterations. Any and all alterations, additions, or other improvements made by Lessee, with or without the consent of Lessor, regardless of how attached (except movable trade fixtures), shall become immediately upon installation and thereafter remain the property of Lessor, without compensation therefor to Lessee, unless otherwise agreed in writing by Lessor; provided, however, Lessor shall have the right to require that Lessee, upon the termination or at the expiration of this lease, remove any or all such alterations, additions and improvements and restore the Premises to their original condition, normal wear and tear excepted, unless such right has been waived in writing by Lessor.

12. USE OF THE PARKING FACILITIES. Lessee and its employees and customers shall have the non-exclusive right, in common with Lessor, other tenants of the Building and their respective employees, guests and customers, to park automobiles in the parking area provided by Lessor, subject to such reasonable rules and regulations as Lessor may impose from time to time, including the designation of specific areas in which automobiles of Lessee, its employees, guests and customers must be parked. Lessee shall be entitled to six (6) vehicle parking spaces for each 1,000 square feet of rentable space, unreserved and unassigned, and shall not use more parking spaces than said number.

13. SUBLEASING AND ASSIGNMENT. Lessee and any approved assignee or approved subtenant may not assign their rights under this lease or the applicable sublease, or sublet the whole or any part of the Premises, without the prior written consent of Lessor, which

approval shall not be unreasonably withheld. Even if Lessor's consent is given, no subletting or assignment shall release Lessee from any obligation pursuant to this lease or alter the primary liability and obligation of Lessee to pay the rent and to perform all other obligations to be performed by Lessee hereunder. Acceptance of rent by Lessor from an assignee or subtenant who has not been approved by Lessor shall not waive the default created by failure to obtain Lessor's consent. As a condition of approving any proposed assignee or subtenant, Lessor may require such financial and other information concerning the proposed assignee or subtenant that Lessor deems appropriate. Approval of a proposed sublease or assignment in any one instance shall not affect Lessor's right to approve all subsequent assignments and subleases. Lessor shall be furnished with a duplicate executed original of all subleases and assignments. If Lessee requests Lessor's consent of an assignment of Lessee's interest in this lease, Lessor may, at its option, elect to terminate this lease as of the effective date of the proposed assignment. If Lessee requests Lessor's consent to a sublease, Lessor may, at its option, elect to terminate this lease as of the effective date of the proposed sublease as to the portion of the Premises which Lessee desires to sublease, and if such option to terminate is elected by Lessor, rent under this lease shall be adjusted as of the effective date of the partial termination and Lessee shall pay as additional rent on demand the cost of any demising walls required to separate the space as to which this lease has been terminated from the remainder of the Premises.

14. CARE OF PREMISES. Lessee agrees to take good care of the Premises, and shall not suffer or permit any waste or injury thereto. Lessee shall pay for all repairs to the Premises necessary due to the negligent acts of Lessee, its employees, agents, customers or guests, or their use of the Premises. Upon the expiration or termination of this lease, Lessee shall surrender the Premises in as good condition as Lessee obtained same on the Commencement Date, reasonable wear and tear excepted.

15. DAMAGE TO PREMISES. If the Premises shall be damaged by fire, the elements, unavoidable accident or other casualty, but are not thereby rendered untenable in whole or in part, Lessor shall promptly at its expense cause such damage to be repaired, and rent shall not be abated. If by reason of such occurrence the Premises shall be rendered partially untenable, Lessor shall promptly at its own expense cause the damage to be repaired, and rent meanwhile shall be abated for the period of untenability in proportion to the portion of the Premises rendered untenable. If by reason of such occurrence all, or substantially all of the Premises are rendered untenable, Lessor shall promptly at its expense cause the damage to be repaired, and rent shall abate until the Premises are again tenable, unless within thirty (30) days after said occurrence Lessor shall give Lessee written notice that the estimated time necessary to reconstruct the destroyed Premises is in excess of one hundred eighty (180) days after the date of said occurrence and Lessee elects to terminate this lease by written notice to Lessor given within fifteen (15) days after receipt of Lessor's notice. If so terminated, this lease and the tenancy hereby created shall cease as of the date of casualty and all rent shall be abated as of such date. Lessor shall not be obligated to reconstruct or repair the Building or Premises except to the extent insurance proceeds have been received with respect to the event causing the damage. Lessor shall not be required to repair, replace or insure any property which the Lessee may be entitled to remove from the Premises. No damages, compensation or claims shall be payable by Lessor for inconvenience, loss of business or other consequential damages arising from any casualty, maintenance, repair or restoration of the Premises or Building. All rent paid in advance shall be apportioned in accordance with the foregoing provisions as of the date of damage; however, if the damage results wholly or in part from the fault of Lessee, its agents, contractors, employees or invitees, Lessee shall not be entitled to termination or any abatement or reduction in rent.

