

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2003

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

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

(State or other jurisdiction of
incorporation or organization)

75-3078675

(I.R.S. Employer
Identification No.)

120 Corporate Boulevard, Norfolk, Virginia

(Address of principal executive offices)

23502

(zip code)

Registrant's telephone number, including area code: (888) 772-7326

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock \$0.01 par value per share

(Title of Class)

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 and 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 12, 2004 was \$229,374,131.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The number of shares of the registrant's Common Stock outstanding as of February 12, 2004 was 15,299,676.

Documents incorporated by reference: Portions of the Proxy Statement for the Company's 2003 Annual Meeting of Stockholders are incorporated by reference into Items 11, 12 and 13 of Part III of this Form 10-K.

EXPLANATORY NOTE

This Annual Report on Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 2003 of Portfolio Recovery Associates, Inc., is being filed solely to add exhibits and schedules to certain agreements included as an exhibit and to remove certain other agreements formerly included as exhibits, all in accordance with Item 601 of Regulation S-K. Other than these corrections, none of the information contained in the Annual Report on Form 10-K filed on February 18, 2004 has been revised or amended.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Financial Statements.

The following financial statements of the Company are included in Item 8 of the Annual Report on Form 10-K:

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(b) Reports on Form 8-K.

Filed October 27, 2003, issuance of a quarterly earnings press release for the three and nine months ended September 30, 2003.

(c) Exhibits.

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| 2.1 | Equity Exchange Agreement between Portfolio Recovery Associates, L.L.C. and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 2.1 of the Registration Statement on Form S-1.) |
| 3.1 | Amended and Restated Certificate of Incorporation of Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-1.) |
| 3.2 | Amended and Restated By-Laws of Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1.) |
| 4.1 | Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1.) |
| 4.2 | Form of Warrant (Incorporated by reference to Exhibit 4.2 of the Registration Statement on Form S-1.) |
| 10.1 | Employment Agreement, dated December 8, 2002, by and between Steven D. Fredrickson and Portfolio Recovery Associates, Inc. |
| 10.2 | Employment Agreement, dated December 8, 2002, by and between Kevin P. Stevenson and Portfolio Recovery Associates, Inc. |
| 10.3 | Employment Agreement, dated December 8, 2002, by and between Craig A. Grube and Portfolio Recovery Associates, Inc. |
| 10.4 | Employment Agreement, dated December 27, 2002, by and between James L. Keown and Portfolio Recovery Associates, Inc. |
| 10.5 | Employment Agreement, dated December 8, 2002, by and between Judith S. Scott and Portfolio Recovery Associates, Inc. |
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- 10.6 Portfolio Recovery Associates, Inc. 2002 Stock Option Plan. (Incorporated by reference to Exhibit 10.12 of the Registration Statement on Form S-1.)
 - 10.7 Loan and Security Agreement, dated November 28, 2003, by and between Portfolio Recovery Associates, Inc. and RBC Centura Bank.
 - 10.8 Commercial Promissory Note, dated November 28, 2003, by and between Portfolio Recovery Associates, Inc. and RBC Centura Bank.
 - 21.1 Subsidiaries of Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 2.1 of the Registration Statement on Form S-1.)
 - 23.1 Consent of PricewaterhouseCoopers LLP (Incorporated by reference to Exhibit 23.1 of the Annual Report on Form 10-K for the year ended December 31, 2003.)
 - 24.1 Powers of Attorney. (Incorporated by reference to Exhibit 24.1 of the Annual Report on Form 10-K for the year ended December 31, 2003.)
 - 31.1 Section 302 Certifications of Chief Executive Officer and Chief Financial Officer
 - 32.1 Section 906 Certifications of Chief Executive Officer and Chief Financial Officer
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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Portfolio Recovery Associates, Inc.
(Registrant)

Dated: March 29, 2004

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

Dated: March 29, 2004

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

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 8, 2002 by and between PORTFOLIO RECOVERY ASSOCIATES, INC., a Delaware corporation (the "Company"), and Steven D. Fredrickson ("Employee").

WITNESSETH:

WHEREAS, the Company desires that Employee serve as the President and Chief Executive Officer of the Company;

WHEREAS, the Employee desires to enter into such an employment relationship upon the terms set forth in this Agreement;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties agree as follows:

1. Employment.

a) The Company hereby employs (the "Employment") Employee as the President and Chief Executive Officer of the Company. It is the intention of the parties to vest full authority to control the day-to-day operations of the Company with Employee, subject to the general supervision, control and guidance of the Board of Directors of the Company (the "Board"). Employee hereby accepts the Employment and agrees to (i) render such executive services, (ii) perform such executive duties and (iii) exercise such executive supervision and powers to, for and with respect to the Company, as may be established by the Board, for the period and upon the terms set forth in this Agreement.

b) Employee shall devote substantially all of his business time and attention to the business and affairs of the Company consistent with his executive positions with the Company, except as permitted by the Nomination and Corporate Governance Committee, for vacations permitted pursuant to Section 4(d) and for Disability (as defined in Section 8(b)). This Agreement shall not be construed as preventing Employee from serving on the Boards of Directors of other companies, engaging in charitable and community affairs, or giving attention to his passive investments, provided that such activities do not interfere with the regular performance of his duties and responsibilities under this Agreement or violate any other provision of this Agreement.

2. Place of Performance. The principal place of employment of Employee shall be at the Company's principal executive offices in Norfolk, Virginia or, if such offices are relocated, within a 50 mile radius of Norfolk, Virginia (the "Metropolitan Area"). Notwithstanding the foregoing, Employee may be required to travel beyond the Metropolitan Area as reasonably required to perform his duties hereunder.

3. Term. Except as otherwise specifically provided in Section 8 below, this Agreement will be effective upon the closing of the Company's initial public offering (the "Offering") and the term of this Agreement (as may be extended, the "Term") shall commence on the date thereof (the "Commencement Date"), and shall continue until December 31, 2005, subject to the terms and conditions of this Agreement. In the event that the Offering has not occurred as of December 31, 2002 this Agreement shall have no further effect. The Term may be terminated at an earlier date in accordance with Section 8 hereof.