16. LIABILITY. Lessor and its agents shall not be liable for any injury to persons or loss or damage to property resulting from any cause other than the negligence or willful

misconduct of Lessor, its agents and employees, or breach of Lessor's responsibilities pursuant to this Lease, Lessee shall indemnify and save Lessor harmless from all suits, actions, damages, liability and expense arising from or out of any occurrence in, upon, at or from the Project or the occupancy or use by Lessee of the Premises, and occasioned wholly or in part by any act or omission of Lessee, its agents, contractors, employees, invitees, licensees or visitors. To this end, Lessee shall at all times during the term of this lease or any renewal thereof carry with an approved insurance carrier licensed to operate in the state in which the Premises are located, Comprehensive General Liability Insurance including Blanket Contractual Liability coverage naming Lessor as an additional named insured, with limits of liability of not less than \$1,000,000 combined single limit for personal injury and property damage. A duplicate original or agent certified copy of such insurance policy shall be furnished to Lessor upon request. Lessee shall notify Lessor promptly of any accident or loss in the Premises or the Project or of any defects therein or in the equipment and fixtures thereof of which Lessee has knowledge, and the repair of such defects shall be promptly made, as provided herein.

17. INSPECTION OF PREMISES. Lessor and Lessor's agents shall have free access during normal business hours to the Premises for the purposes of inspection, maintenance and repair. Lessor shall have the right to show the Premises to prospective tenants during the last one hundred eighty (180) days of the Term of this lease.

18. HAZARDOUS MATERIALS. (a) Without Lessor's prior written consent, Lessee shall not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Premises by Lessee, its agents, employees, contractors or invitees, except for small quantities of such Hazardous Material incidental to Lessee's business.

(b) Any Hazardous Material permitted on the Premises as provided in Section 18(a) and all containers therefor, shall be used, kept, stored and disposed of in a manner that complies with all federal, state and local laws or regulations applicable to this Hazardous Material.

(c) Lessee shall not discharge, leak or emit, or permit to be discharged, leaked or emitted, any material into the atmosphere, ground, sewer system or any body of water, if that material (as is reasonably determined by the Lessor or any governmental authority) does or may pollute or contaminate the same or may adversely affect (aa) the health, welfare or safety of persons, whether located on the Premises or elsewhere, or (bb) the condition, use or enjoyment of the building or any other real or personal property and which would result in a violation of applicable environmental laws.

(d) At the commencement of each Lease Year, Lessee shall disclose to Lessor the names and approximate amounts of all Hazardous Material that Lessee intends to store, use or dispose of on the Premises in the coming Lease Year. In addition, at the commencement of each Lease Year (beginning with the second Lease Year), Lessee shall disclose to Lessor the names and amounts of all Hazardous Material that to Lessee's knowledge were actually used, stored or disposed of on the Premises, if those materials were not previously identified to Lessor at the commencement of the previous Lease Years.

(e) As used herein, the term "Hazardous Material" means (aa) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time, and regulations promulgated thereunder; (bb) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, and regulations promulgated thereunder; (cc) any oil, petroleum products and their by-products, other than those used in automotive or recreational activity, boats or motorcycles which are stored on the Premises in accordance with all applicable laws and minor leakage and spills which are, upon written request of Lessor, promptly cleaned up; and (dd) any substance that is or becomes regulated by any federal, state, or local governmental authority.

(f) Lessee hereby agrees that it shall be fully liable for all costs and expenses related to the use, storage and disposal of Hazardous Material kept on the Premises by the Lessee, and the Lessee shall give immediate notice to the Lessor of any violation or potential violation of the provisions of Section 18(b). Lessee shall defend, indemnify and hold harmless Lessor and its agents from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses (including without limitation, attorneys' and consultants' fees, court costs and litigation expenses) of whatever kind or nature, known or unknown, contingent or otherwise, arising out of or in any way related to (aa) the presence, disposal, release or threatened release of any such Hazardous Material that is on, from or affecting the soil, water, vegetation, buildings, personal property, persons, animals or otherwise; (bb) any violation of any laws applicable thereto. The provisions of this Section 18(f) shall be in addition to any other obligations and liabilities Lessee may have to Lessor at law or in equity and shall survive the transactions contemplated herein and shall survive the termination of this lease.

19. INDEMNIFICATION. Except to the extent caused by Lessor's negligence or breach of any term of this lease, Lessee hereby agrees to indemnify and hold Lessor and Lessor's agents and employees harmless from any and all claims, damages, liabilities or expenses arising out of (aa) Lessee's use of the Premises or the Building, (bb) any and all claims arising from any breach or default in the performance of any obligation of Lessee and/or (cc) any act, omission or negligence of Lessee, its agents or employees. Lessee agrees to procure and keep in force during the Term hereof a contractual liability endorsement to its public liability policy, specifically endorsed to cover the indemnity provision of this section. Except to the extent caused by Lessor's negligence or breach of any term of this lease, Lessee further releases Lessor and Lessor's agents and employees from liability for any damages sustained by Lessee or any other person claiming by, through or under Lessee due to the Premises, the Building, or any part thereof or any appurtenances thereto becoming out of repair, or due to the happening of any accident including, but not limited to, any damage caused by water, snow, windstorm, tornado, gas, steam, electrical wiring, sprinkler system plumbing, heating and air conditioning apparatus and from any acts or omissions of co-tenants or other occupants of the Building. Lessor and Lessor's agents and employees shall not be liable for any damage to or loss of Lessee's personal property, inventory, fixtures or improvements, from any cause whatsoever except the affirmative acts of negligence of Lessor, and then only to the extent not covered by insurance required to be obtained by Lessee in accordance with Section 16 hereof.