4. Compensation.

a) Base Salary. Employee shall be paid a base salary (the "Base Salary") at an annual rate of \$190,000, payable at such intervals as the other executive officers of the Company are paid, but in any event at least on a monthly basis. On each January 1 following the Commencement Date, commencing January 1, 2003, Base Salary shall be increased annually by no less than 4% over the immediately preceding year's Base Salary.

b) Bonus Compensation. Employee shall receive bonus compensation ("Bonus Compensation") in accordance with paragraph (i) of this Section 4(b); provided, however, that if at any time the Management Bonus (as hereinafter defined) is not in effect, Employee shall receive bonus compensation in accordance with paragraph (ii) of this Section 4(b). Employee shall not be entitled to participate in any incentive bonus program for non-management level employees during the time the Management Bonus is in effect.

(i) Management Bonus. The performance of the business shall be reviewed at the end of each operating year and compared to such goals as are set forth in the business plan for that year as approved by the Board (the "Business Plan"). If the results of operations for the year achieve the net profitability goals for the year specified in the approved Business Plan, a bonus equal to no less than 40% of the Employee's Base Salary shall be paid to him (the "Management Bonus"). If the results of operations for the year exceed the net profitability goals of the approved Business Plan, the amount of the Employee's Management Bonus may be increased in recognition of the degree to which performance exceeded such goals, and the Employee's contribution to such superior performance results as determined in the sole discretion of the Compensation Committee of the Board (the "Committee"). If the results of operations for the year fail to achieve such net profitability goals, the amount, if any of the Employee's Management Bonus shall be within the absolute discretion of the Committee, provided that the Committee shall give reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall.

(ii) Bonus. In the event that the Management Bonus is not in effect, in addition to the Base Salary, Employee shall be entitled to such bonus compensation as may be determined from time to time by the Committee, in its sole discretion. The Committee shall base its decision on a review of the performance of the Company and the Employee's performance at the end of each year.

c) Stock Options. The Committee has granted to Employee stock options to purchase 190,000 shares of common stock of the Company, pursuant to a stock option agreement in substantially the form annexed hereto as Exhibit A (the "Option Agreement"). The stock options granted pursuant to the Option Agreement shall vest in full on a change in control. The Company shall use reasonable efforts to cause a Registration Statement on Form S-8 to be filed and to be declared effective, registering the shares to be granted hereby.

d) Employee Benefits. In addition to the Base Salary and the Bonus Compensation, and subject to the limitations imposed herein, Employee shall be entitled to (i) receive any fringe benefits provided by the Company to its executive officers, including, but not limited to, life, hospitalization, surgical, major medical and disability insurance and sick leave, (ii) such employee benefit programs as may be offered by the Company to other employees and (iii) be a full participant in all of the Company's other benefit plans, pension plans, retirement plans and profit-sharing plans which may be in effect from time to time or may hereafter be adopted by the Company.

e) Vacation. During the Term, Employee shall be entitled to such vacation with pay during each calendar year of his Employment hereunder consistent with his position as an executive officer of the Company, but in no event less than four weeks in any such calendar year (pro-rated as necessary for partial calendar years during the Term). Such vacation may be taken, in Employee's discretion, at such time or times as are not inconsistent with the reasonable business needs of the Company. Employee shall not be entitled to any additional compensation in the event that Employee, for whatever reason, fails to take such vacation during any year of his Employment hereunder. Employee shall also be entitled to all paid holidays given by the Company to its executive officers.

5. Indemnification. Employee shall be entitled at all times to the benefit of the maximum indemnification and advancement of expenses available from time to time under the laws of the State of Delaware, and such benefit shall not be less than any other officer or director entitled to indemnification by the Company. Without limiting the foregoing, Employee shall also be entitled to the benefit of the following provisions:

a) D&O Insurance. Employee shall be covered under any directors' and officers' liability insurance policy then in effect for the Company or any of its affiliates as to which Employee is serving as a director or officer. The failure to have an insurance policy in effect at all times shall not allow Employee to assert a Constructive Termination of this Agreement, other than to the extent such failure constitutes a breach of the immediately preceding sentence.

b) Scope of Indemnification. In addition to the insurance coverage provided for in Section 5(a), the Company and any of the Company's affiliates as to which Employee has at any time served as a director, officer, employee, agent or fiduciary (collectively, the "Indemnitors") shall jointly and severally hold harmless and indemnify Employee (and his heirs, executors and administrators) to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by

him in connection with or arising out of any action, suit or proceeding (each, a "Claim") in which he may be involved by reason of his having been a director, officer, employee, agent or fiduciary of any Indemnitor (whether or not he continues to be a director, officer, employee, agent or fiduciary thereof at the time of incurring such expenses or liabilities), or by reason of any action or inaction on Employee's part while serving in any such capacity, such expenses and liabilities to include, but not be limited to, losses, damages, judgments, investigation costs, court costs and attorneys' fees and the cost of reasonable settlements.

c) Selection of Counsel. In the event the Indemnitors shall be obligated hereunder to pay any Expenses with respect to a Claim, the Indemnitors shall be entitled to assume the defense of such Claim upon the delivery to Employee of written notice of its election to do so. After delivery of such notice and the retention of such counsel by the Indemnitors, the Indemnitors will not be liable to Employee under this Agreement for any fees of counsel subsequently incurred by Employee with respect to the same Claim; provided that, (i) Employee shall have the right to employ counsel in any such Claim at his expense; and (ii) if (A) the employment of counsel by Employee has been previously authorized by the Indemnitors, (B) counsel for Employee shall have provided the Indemnitors with written advice that there is a conflict of interest between the Indemnitors and Employee in the conduct of any such defense, or (C) the Indemnitors shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Employee's counsel shall be at the expense of the Indemnitors.

d) Nonexclusivity. The indemnification rights set for in this Section 5 shall be in addition to any rights to which Employee may be entitled under any of the Indemnitors' charter documents, bylaws or agreements, any vote of stockholders or disinterested directors, the laws of the various Indemnitors' jurisdictions of formation or incorporation. The indemnification rights set forth in this Section 5 shall continue as to Employee for any action Employee took or did not take while serving in an indemnified capacity even though Employee may have ceased to serve in such capacity.

e) Survival. The indemnification and contribution provided for in this Section 5 will remain in full force and effect after any termination of Employee's employment and without regard to any investigation made by or on behalf of Employee or any agent or representative of Employee.

6. Expenses. During the Term, the Company shall reimburse Employee upon presentation of appropriate vouchers or receipts in accordance with the Company's expense reimbursement policies for executive officers, for all out-of-pocket business travel and entertainment expenses incurred or expended by Employee in connection with the performance of his duties under this Agreement.

7. Termination Procedure.

a) Notice of Termination. Any termination of Employee's Employment by the Company or by Employee during the Term (other than termination pursuant to Section 8(a) of this Agreement) shall be communicated by written notice

("Notice of Termination") to the other party hereto in accordance with Section 13 herein. For purposes of this Agreement, a Notice of Termination shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's Employment under the provision so indicated.

b) Date of Termination. "Date of Termination" shall mean (a) if Employee's Employment is terminated by his death, the date of death, (b) if Employee's Employment is terminated pursuant to Section 8(b) herein, 30 days after Notice of Termination (provided that Employee shall not have returned to the substantial performance of his duties on a full-time basis during such 30 day period), (c) if Employee's Employment terminates upon the expiration of the Term and Employee's Employment is not renewed pursuant to Section 3 of this Agreement, the date of expiration of the Term, and (d) if Employee's Employment is terminated for any other reason, the date on which Notice of Termination is given or any later date (within 30 days after the giving of such notice) set forth in such Notice of Termination.

8. Termination of Employment.

a) Death. In the event of the death of Employee during the Term, Employee's Employment hereunder shall be terminated as of the date of his death and Employee's designated beneficiary, or, in the absence of such designation, the estate or other legal representative of Employee (collectively, the "Estate"), shall be paid Employee's unpaid Base Salary through the month in which the death occurs and any unpaid Bonus Compensation for any fiscal year which has ended as of the date of such termination or which was at least fifty percent (50%) completed as of the date of death. In the case of such incomplete fiscal year, the Bonus Compensation shall be determined based upon the assumption that Employee would have earned the target Bonus Compensation in accordance with Section 4(b) and pro-rated, and all such Bonus Compensation, if any, payable as a result of this Section 8(a) shall be payable at the same time as bonuses would be payable to other executive officers (regardless of whether such other officers earned any such bonus). The Estate shall be entitled to all other death benefits in accordance with the terms of the Company's benefit programs and plans.

b) Disability. In the event Employee shall be unable to render the services or perform his duties hereunder by reason of illness, injury or incapacity (whether physical, mental, emotional or psychological) (any of the foregoing shall be referred to herein as a "Disability") for a period of either (i) 180 consecutive days or (ii) 270 days in any consecutive 365-day period, the Company shall have the right to terminate this Agreement by giving Employee 30 days' prior written notice. Any determination of Disability shall be made by the Board in its reasonable good faith discretion. If Employee's Employment hereunder is so terminated, Employee shall be paid, offset by payments under any disability insurance policy in effect, Employee's unpaid Base Salary through the month in which the termination occurs, plus Bonus Compensation on the same basis as is set forth in Section 8(a) above. The Employee shall be entitled to receive all benefits in accordance with the terms of this Agreement and of the Company's benefit programs and plans.

c) Termination of Employment by the Company for Cause.

(i) Nothing herein shall prevent the Company from terminating Employee's Employment for Cause (as hereinafter defined). From and after the Date of Termination, Employee shall no longer be entitled to receive Base Salary and Bonus Compensation and the Company shall no longer be required to pay premiums on any life insurance or disability policy for Employee. Any rights and benefits which Employee may have in respect of any other compensation or any employee benefit plans or programs of the Company, whether pursuant to Section 4(c) or otherwise, shall be determined in accordance with the terms of such other compensation arrangements or plans or programs. The term "Cause," as used herein, shall mean: (A) Employee's conviction, or plea of guilty or *nolo contendere* to, a felony; (B) Employee's engaging in willful misconduct that is economically injurious to the Company (including, but not limited to, a willful violation of Sections 10 or 11 of this Agreement or the embezzlement of funds or misappropriation of other property of the Company or any subsidiary); or (C) Employee shall breach this Agreement in a material manner or engage in fraudulent conduct as regards the Company which results either in personal enrichment to Employee or material injury to the Company. Notwithstanding the foregoing, under no circumstances shall Employee's refusal or unwillingness to make any of the certifications required of him as Chief Executive Officer of the Company pursuant to Section 302 or Section 906 of the Sarbanes-Oxley Act of 2002, or any rules or regulations promulgated thereunder, or any similar requirements of any federal, state, local or foreign governmental authority or agency, or of any national securities exchange or quotation system on which any class or series of the Company's capital stock is then traded or listed for quotation, constitute or give rise to a basis for termination for "Cause."

(ii) The Company shall provide Employee with Notice of Termination stating that it intends to terminate Employee's Employment for Cause under this Section 8(c) and specifying the particular act or acts on the basis of which the Board intends to terminate Employee's Employment. Employee shall then be given the opportunity, within 15 days of his receipt of such notice, to have a meeting with the Board to discuss such act or acts (other than with respect to an action described in Sections 8(c)(i)(A) or (B) above as to which the Board may immediately terminate Employee's Employment for Cause). Other than with respect to an action described in Sections 8(c)(i)(A) or (B) above, Employee shall be given seven days after his meeting with the Board to take reasonable steps to cease or correct the performance (or nonperformance) giving rise to such Notice of Termination. In the event the Board determines that Employee has failed within such seven-day period to take reasonable steps to cease or correct such performance (or nonperformance), Employee shall be given the opportunity, within 10 days of his receipt of written notice to such effect, to have a meeting with the Board to discuss such determination. Following that meeting, if the Board believes that Employee has failed to take reasonable steps to cease or correct his performance (or nonperformance) as above described, the Board may thereupon terminate the Employment of Employee for Cause.

d) Termination Other than for Cause, Death or Disability.

(i) Termination. This Agreement may be terminated by the Company (in addition to termination pursuant to Sections 8(a), (b) or (c) above) or Employee at any time and for any reason or upon the expiration of the Term.