20. COMPLIANCE WITH LAW. Lessee shall during the Term of this lease, at its sole cost and expense, comply with all valid laws, ordinances, regulations, orders and requirements of any governmental authority which may be applicable to the Premises or to the use, manner of use or occupancy thereof, whether or not the same shall interfere with the use or occupancy of the Premises. Lessee shall give prompt notice to Lessor of any notice it receives of the violation of any law or requirement of any public authority with respect to the Premises or use or occupation thereof. Lessee shall also comply with all rules and regulations attached hereto as Exhibit B and as may be subsequently applied by Lessor to all tenants of the Building.

21. CONDEMNATION. If all or a part of the Premises sufficient to render same unusable for Lessee's purposes (in Lessor's reasonable judgement) or all means of access to the Premises shall be condemned for a period in excess of one hundred eighty (180) days or sold under threat of condemnation, this lease shall terminate and Lessee shall have no claim against Lessor or to any portion of the award in condemnation for the value of any unexpired Term of this lease. Lessee may seek to recover independently compensation from the condemning authority for moving expenses, the value of any of Lessee's property taken (other than Lessee's leasehold interest in the Premises) or other compensable loss or damage. In the event of a temporary taking of one hundred eighty (180) days or less, this lease shall not terminate, but the Term hereof shall be extended by the period of the taking and the rent shall abate in proportion to the area taken for the period of such taking.

22. DEFAULT. (a) If Lessee does not pay any rent or other sum payable by Lessee pursuant to this lease and such default continues for a period of ten (10) days after written notice is given to Lessee (provided, however, that no written notice shall be required if Lessor has previously given written notice of failure to pay rent during the then current calendar year), or if Lessee shall fail to perform any other covenant, agreement, or obligation of Lessee pursuant to this lease and such default continues for thirty (30) days after written notice thereof is given to Lessee, or if Lessee should become bankrupt or insolvent or any debtor proceedings are taken by or against Lessee, or if Lessee vacates or attempts to vacate the Premises, then Lessor shall have the following rights and remedies:

(i) Lessor may terminate this lease by written notice to Lessee, in which event this lease, all rights of Lessee, and all duties of Lessor shall immediately cease and terminate, and Lessor may re-enter and take possession of the Premises, remove all persons

Premises within five (5) business days or receipt of such notice. Should Lessee fail to remove its property within five (5) business days of its receipt of such notice, Lessor may remove the Lessee's property and store such property in a public warehouse or elsewhere at the cost of, and for the account of, Lessee and enjoy the Premises free of Lessee's estate pursuant to this lease, without prejudice, however, to any and all rights of action against Lessee that Lessor may have for rent, damages, or breach of this lease, in respect of which Lessee shall remain and continue liable notwithstanding such termination;

(ii) Lessor shall have the right to re-enter the Premises and remove all persons from the Premises without terminating this lease. Lessor shall have the right to take such action without service of notice except as may be expressly required herein or by applicable law and without resort to legal process (unless required by law) and without being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby. If Lessor elects to re-enter the Premises as aforesaid, Lessor may, at any time thereafter, elect to terminate this lease by giving written notice to Lessee of such election. Whether or not Lessor elects to re-enter the Premises or takes possession of the Premises pursuant to legal proceedings or pursuant to any notice required by law, Lessor may, at its option, re-let the Premises or any portion thereof for the benefit of Lessee for such Term or Terms (whether shorter or longer than the Term of this lease) and at such rental and upon such other Terms and conditions as Lessor, in its sole discretion, deems advisable, and, at the expense of Lessee, Lessor shall have the right to make such repairs or alterations to the Premises as Lessor deems necessary in order to re-let same. Provided this lease has not been terminated by Lessor, upon each such re-letting all rentals actually received by Lessor from such re-letting applicable to the unexpired Term of this lease shall be applied as follows: First, to the payment of any costs and expenses of such re-letting, including costs incurred by Lessor for brokerage fees, legal fees and alterations and repairs to the Premises; Second, to the payment of any indebtedness other than rent due hereunder from Lessee; Third, to payment of any unpaid portion of rent then due. On the scheduled expiration date of this lease, Lessor shall pay the residue, if any, to Lessee. No such re-entry or taking of possession of the Premises by Lessor shall be construed or shall operate as an election by Lessor to terminate this lease unless written notice of termination is given by Lessor to Lessee, or this lease is terminated by an order or decree of a court of competent jurisdiction.

(iv) Lessor may lock up the Premises and preclude Lessee's access thereto.

(b) In addition to all remedies specified in this lease, Lessor shall have all remedies available pursuant to applicable law.