(ii) Severance and Non-Competition Payments. If the Employee's employment is terminated under this Section 8(d) (including a Constructive Termination (as hereinafter defined), other than as a termination by Employee as a result of death or Disability of Employee or for Cause (and other than during the six months following a "change in control" (as hereinafter defined) of the Company)), the following shall apply:

A) the Company shall pay to Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, as soon as practicable following the Date of Termination, (x) the greater of a lump-sum payment equal to two times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term and (y) a lump-sum payment equal to the greater of two times the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year in which the Date of Termination occurs or the target Bonus Compensation due under the remaining Term (whether or not such target is actually met). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release (as hereinafter defined), but in no event more than 45 days following the execution of such Release;

B) the Company shall provide a reasonable allowance for outplacement services, not to exceed \$7,500;

C) the Company shall continue to provide Employee with the same level of medical benefits upon substantially the same terms and conditions (including contributions required by Employee for such benefits) as existed immediately prior to Employee's termination for the longer of the maximum period of time provided under federal law or the remainder of the Term; provided that the Company shall bear the costs of such benefits for the longer of 12 months or the remainder of the Term and, provided further, if Employee cannot continue to participate in the Company's plans providing such benefits, the Company shall reimburse Employee the cost of obtaining such benefits as if continued participation had been permitted. Notwithstanding the foregoing, in the event Employee obtains employment with another employer and becomes eligible to receive comparable benefits from such employer, the benefits described in this clause (C) shall cease; and

D) Employee shall be entitled to any other rights, compensation and/or benefits as may be due to Employee in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(iii) Change in Control. For purposes of this Agreement, a “change in control” of the Company shall be deemed to have occurred if any of the following events occur:

(A) an acquisition after the date of this Agreement by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this definition, the following transactions shall not constitute a change in control: (a) any acquisition by the Company or by an employee benefit plan (or related trust) sponsored or maintained by the Company or an affiliate, (b) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, (c) any acquisition by, or consummation of a Corporate Transaction with, an affiliate of the Company, or (d) a Non-Control Transaction;

(B) A change in the composition of the board of directors of the Company such that the individuals who, as of the date hereof, constitute the board of directors of the Company (such Board shall be hereinafter referred to as the “Incumbent Board”) cease for any reason to constitute at least a majority of the board of directors of the Company; provided, however, for purposes of this clause (B), any individual who becomes a member of the board of directors of the Company subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the board of directors of the Company and who were also members of the Incumbent Board (or deemed to be such pursuant to this provision) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the board of directors of the Company shall not be so considered as a member of the Incumbent Board; or

(C) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”), in each case, unless the Corporate Transaction is a Non-Control Transaction; or

For purposes of the foregoing, “Non-Control Transaction” means a Corporate Transaction as a result of which the Outstanding Company Voting Securities immediately prior to such Corporate Transaction would entitle the holders thereof immediately prior to such Corporate Transaction to exercise, directly or indirectly, more than fifty percent (50%) of the combined voting power of all of the shares of capital stock entitled to vote generally in election of directors of the corporation resulting from such Corporate Transaction immediately after such Corporate Transaction (including, without limitation,

a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries).

(iv) Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall be deemed to have occurred upon (i) the removal of Employee from, or a failure of Employee to continue as, President and Chief Executive Officer of the Company, (ii) Employee is not elected or nominated by the Nominating and Corporate Governance Committee to serve as a director of the Company or is removed from the Board other than for cause (other than as a result of a change in the law preventing Employee from serving as a director), (iii) any material diminution in the nature or scope of the authorities, powers, functions, duties or responsibilities attached to such positions, (iv) the relocation of the Company's principal executive offices to a location more than 50 miles from Norfolk, Virginia, or (v) the material breach by the Company of this Agreement and, in the case of clauses (i)-(iv) above, Employee does not agree to such change (which decision is personal in nature and not subject to any fiduciary responsibilities Employee may have as an officer or director of the Company) and elects to terminate his Employment.

(v) Severance and Non-Competition Payments Following a Change in Control. In the event of a termination of employment by Employee for any reason, other than as a result of death or Disability of Employee or for Cause, within six months following a "change in control" of the Company, the Company shall pay Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) the greater of a lump-sum payment equal to two times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term, (y) the greater of a lump-sum payment equal to two times (A) the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year of termination or (B) the target Bonus Compensation due for the year of termination (whether or not such target is actually met) and (z) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vi) Severance and Non-Competition Payments Following Non-Renewal of this Agreement. If this Agreement is not renewed beyond the Term by the parties hereto, the Company shall pay Employee a severance and non-competition payment equal to: (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) a lump-sum payment equal to one times Employee's then current Base Salary and (y) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D).

Such payment under clause (x) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vii) No Mitigation. Employee shall not be required to mitigate the amount of any severance and non-competition payment provided for under this Agreement by seeking other employment or otherwise.

(viii) Excise Tax. In the event that Employee becomes entitled to any payments or benefits under this Agreement and any portion of such payments or benefits, when combined with any other payments or benefits provided to Employee (including, without limiting the generality of the foregoing, by reason of the exercise of any stock options or the receipt of any shares of stock of the Company), which in the absence of this Section 8(d)(ii)(J), would be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the amount payable to Employee under this Agreement shall be reduced to the largest amount or greatest right (for example, by deferring the vesting date of Employee's options) such that none of the amounts payable to Employee under this Agreement and any other payments or benefits received or to be received by Employee as a result of, or in connection with, an event constituting a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(A) of the Code) (collectively, a "Control Change") or the termination of Employment (including a Constructive Termination, and whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Control Change or any person having such a relationship with the Company or such person as to require attribution of stock ownership between the parties under Section 318(a) of the Code) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code. The Company shall cooperate in good faith with Employee in making such determination. In the event that the vesting date of any option is deferred hereunder, the term during which such option may be exercised shall be extended until the ninetieth (90th) day following the full vesting thereof.

9. Release. Employee acknowledges and agrees that the payments set forth in Section 8 of this Agreement constitute liquidated damages for any claim of breach of contract under this Agreement as it relates to termination of Employee's employment. In order to receive any of the payments set forth above, prior to the payment of such amounts, Employee shall execute and agree to be bound by an agreement relating to the waiver and general release of any and all claims (other than claims for the compensation and benefits payable under Section 8 hereof) arising out of or relating to Employee's employment and termination of employment (the "Release"), which Release shall be in substantially the form annexed hereto as Exhibit B (with such changes as counsel to the Company may reasonably require as a result of changes in law after the date hereof).

10. Confidential Information.

a) Employee covenants and agrees that he will not at any time, either during the Term or thereafter, use, disclose or make accessible to any other person, firm, partnership, corporation or any other entity any Confidential Information (as defined below) pertaining to the business of the Company except (i) while employed by the Company, in the business of and for the benefit of the Company or (ii) when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Company to divulge, disclose or make accessible such information. For purposes of this Agreement, "Confidential Information" shall mean non-public information concerning the Company's financial data, statistical data, strategic business plans, product development (or other proprietary product data), customer and supplier lists, customer and supplier information, information relating to practices, processes, methods, trade secrets, marketing plans and other non-public, proprietary and confidential information of the Company; provided, however, that Confidential Information shall not include any information which (x) is known generally to the public other than as a result of unauthorized disclosure by Employee, (y) becomes available to the Employee on a non-confidential basis from a source other than the Company or (z) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Company. It is specifically understood and agreed by Employee that any Confidential Information received by Employee during his Employment by the Company is deemed Confidential Information for purposes of this Agreement. In the event Employee's Employment is terminated hereunder for any reason, he immediately shall return to the Company all tangible Confidential Information in his possession.

b) Employee and the Company agree that this covenant regarding Confidential Information is a reasonable covenant under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction, such covenant is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended. Employee agrees that any breach of the covenant contained in this Section 10 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 10.