(c) No re-entry, taking possession of, or repair of the Premises by Lessor, termination of this lease or any other action taken by Lessor as a result of any default of Lessee shall relieve Lessee of any of its liabilities or obligations hereunder which arose prior to or by reason of such termination, whether or not the Premises are re-let.

(d) All remedies of Lessor shall be cumulative. Election by Lessor to exercise any remedy shall not prevent or be deemed a waiver of Lessor's right to thereafter exercise any other remedy.

(e) Lessee agrees to pay upon demand all costs, fees and expenses (including, without limitation, court costs and reasonable attorney's fees) incurred by Lessor in enforcing this lease.

23. HOLDING OVER. If Lessee remains in possession of the Premises after the expiration or termination of the Term of this Lease without Lessor's written consent, such possession shall, at Lessor's option, (a) be a tenancy at sufferance only, during which tenancy at sufferance annual rent shall be due and payable at 125% of the annual rent due for the last Term, or (b) if Lessee remains in possession of the Premises after the expiration or termination of the Term of this Lease with Lessor's written consent, such possession shall result in an extension of this Lease on a month-to-month basis, upon the terms and conditions applicable to the last year of the preceding Term, for a term not to exceed ninety (90) days, at 1.035 times the annual rent due during the last month of the Term. All other provisions of this lease shall remain in force during the period of any such tenancy at sufferance or month-to-month renewal. Acceptance of rent by Lessor during any holdover tenancy at sufferance shall not waive the default created by Lessee's holdover or Lessor's option to select the tenancy created by the holdover.

24. SURRENDER OF PREMISES. Lessee shall surrender the Premises at the expiration or sooner termination of the lease Term, broom-cleaned, with all rubbish removed, free of subtenancies, and in good condition and repair, reasonable wear and tear excepted. Lessee shall deliver all keys to Lessor or Lessor's agent.

25. INFORMATION CONCERNING LESSEE. Lessee shall furnish within fifteen (15) days after request from Lessor such current information concerning the financial condition of Lessee as Lessor may reasonably require up to twice in any twelve (12) month period. Such financial information shall include (but is not necessarily limited to) a financial statement dated not more than twelve (12) months prior to Lessor's request. Such financial statement shall be prepared in accordance with generally accepted accounting principles and annually certified by a certified public accountant. A general partner or officer of Lessee shall furnish a certification to Lessor to the effect that there either has or has not been any material adverse change in the financial condition of Lessee since the date of the financial statement submitted, and if such certification states that there has been a material adverse change, furnishing such details concerning same as Lessor may request. Lessor agrees not to disclose any of the financial information provided by Lessee without the prior written consent of Lessee, to any other party or entity. Lessor acknowledges that United States securities laws prohibit the purchase or sale of securities by any person or entity which possesses material, nonpublic information concerning a publicly traded company, or communicating such information to any other person or entity under circumstances in which it is reasonably foreseeable that such person or entity is likely to purchase or sell such securities. Lessor agrees that neither Lessor, nor its employees or agents will trade Lessee's stock on the basis of financial information provided by Lessee, or to enable any other person or entity to trade Lessee's stock on the basis of such information.

26. AUTHORITY OF LESSEE. Lessee shall furnish to Lessor within fifteen (15) days after request from Lessor such corporate resolutions, certificates of incumbency, partnership resolutions, partnership agreements, legal opinions or other information as Lessor may reasonably request in order to confirm that the execution and delivery of this lease has been duly authorized by Lessee and that the person(s) executing this lease on behalf of Lessee were duly authorized to do so. All such corporate or partnership resolutions, certificates or agreements shall be certified as being duly adopted and/or in full force and effect, without amendment, by an appropriate officer or partner of Lessee.

27. SECURITY DEPOSIT. INTENTIONALLY DELETED.

28. RULES AND REGULATIONS. The rules and regulations attached to this lease as Exhibit B shall be and are hereby made a part of this lease. Lessee, its employees, customers and guests shall perform and abide by such rules and regulations, and any amendments or additions to such rules and regulations as may be made from time to time by Lessor.

29. SUBORDINATION. This lease is subject and subordinate to all security liens, mortgages, deeds of trust and related financing instruments which may now or hereafter affect the Premises or the Project, and to all renewals, modifications, consolidations, replacement, amendments and extensions thereof, unless Lessor or any lender secured by a mortgage, deed of trust or similar security instrument elects to make this lease superior to same, which it may do at its option. Lessee and Lessor shall execute within ten (10) days after request from the other party, a subordination, non-disturbance and attornment agreement in a form reasonably acceptable to Lessor and its lender. Lessee hereby irrevocably appoints Lessor its attorney in fact to execute and deliver any such instrument on behalf of Lessee, if Lessee fails or refuses to execute or deliver same as required hereby. Lessee shall also execute within ten (10) days after request an agreement with any lender pursuant to which Lessee agrees to give such lender notice of any default by Lessor pursuant to this lease, agrees to accept performance by such lender of appropriate curative action, and agrees to give such lender a minimum period of sixty (60) days after Lessee's notice to such lender for the lender to cure Lessor's default prior to Lessee terminating this lease due to Lessor's default. Lessee hereby irrevocably appoints Lessor its attorney in fact to execute and deliver any such instruments on behalf of Lessee, if Lessee fails or refuses to execute or deliver same as required hereby.