11. Non-Competition; Non-Solicitation.

a) Employee agrees that during the Non-Competition Period (as defined in Section 11(d) below), without the prior written consent of the Company: (i) he shall not be a principal, manager, agent, consultant, officer, director or employee of, or, directly or indirectly, own more than 1% percent of any class or series of equity securities in, any partnership, corporation or other entity, which, now or at such time, has material operations which are engaged in any business activity competitive (directly or indirectly) with the Business of the Company (a "Competing Entity"); and (ii) he shall not, on behalf of any Competing Entity, directly or indirectly, have any dealings or contact with any

suppliers or customers of the Company. As used in this Agreement, the term "Business" means the purchase, collection and management of portfolios of defaulted consumer receivables, but shall not include such collection and management activities to the extent they are incidental to a business primarily engaged in loan origination or servicing. Notwithstanding the foregoing, an entity will not be deemed to be a Competing Entity, and Employee will not be deemed to be engaged in the Business, if (i) Employee is employed by an entity that is engaged in any meaningful way in one or more businesses other than the Business (the "Non-Competing Businesses"), (ii) such entity's relationship with Employee relates solely to the Non-Competing Businesses, and (iii) if requested by the Company, such entity and Employee shall provide the Company with reasonable assurances that Employee will have no direct or indirect involvement in the Business on behalf of such entity.

b) During the Non-Competition Period and for one year thereafter (two years after the Term), Employee agrees that, without the prior written consent of the Company (and other than on behalf of the Company), Employee shall not, on his own behalf or on behalf of any person or entity, directly or indirectly, (i) solicit the customers or suppliers of the Company to terminate their relationship with the Company (or to modify such relationship in a manner that is adverse to the interests of the Company) or (ii) hire or solicit the employment of any employee who has been employed by the Company at the time of Employee's termination or at any time during the six months immediately preceding such date of hiring or solicitation. This provision does not prohibit the solicitation of employees by means of a general advertisement.

c) Employee and the Company agree that the covenants of non-competition and non-solicitation are reasonable covenants under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction such covenants are not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of these covenants as to the court shall appear not reasonable and to enforce the remainder of these covenants as so amended. Employee agrees that any breach of the covenants contained in this Section 11 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 11.

d) The provisions of this Section 11 shall extend for the Term and survive the termination of this Agreement for one year from the date of such termination (herein referred to as the "Non-Competition Period").

e) The provisions of this Section 11 shall terminate if this Agreement is terminated by the Company other than for Cause, or in the event of a Constructive Termination of this Agreement or if the Company defaults on any of its payment obligations set forth in this Agreement, which payment default is not cured within fifteen (15) days after notice.

12. Limitation of Liability and Indemnity. The limitation of liability and indemnity provisions of Section 8.1 of the Amended and Restated ByLaws of the Company and Article 9 of the Amended and Restated Certificate of Incorporation of the Company are a contractual benefit to Employee and are a material consideration for Employee's employment.

13. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given if delivered personally or sent by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, as follows (or to another address specified in writing by the recipient prior to the sending of such notice or communication):

If to the Company, to: Portfolio Recovery Associates, Inc.
120 Corporate Boulevard
Norfolk, Virginia 23502
Attn: General Counsel
Fax:

If to Employee, to: Mr. Steven D. Fredrickson
3208 Stapleford Chase
Virginia Beach, Virginia 23452
Fax:

14. Entire Agreement. This Agreement and the Option Agreement contain the entire agreement between the parties hereto with respect to the matters contemplated herein and supersede all prior agreements or understandings among the parties related to such matters. In case of any conflict between the provisions hereof and the Option Agreement, the provisions of this Agreement shall be controlling.

15. Successors; Binding Effect. Except as otherwise provided herein, this Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns and upon Employee. "Successors and assigns" shall mean, in the case of the Company, any successor pursuant to a merger, consolidation, or sale, or other transfer of all or substantially all of the assets or Common Stock of the Company, provided that, should the Company assign or transfer this Agreement, the Company will require any successor to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such assignment or transfer had taken place.

16. No Assignment. Except as contemplated by Section 15 above, this Agreement shall not be assignable or otherwise transferable by either party.

17. Withholding. All payments hereunder shall be subject to any required withholding of federal, state and local taxes pursuant to any applicable law or regulation.

18. Amendment or Modification: Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Board and is agreed to in writing, signed by Employee and by a duly authorized officer of the Company (other than Employee). Except as otherwise specifically provided in this Agreement, no waiver by either party hereto of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar provision or condition at the same or at any prior or subsequent time.

19. Fees and Expenses. If either party institutes any action or proceedings to enforce any rights the party has under this Agreement, or for damages by reason of any alleged breach of any provision of this Agreement, or for a declaration of each party's rights or obligations hereunder or to set aside any provision hereof, or for any other judicial remedy, the prevailing party shall be entitled to reimbursement from the other party for its costs and expenses incurred thereby, including but not limited to, reasonable attorneys' fees and disbursements.

20. Governing Law. The validity, interpretation, construction, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Delaware, without regard to its conflicts of law rules.

21. Titles. Titles to the Sections in this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the title of any Section.

22. Counterparts. This Agreement may be executed in one or more counterparts, which together shall constitute one agreement. It shall not be necessary for each party to sign each counterpart so long as each party has signed at least one counterpart.

23. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms and provisions of this Agreement in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: /s/ Judith S. Scott

Name: Judith S. Scott
Position: Secretary

By: /s/ Steven D. Fredrickson

Steven D. Fredrickson

PORTFOLIO RECOVERY ASSOCIATES, INC.

STOCK OPTION AGREEMENT

Portfolio Recovery Associates, Inc., a Delaware corporation (the "Company"), has duly adopted the 2002 Stock Option Plan (the "Plan"), the terms of which are hereby incorporated by reference. In the case of any conflict between the provisions hereof and those of the Plan, the provisions of this Agreement shall be controlling. A copy of the Plan is available upon request by the Optionee to the Secretary of the Company.

In accordance with Section 6 of the Plan, a committee of the Board of Directors (the "Board") of the Company designated by the Board to administer the Plan (the "Committee") adopted a resolution granting you (the "Optionee") a stock option (the "Option") under the Plan to purchase the number of shares (the "Shares") of the Company's common stock, par value \$.01 per share (the "Common Stock"), specified below, for the exercise price specified below and on the terms and subject to the conditions set forth in this Agreement and in the Plan.

This page is the first page of this Agreement, which describes in detail your rights with respect to the Option granted to you hereby and constitutes a legal agreement between you and the Company.

Name of Optionee: Steven D. Fredrickson
Address of Optionee: _____
Date of Grant: November 7, 2002
Option Exercise Price: (subject to Paragraph 4): *\$ 13.00
Number of Shares Subject to Option: 190,000
Type of Option: Non-qualified Stock Option [X]

IN WITNESS WHEREOF, the parties have witnessed this Agreement to be duly executed and delivered as of the Date of Grant specified above.

OPTIONEE

By: _____

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____

Judith Scott
General Counsel and Secretary

1. (a) Unless the Option is previously terminated pursuant to the Plan or this Agreement and subject to the terms of any other agreement between the Optionee and the Company (including, without limitation, any employment or other agreement which may provide for, among other things, an accelerated vesting schedule), the Option shall be exercisable in five (5) equal installments on the first five (5) anniversaries of the Date of Grant. In no event shall any Shares be purchasable under this Agreement after the seventh (7th) anniversary after the Date of Grant (the "Expiration Date"). Except as provided in subparagraph (b) hereof, the Option shall cease to be exercisable ninety (90) days after the date the Optionee terminates services as an employee or consultant of the Company or any Affiliate of the Company for reasons other than Cause and immediately upon the termination of the Optionee for Cause, and all rights of the Optionee hereunder shall thereupon terminate.

(b) If the Optionee ceases to be an employee of the Company or any Affiliate of the Company and this cessation is due to retirement (as defined by the Committee in its sole discretion), or to mental or physical disability (as defined in each case by the Committee in its sole discretion) or to death, the Option shall be exercisable as provided in this subparagraph. The Optionee or, in the event of his mental or physical disability, if permissible under applicable law with respect to any option that is not an incentive stock option (an "ISO") under Section 422 of the Internal Revenue Code, as amended (the "Code"), his duly appointed guardian or legal representative or, in the event of his death, his executor or administrator shall have the privilege of exercising the unexercised portion of the Option which the Optionee could have exercised on the day on which he ceased to be an employee of the Company or any Affiliate of the Company; provided, however, that such exercise must be in accordance with the terms of this Agreement and within (i) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's retirement or mental or physical disability or (ii)(A) twelve (12) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death or (B) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death if such death occurs during the six (6) month period following the termination of the Optionee's employment by reason of retirement or mental or physical disability, as the case may be. In no event, however, shall the Optionee, his duly appointed guardian or legal representative, or his executor or administrator, as the case may be, exercise the Option after the Expiration Date. For all purposes of this Agreement, an approved leave of absence shall not constitute an interruption or cessation of the Optionee's service as an employee of the Company or any Affiliate of the Company.

2. Nothing contained herein shall be construed to confer on the Optionee any right to be retained in the employ of the Company or any Affiliate of the Company or to derogate from any right of the Company or any Affiliate thereof to dismiss the Optionee from employment, free from any liability, or any claim under this Agreement or the Plan, unless otherwise expressly provided in the Plan or in this Agreement.

3. Subject to Section 422 of the Code, no Option and no right under any such Option shall be assignable, alienable, saleable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and such Option, and each right under any such Option, shall be exercisable during the Optionee's lifetime only by the Optionee or, if permissible under applicable law, by the Optionee's guardian or legal representative. However, the Committee may, in its discretion, provide that nonqualified stock options be transferable,

without consideration, to immediate family members (i.e., children, grandchildren or spouse) to trusts for the benefit of such immediate family members and to partnerships in which such family members are the only parties. In addition, the Optionee may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the Optionee, and to receive any distribution with respect to any Option upon the death of the Optionee. No Option, and no right under any such Option, may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate of the Company.

4. (a) In the event that the Committee shall determine that the outstanding shares of Common Stock are affected by any (i) subdivision or consolidation of shares, (ii) dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), (iii) recapitalization or other capital adjustment of the Company, or (iv) merger, consolidation or reorganization of the Company or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be made under the Plan, adjust any or all of (x) the number and type of Shares which may be subject to Options, (y) the number and type of Shares subject to the unexercised portion of the Option, and (z) the grant, purchase, or exercise price with respect to any Option or, if deemed appropriate, make provision for a cash payment to the Optionee; provided, however, in each case, that (i) with respect to ISOs no such adjustment shall be authorized to the extent that such adjustment would cause the Plan to violate Section 422 of the Code or any successor provision thereto; (ii) each such adjustment shall be made in such manner as not to constitute a cancellation and reissuance of a nonqualified stock option for purposes of Section 162(m) of the Code, or the regulations promulgated thereunder, to the extent that such reissuance would result in the grant of such Options in excess of the maximum permitted to be granted to the Optionee in any fiscal year; and (iii) the number of Shares subject to any Option denominated in Shares shall always be a whole number. In computing any adjustment under this paragraph, any fractional share shall be eliminated.

(b) In addition to the rights set forth in clause (a), in the event of a transaction described in clause (a)(iv) above, the Committee may, in its sole discretion, take any one or more of the following actions, as to outstanding Options: (i) provide that such Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation or entity (or to the extent the Company's stockholders receive capital stock of an affiliate thereof in the transaction, by such affiliate), provided, however, that any such options substituted for Incentive Stock Options shall meet the requirements of Section 424(a) of the Code, (ii) upon written notice to the Optionee, provide that (A) all exercisable but unexercised Options will terminate immediately prior to the consummation of such transaction unless exercised by the Optionee (after giving effect to the full vesting thereof upon consummation of such transaction, if applicable) within a specified period following the date of such notice and prior to the consummation of such event or transaction (which period shall not be less than fifteen (15) days) and (B) all unexercisable Options will terminate upon consummation of such event or transaction, (iii) in the event of a merger or consolidation under the terms of which holders of the Common Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the merger or consolidation (the "Merger Price"), make or

provide for a cash payment to the Optionee equal to the difference between (A) the Merger Price times the number of shares of Common Stock subject to such outstanding Options (to the extent then exercisable at prices not in excess of the Merger Price) and (B) the aggregate exercise price of all such outstanding Options, in exchange for the termination of such Options, or (iv) provide that all or any outstanding Options shall become exercisable in full immediately prior to such event or transaction and shall cease to be exercisable at any time after such event or transaction. Any exercise of the Option in contemplation of a transaction described in clause (a)(iv) above may be conditioned upon and subject to the consummation thereof, in which case, any such exercise shall be deemed to have occurred immediately prior to such transaction and any resulting termination of the Option.