30. ESTOPPEL STATEMENT. Within ten (10) days after request therefor by Lessor, Lessee agrees to deliver in recordable form a certificate prepared by Lessor to any proposed mortgagee or purchaser of the Premises or to Lessor certifying (if such is the case) that this lease is in full force and effect, that there are no defense or offsets thereto, or stating those claimed by Lessee, and such other facts related to this lease, the Premises or Lessee as Lessor may request. If Lessee does not execute and return such certificate as required above, Lessee hereby irrevocably appoints Lessor as its attorney in fact to execute such certificate on behalf of Lessee.

31. NOTICES. Any notices required pursuant to this lease shall be in writing. Addresses to which notices shall be sent are as follows:

TO LESSEE: Portfolio Recovery Associates, LLC
100 Corporate Boulevard, Suite 100
Norfolk, VA 23502
Attention: Steve Fredrickson

TO LESSOR: Riverside Crossing, L.C.
c/o Robinson Development Group, Inc.
150 West Main Street, Suite 1100
Norfolk, VA 23510
Attn: Anthony W. Smith

TO MANAGING AGENT: CB Richard Ellis of Virginia, Inc.
150 West Main Street, Suite 1100
Norfolk, VA 23510

Either party may at any time designate by written notice to the other a change of address for notices. All notices, demands and requests which are addressed as provided above and are (i) deposited in the United States mail, registered or certified, postage prepaid, return receipt requested, or (ii) accepted for overnight delivery by Federal Express, Emery, Purolator, Airborne or Express Mail, delivery charges prepaid or with delivery not conditioned upon payment of charges, shall be deemed to have been given for all purposes hereunder at the time such notice, demand or request shall be deposited in the United States mail or accepted for delivery by the applicable overnight delivery service.

32. PAST DUE RENTS. Lessee recognizes and acknowledges that if rent payments are not received when due, Lessor will suffer damages and additional expense thereby and Lessee therefore agrees that a late charge equal to \$500 (five hundred dollars) may be assessed by Lessor as additional rental if Lessor has not received any monthly installment of annual rent or other rent or additional rent due pursuant to this lease within five (5) days after its due date. If rent payments are not received within ten (10) days of when due, and if a minimum of 24 hour prior written or verbal notice is given by Lessor to Lessee, the total late charge for that month's rent payment will be increased to ten percent (10%); provided, however, that no late charge shall be imposed on the first late payment during any twelve month period. If any check given in payment of rent is not honored when due, Lessor may require that subsequent rent payments be made by certified or cashier's check.

33. BUILDING NAME. Lessor reserves the right to change at any time the name, address or designation of the Building without any liability to Lessee.

34. RIGHT TO RELOCATE. INTENTIONALLY DELETED.

35. RENT TAXES. INTENTIONALLY DELETED.

36. AREA OF THE PREMISES. The rentable area of the Premises shall be measured using the American National Standard Method of Measuring Floor Area in Office Buildings, ANSI 265.1-1996, published by the Building Owners and Managers Association International.

37. TAXES ATTRIBUTABLE TO LESSEE'S IMPROVEMENTS. INTENTIONALLY DELETED.

38. UTILITIES. Lessee agrees to contract and pay directly for electricity and gas used on or charged against the Premises.

39. DEFINITION OF LEASE YEAR. The first lease year is the period beginning on the Commencement Date and ending one (1) year after the last day of the month preceding the month in which the Commencement Date occurs. The second lease year shall begin on the day after the end of the first lease year, and shall end one (1) year after the end of the first lease year. The third and subsequent lease years shall begin and end on the appropriate anniversary dates of the beginning and ending dates of the second lease year.

40. SUCCESSOR AND ASSIGNS. This lease shall bind and inure to the benefits of the successors, assigns, heirs, executors, administrators and legal representatives of the parties hereto. This provision shall not give Lessee by implication any right to assign its rights or interest pursuant to this lease. The provisions of paragraph 13 above govern Lessee's right to assign and sublet.

41. RELATIONSHIP OF LESSOR AND LESSEE. It is expressly understood and agreed that Lessor shall not be construed as or held to be a partner, joint venturer or associate of Lessee, it being expressly understood and agreed that the relationship between the parties hereto is and shall at all times remain that of landlord and tenant.

42. LIMITATION OF LESSOR'S OBLIGATION. The obligations of Lessor hereunder shall be binding only upon its interest in the Project and the proceeds of any insurance maintained by Lessor therefor, and not upon any other assets of Lessor or any partner of Lessor personally. Lessee agrees to look solely to the equity of Lessor in the Project, and Lessor's insurer for the satisfaction of any remedies of Lessee or judgement obtained by Lessee as a result of a breach by Lessor of this lease. Such exculpation of liability shall be absolute and without any exception whatsoever.

43. PERFORMANCE BY LESSOR AND LESSEE. If, after notice to Lessor as provided herein, Lessor fails to perform any of its obligations hereunder within the applicable time frame, Lessee may, at its option (but shall be under no obligation to do so), perform the obligation of the Lessor which Lessor has failed to perform. Any amounts advanced in so performing obligations of Lessor shall reduce by the amount so advanced, the subsequent month's rent due from the Lessee to the Lessor; provided however, that if Lessee should make any offsets, Lessee agrees that in all events it shall continue to pay not less than eighty percent (80%) of the applicable monthly rent. To the extent that Lessee cannot offset in full in any particular month all amounts due to Lessee as a result of this provision, Lessee may continue to offset in subsequent months until Lessee is reimbursed in full.

If Lessee fails to perform any of its obligations hereunder, Lessor may, at its option (but shall be under no obligation to do so), perform the obligation of Lessee which Lessee has failed to perform. Any amounts advanced in so performing obligations of Lessee shall bear interest at the rate of eighteen (18%) percent per annum (or, if lower, the highest lawful rate) from the date expended until repaid, shall be due and payable on demand, and failure to pay on demand shall constitute an independent event of default hereunder. Payment or performance by Lessor of

the obligations of Lessee shall not waive or cure any breach occasioned by Lessee's failure or refusal to pay or perform same.

44. WAIVER. Delay in asserting or prosecuting any right, claim or cause of action accruing hereunder is not and shall not be deemed to be a waiver of, and shall not prejudice the same, or any other right, claim or cause of action accruing hereunder at any time. Waiver of any right, claim or cause of action at any time shall not prejudice any other right, claim or cause of action which Lessor may have or which shall thereafter accrue, and shall not waive Lessors right to assert any other right, claim or course of action. Acceptance by Lessor of rent from Lessee during the existence of any default shall not constitute a waiver of such default, or a waiver of the right of Lessor to insist upon Lessee's strict compliance with the terms of this lease.

45. PARAGRAPH HEADINGS. The paragraph headings of this lease are used for convenience only, and are in no way to be construed as a part of this lease or as a limitation on the scope of the particular provision to which they refer.

46. INVALIDITY. If any provision of this lease shall be held to be invalid, whether generally or as to specific facts or circumstances, the same shall not affect in any respect whatsoever the validity of the remainder of this lease, which shall continue in full force and effect. Any provision held invalid as to any particular facts and circumstances shall remain in full force and effect as to all other facts and circumstances.

47. GOVERNING LAW. This lease and the rights of the parties hereunder shall be interpreted in accordance with the laws of the state in which the Project is located.

48. BROKERS. Lessor warrants and represents that Lessor has not obtained the services of any real estate broker other than CB Richard Ellis of Virginia, Inc. ("Agent") in negotiating or consummating this lease. Lessee warrants and represents that no agent, broker or finder was involved on its behalf in negotiating or consummating this lease. Lessee agrees to indemnify and hold Lessor harmless from any and all claims for brokerage commissions arising out of any communications or negotiations between Lessee and any broker (other than Agent) regarding this lease.

49. AGENCY AND OWNERSHIP DISCLOSURE.

(a) Lessor and Lessee each acknowledge that, in connection with this lease:

Initial One

_____ **the Agent is representing the Lessor exclusively**

or

 X **the Agent is representing the Lessor and Lessee, and Lessor and Lessee expressly consent to the Agent acting as a dual representative by their execution of this Lease and their review and execution of the attached Disclosure of Dual Representation).**

(b) Initial one or both, if applicable:

 X One or more principals of Lessor are licensed Virginia real estate brokers or salespersons.

and/or

 X Agent and/or one or more brokers or salespersons of Agent has an ownership interest in Lessor.



50. ENTIRE AGREEMENT. This lease together with the attached Exhibits and Riders referred to herein and specified below, contains the entire agreement of the parties related to this transaction, supersedes all prior negotiations and agreements and represents their final and complete understanding. This lease may not be modified orally, through course of performance or in any manner other than by agreement in writing, signed by the parties hereto.

51. EXHIBITS AND ADDITIONAL PROVISIONS. The Exhibits designated as A, B, C & D, and Rider designated as No. 1 which are attached hereto and are a part of this lease, and are incorporated herein as if set forth in full.

IN WITNESS WHEREOF, this lease has been duly executed by the parties hereto as of the date and year first above written.

LESSOR:

**RIVERSIDE CROSSING, L.C.,
a Virginia limited liability company**

By: Robinson Development Group, Inc.

Its: Manager

By: /s/ Anthony W. Smith

Anthony W. Smith

Its: Senior Vice President

LESSEE:

**PORTFOLIO RECOVERY ASSOCIATES, LLC,
a Delaware limited liability company**

By: /s/ Kevin P. Stevenson

Name: Kevin P. Stevenson

Its: Senior VP and CFO

THIRD LEASE AMENDMENT

THIS THIRD LEASE AMENDMENT is made as of June 27, 2003, by and between Riverside Commerce Center, L.C., a Virginia limited liability company ("Lessor") and Portfolio Recovery Associates, LLC, a Delaware limited liability company ("Lessee").