5. The Option shall be exercised when written notice of such exercise, signed by the person entitled to exercise the Option, has been delivered or transmitted by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, to the Secretary of the Company at its principal office. Said written notice shall specify the number of Shares purchasable under the Option which such person then wishes to purchase and shall be accompanied by such documentation, if any, as may be required by the Company as provided in Paragraph 8 below and be accompanied by payment of the aggregate Option price. Such payment of the aggregate Option price shall be, without limitation, in the form of (i) cash, shares, outstanding Options or other consideration, or any combination thereof, having a Fair Market Value on the exercise date equal to the exercise price of the Option or portion thereof being exercised or (ii) a broker-assisted cashless exercise program established by the Committee, if then applicable to the Optionee. Delivery of said notice and such documentation shall constitute an irrevocable election to purchase the Shares specified in said notice and the date on which the Company receives said notice and documentation shall, subject to the provisions of Paragraph 7 and 8, be the date as of which the Shares so purchased shall be deemed to have been issued. The person entitled to exercise the Option shall not have the right or status as a holder of the Shares to which such exercise relates prior to receipt by the Company of such payment, notice and documentation.

6. If the Company shall become obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state, local or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax (the "Withholding Liability"), then the Optionee shall, on the date of exercise and as a condition to the issuance of the Shares subject to the Option, pay the Withholding Liability to the Company. Payment shall be by check payable to the Company; provided, however, that, with the consent of the Committee, payment may instead be made by delivery to the Company of a certificate or certificates representing Shares duly endorsed or accompanied by a duly executed stock power(s), which delivery effectively transfers to the Company good and valid title to such Shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such Shares to be valued on the basis of the Fair Market Value thereof on the date of such payment); provided further, however, that the Company is not then prohibited from purchasing or acquiring such Shares. In addition to the foregoing methods of payment, the Optionee may request in writing that the Company withhold all or a portion of the Withholding Liability from any compensation or other amounts otherwise then due and payable to the

Optionee, in which case the withholding and payment of any such amount by the Company to the relevant taxing authority shall constitute full satisfaction of the Company's obligation to pay such compensation or other amounts to Optionee.

7. Anything in this Agreement to the contrary notwithstanding, in no event may the Option be exercisable if the Company shall, at any time and in its sole discretion, determine that (i) the listing, registration or qualification of any Shares otherwise deliverable upon such exercise, upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any governmental or regulatory body is necessary or desirable in connection with such exercise. In such event, such exercise shall be held in abeyance and shall not be effective unless and until such listing, registration, qualification, consent or approval shall have been affected or obtained free of any conditions not acceptable to the Company. Pending effectiveness, the Company shall return the exercise price to the Optionee, and so long as such exercise shall be held in abeyance, the Option shall remain exercisable subject to this Section notwithstanding any termination or expiration thereof that might otherwise occur under the Option.

8. The Committee may require as a condition to the right to exercise the Option hereunder that the Company receive from the person exercising the Option representations, warranties and agreements, at the time of any such exercise, to the effect that the Shares are being purchased without any present intention to sell or otherwise distribute such Shares in violation of applicable federal securities laws and that the Shares will not be disposed of in transactions which, in the opinion of counsel to the Company, would violate the registration provisions of the Securities Act of 1933, as then amended, and the rules and regulations thereunder. The certificate issued to evidence such Shares shall bear appropriate legends summarizing such restrictions on the disposition thereof.

9. All certificates for Shares or other securities of the Company delivered under the Plan pursuant to any Option or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other restrictions of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10. The Company makes no representations or warranties as to the income, estate or other tax consequences to the Optionee of the grant or exercise of the Option or the sale or other disposition of the Shares acquired pursuant to the exercise thereof.

11. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware and applicable federal law. Subject to subparagraph 1(b) and 3(a) hereof, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors or assigns, as the case may be.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 8, 2002 by and between PORTFOLIO RECOVERY ASSOCIATES, INC., a Delaware corporation (the "Company"), and Kevin P. Stevenson ("Employee").

W I T N E S S E T H :

WHEREAS, the Company desires that Employee serve as the Senior Vice President and Chief Financial Officer of the Company;

WHEREAS, the Employee desires to enter into such an employment relationship upon the terms set forth in this Agreement;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties agree as follows:

1. Employment.

a) The Company hereby employs (the "Employment") Employee as the Senior Vice President and Chief Financial Officer of the Company. Employee shall perform such duties and exercise such powers as directed by the president and Chief Executive Officer of the Company, subject to the general supervision, control and guidance of the Board of Directors of the Company (the "Board"). Employee hereby accepts the Employment and agrees to (i) render such executive services, (ii) perform such executive duties and (iii) exercise such executive supervision and powers to, for and with respect to the Company, as may be established, for the period and upon the terms set forth in this Agreement.

b) Employee shall devote substantially all of his business time and attention to the business and affairs of the Company consistent with his executive positions with the Company, except as permitted by the Nomination and Corporate Governance Committee, for vacations permitted pursuant to Section 4(d) and for Disability (as defined in Section 8(b)). This Agreement shall not be construed as preventing Employee from serving on the Boards of Directors of other companies, engaging in charitable and community affairs, or giving attention to his passive investments, provided that such activities do not interfere with the regular performance of his duties and responsibilities under this Agreement or violate any other provision of this Agreement.

2. Place of Performance. The principal place of employment of Employee shall be at the Company's principal executive offices in Norfolk, Virginia or, if such offices are relocated, within a 50 mile radius of Norfolk, Virginia (the "Metropolitan Area"). Notwithstanding the foregoing, Employee may be required to travel beyond the Metropolitan Area as reasonably required to perform his duties hereunder.

3. Term. Except as otherwise specifically provided in Section 8 below, this Agreement will be effective upon the closing of the Company's initial public offering (the "Offering") and the term of this Agreement (as may be extended, the "Term") shall commence on the date thereof (the "Commencement Date"), and shall continue until December 31, 2005, subject to the terms and conditions of this Agreement. In the event that the Offering has not occurred as of December 31, 2002 this Agreement shall have no further effect. The Term may be terminated at an earlier date in accordance with Section 8 hereof.