RECITALS

- A. By One-Story Office Lease dated February 12, 1999 (the "Lease"). Riverside Investors, L.C. leased to Lessee Suite 100 consisting of 35,179 rentable square feet (the "Premises") in a building commonly known as Riverside Commerce Center, 120 Corporate Boulevard, Norfolk, VA 23502 (the "Building"), as more particularly described in said Lease.
- B. By First Lease Amendment dated April 27, 1999, Riverside Investors, L.C. and Lessee modified the Building address and Lessor's Services.
- C. Riverside Commerce Center, L.C., a Virginia limited liability company became successor in interest to Riverside Investors, L.C., a Virginia limited liability company.
- D. By Second Lease Amendment dated September 29, 2000, Lessee leased from Lessor an additional 4,503 rentable square feet (the "Expansion Premises") for a total of 39, 682 rentable square feet (the "Total Premises").
- E. Lessor and Lessee desire to modify the terms and conditions of the Lease.

NOW, THEREFORE, in consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

1. Term: The Term of the Lease is hereby extended for ninety (90) months commencing on July 1, 2006 and expiring on December 31, 2013 (the "Renewal Term").
2. Rent: Effective as of January 1, 2004, the rent for the Total Premises shall be Fifty Five Thousand Six Hundred Forty Two and 58/100 Dollars (\$55,642.58) per month payable in advance on the first business day of each and every month thereafter.
3. Escalation: The rent, described in paragraph 2 above, shall escalate three percent (3%) per annum on July 1, 2006 and annually thereafter.
4. Tenant Improvements: Lessor shall provide Lessee with a refurbishment allowance of Ninety Nine Thousand Two Hundred Five and No/100 Dollars (\$99,205.00) (\$2.50 per rentable square foot of the Total Premises) ("Refurbishment Allowance") for tenant improvements to be constructed in accordance with the Work Letter Agreement (Exhibit A) attached hereto and incorporated herein by reference. All costs in excess of the Refurbishment Allowance shall be at Lessee's cost. In the event there is a default in the payment of rent or any additional rent hereunder, Lessee shall pay to Lessor, as additional rent hereunder, the full amount of the unamortized cost of the Refurbishment Allowance amortized at a rate of ten percent (10%) per annum over the Third Lease Amendment term. Notwithstanding the foregoing, the Refurbishment Allowance must be used within calendar year 2004.

5. Additional Tenant Improvements: Lessor shall provide Lessee with an additional refurbishment allowance of One Hundred Nineteen Thousand Forty Six and No/100 Dollars (\$119,046.00) (\$3.00 per rentable square foot of the Total Premises) ("Additional Refurbishment Allowance") effective as of January 1, 2009 for additional tenant improvements to be constructed in within the Total Premises. All costs in excess of the Additional Refurbishment Allowance shall be at Lessee's cost. In the event there is a default in the payment of rent or any additional rent hereunder, Lessee shall pay to Lessor, as additional rent hereunder, the full amount of the unamortized cost of the Additional Refurbishment Allowance amortized at a rate of ten percent (10%) per annum over the remainder of the Third Lease Amendment term. Notwithstanding the foregoing, the Additional Refurbishment Allowance must be used within calendar year 2009.

6. Notices: The Lessor's notice address specified in Section 31 of the Lease is hereby changed as follows:

To Lessor: Riverside Commerce Center, L.C.
c/o Robinson Development Group, Inc.
150 West Main Street, Suite 1100
Norfolk, VA 23510
Attn: Anthony W. Smith

To Managing Agent: CB Richard Ellis of Virginia, Inc.
150 West Main Street, Suite 1100
Norfolk, VA 23510

7. Renewal Option: Paragraph 3 of the Rider No. to the Lease, Renewal Option, is hereby amended by deleting it in its entirety and substituting the following in lieu thereof:

Provided the Lease is in full force and effect and no default by Lessee has occurred hereunder, Lessee shall have the right to renew the Lease for two (2) five (5) year terms upon providing Lessor with written notice nine (9) months prior to the current expiration. The renewal terms shall be subject to the terms and conditions set forth in the Lease, and the rent shall be at ninety five percent (95%) of the fair market value at the time of the renewal. Lessee's rights as to this option are personal to the original Lessee executing this Third Lease Amendment and may not be exercised or be assigned, voluntarily, by or to any person or entity other than the original Lessee.

Lessor shall provide written notice of Lessor's determination of the fair market rental rate not later than ten (10) days after the last day upon which Lessee may timely exercise the right giving rise to the necessity for such fair market rental rate determination. Lessee shall have ten (10) days ("Lessee's Review Period") after receipt of Lessor's notice of the fair market rental rate within which to accept such fair market rental rate or to reasonably object thereto in writing. Failure of Lessee to so object to the fair market rental rate submitted by Lessor in writing within Lessee's Review Period shall conclusively be deemed Lessee's approval and acceptable thereof. In the event Lessee reasonably objects to the fair market rental rate submitted by Lessor within Lessee's Review Period, Lessor and Lessee shall attempt in good faith to agree upon such fair market rental rate within fifteen (15) days following Lessee's Review Period (the "Outside Agreement Date"). If Lessee and Lessor do not agree upon a fair market rental rate by the Outside Agreement Date, then each party's determination shall be submitted to appraisal in accordance with the provisions that follow.

Lessor and Lessee shall, at its own expense, appoint one licensed Virginia real estate broker ("Broker") to determine market rental rate of the Premises. Within thirty (30) days of

the Outside Agreement Date, each Broker shall submit its appraisal. If the difference in the two appraisals does not exceed ten percent (10%) of the rental rate then in effect, "Fair Market Value" shall be the average of the two appraisals.

If the difference between the two appraisals shall exceed ten percent (10%) of the rental rate then in effect, then the two Brokers shall, within ten (10) days, appoint a third licensed real estate Broker to perform a third appraisal, to be performed within fifteen (15) days thereafter. The cost of the third appraisal shall be shared equally by the Lessor and Lessee.

In the event that the third appraisal is neither (i) more than ten percent (10%) greater than the higher of the two previous appraisals, nor (ii) more than ten percent (10%) less than the lower of the two previous appraisals, the third appraisal shall be deemed to be "Fair Market Value". In the event that the third appraisal is more than ten percent (10%) greater than the higher of the two previous appraisals, then "Fair Market Value" shall be the higher of the two previous appraisals. In the event the third appraisal is more than ten percent (10%) less than the lower of the two previous appraisals, "Fair Market Value" shall be the lower of the two previous appraisals.

- 8. All other terms and conditions of the Lease are hereby ratified and shall remain in full force and effect. In the event of a conflict between this Third Lease Amendment, the Lease and any prior amendments, this Third Lease Amendment shall prevail.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this agreement as of the date first written above.

LESSOR:

**RIVERSIDE COMMERCE CENTER, L.C.,
a Virginia limited liability company**

By: Robinson Development Group, Inc.
Its: Manager

By: /s/ ANTHONY W. SMITH

Its: Anthony W. Smith
Senior Vice President

LESSEE:

**PORTFOLIO RECOVERY ASSOCIATES, LLC,
a Delaware limited liability company**

By: /s/ KEVIN P. STEVENSON

Name: Kevin P. Stevenson

Its: SVP/CFO

**EXHIBIT A
WORK LETTER AGREEMENT**

THIS AGREEMENT entered into as of June 27, 2003, defines the scope of work to be provided by Riverside Commerce Center, L.C., a Virginia limited liability company ("Lessor") in the Premises in Riverside Commerce Center leased by Portfolio Recovery Associates, LLC, a Delaware limited liability company ("Lessee") under a Third Lease Amendment dated June 27, 2003.

It is the intent of this Agreement that Lessee shall be permitted freedom in the interior design and layout of its space, consistent with applicable building codes and with sound architectural and construction practice, provided that no interference or damage is caused to the roof, walls or other structural components and shared plumbing and electrical systems, and no increase in maintenance or utility charges will be incurred by Lessor.

A. Improvements

1. **Lessor's Work.** Lessor, at its sole cost and expense, shall provide a refurbishment allowance to Lessee for construction of its improvements of Ninety Nine Thousand Two Hundred Five and No/100 Dollars (\$99,205.00) (\$2.50 per rentable square foot of the Total Premises) (the "Refurbishment Allowance") payable by Lessor during calendar year 2004 upon (i) completion of Lessee's improvements and (ii) within thirty (30) days of receipt by Lessor of a request therefor from Lessee, including lien waivers from all contractors providing services to Lessee.

2. **Lessee's Work.** All improvements required by Lessee in the Total Premises shall be from plans reasonably approved by Lessor and constructed by a contractor or contractors engaged by Lessee, and approved by Lessor, such approval not to be unreasonably withheld, conditioned or delayed, at Lessee's sole cost and expense.

B. Incorporation in Lease. This Agreement is and shall be incorporated by reference in the Third Lease Amendment and all of the terms and provisions of said Third Lease Amendment are and shall be incorporated herein by this reference.

LESSOR:

**RIVERSIDE COMMERCE CENTER, L.C.,
a Virginia limited liability company**

By: Robinson Development Group, Inc.
Its: Manager

By: /s/ ANTHONY W. SMITH

Anthony W. Smith
Its: Senior Vice President

LESSEE:

**PORTFOLIO RECOVERY ASSOCIATES, LLC,
a Delaware limited liability company**

By: /s/ KEVIN P. STEVENSON

Name: Kevin P. Stevenson

Its: SVP/CFO

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - 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 31, 2003

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - 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 31, 2003

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

Exhibit 32

**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 period ending June 30, 2003 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 31, 2003

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 period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin P. Stevenson, Chief Financial Officer, Senior 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 31, 2003

By: /s/ Kevin P. Stevenson

Kevin P. Stevenson
Chief Financial Officer, Senior Vice President,
Treasurer and Assistant Secretary

(Principal Financial and Accounting Officer)