4. Compensation.

a) Base Salary. Employee shall be paid a base salary (the "Base Salary") at an annual rate of \$120,000, payable at such intervals as the other executive officers of the Company are paid, but in any event at least on a monthly basis. On each January 1 following the Commencement Date, commencing January 1, 2003, Base Salary shall be increased annually by no less than 4% over the immediately preceding year's Base Salary.

b) Bonus Compensation. Employee shall receive bonus compensation ("Bonus Compensation") in accordance with paragraph (i) of this Section 4(b); provided, however, that if at any time the Management Bonus (as hereinafter defined) is not in effect, Employee shall receive bonus compensation in accordance with paragraph (ii) of this Section 4(b). Employee shall not be entitled to participate in any incentive bonus program for non-management level employees during the time the Management Bonus is in effect.

(i) Management Bonus. The performance of the business shall be reviewed at the end of each operating year and compared to such goals as are set forth in the business plan for that year as approved by the Board (the "Business Plan"). If the results of operations for the year achieve the net profitability goals for the year specified in the approved Business Plan, a bonus equal to no less than 33% of the Employee's Base Salary shall be paid to him (the "Management Bonus"). If the results of operations for the year exceed the net profitability goals of the approved Business Plan, the amount of the Employee's Management Bonus may be increased in recognition of the degree to which performance exceeded such goals, and the Employee's contribution to such superior performance results as determined in the sole discretion of the Compensation Committee of the Board (the "Committee"). If the results of operations for the year fail to achieve such net profitability goals, the amount, if any of the Employee's Management Bonus shall be within the absolute discretion of the Committee, provided that the Committee shall give reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall.

(ii) Bonus. In the event that the Management Bonus is not in effect, in addition to the Base Salary, Employee shall be entitled to such bonus compensation as may be determined from time to time by the Committee, in its sole discretion. The Committee shall base its decision on a review of the performance of the Company and the Employee's performance at the end of each year.

c) Stock Options. The Committee has granted to Employee stock options to purchase 105,000 shares of common stock of the Company, pursuant to a stock option agreement in substantially the form annexed hereto as Exhibit A (the "Option Agreement"). The stock options granted pursuant to the Option Agreement shall vest in full on a change in control. The Company shall use reasonable efforts to cause a Registration Statement on Form S-8 to be filed and to be declared effective, registering the shares to be granted hereby.

d) Employee Benefits. In addition to the Base Salary and the Bonus Compensation, and subject to the limitations imposed herein, Employee shall be entitled to (i) receive any fringe benefits provided by the Company to its executive officers, including, but not limited to, life, hospitalization, surgical, major medical and disability insurance and sick leave, (ii) such employee benefit programs as may be offered by the Company to other employees and (iii) be a full participant in all of the Company's other benefit plans, pension plans, retirement plans and profit-sharing plans which may be in effect from time to time or may hereafter be adopted by the Company.

e) Vacation. During the Term, Employee shall be entitled to such vacation with pay during each calendar year of his Employment hereunder consistent with his position as an executive officer of the Company, but in no event less than four weeks in any such calendar year (pro-rated as necessary for partial calendar years during the Term). Such vacation may be taken, in Employee's discretion, at such time or times as are not inconsistent with the reasonable business needs of the Company. Employee shall not be entitled to any additional compensation in the event that Employee, for whatever reason, fails to take such vacation during any year of his Employment hereunder. Employee shall also be entitled to all paid holidays given by the Company to its executive officers.

5. Indemnification. Employee shall be entitled at all times to the benefit of the maximum indemnification and advancement of expenses available from time to time under the laws of the State of Delaware, and such benefit shall not be less than any other officer or director entitled to indemnification by the Company. Without limiting the foregoing, Employee shall also be entitled to the benefit of the following provisions:

a) D&O Insurance. Employee shall be covered under any directors' and officers' liability insurance policy then in effect for the Company or any of its affiliates as to which Employee is serving as a director or officer. The failure to have an insurance policy in effect at all times shall not allow Employee to assert a Constructive Termination of this Agreement, other than to the extent such failure constitutes a breach of the immediately preceding sentence.

b) Scope of Indemnification. In addition to the insurance coverage provided for in Section 5(a), the Company and any of the Company's affiliates as to which Employee has at any time served as a director, officer, employee, agent or fiduciary (collectively, the "Indemnitors") shall jointly and severally hold harmless and indemnify Employee (and his heirs, executors and administrators) to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by

him in connection with or arising out of any action, suit or proceeding (each, a "Claim") in which he may be involved by reason of his having been a director, officer, employee, agent or fiduciary of any Indemnitor (whether or not he continues to be a director, officer, employee, agent or fiduciary thereof at the time of incurring such expenses or liabilities), or by reason of any action or inaction on Employee's part while serving in any such capacity, such expenses and liabilities to include, but not be limited to, losses, damages, judgments, investigation costs, court costs and attorneys' fees and the cost of reasonable settlements.

c) Selection of Counsel. In the event the Indemnitors shall be obligated hereunder to pay any Expenses with respect to a Claim, the Indemnitors shall be entitled to assume the defense of such Claim upon the delivery to Employee of written notice of its election to do so. After delivery of such notice and the retention of such counsel by the Indemnitors, the Indemnitors will not be liable to Employee under this Agreement for any fees of counsel subsequently incurred by Employee with respect to the same Claim; provided that, (i) Employee shall have the right to employ counsel in any such Claim at his expense; and (ii) if (A) the employment of counsel by Employee has been previously authorized by the Indemnitors, (B) counsel for Employee shall have provided the Indemnitors with written advice that there is a conflict of interest between the Indemnitors and Employee in the conduct of any such defense, or (C) the Indemnitors shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Employee's counsel shall be at the expense of the Indemnitors.

d) Nonexclusivity. The indemnification rights set for in this Section 5 shall be in addition to any rights to which Employee may be entitled under any of the Indemnitors' charter documents, bylaws or agreements, any vote of stockholders or disinterested directors, the laws of the various Indemnitors' jurisdictions of formation or incorporation. The indemnification rights set forth in this Section 5 shall continue as to Employee for any action Employee took or did not take while serving in an indemnified capacity even though Employee may have ceased to serve in such capacity.

e) Survival. The indemnification and contribution provided for in this Section 5 will remain in full force and effect after any termination of Employee's employment and without regard to any investigation made by or on behalf of Employee or any agent or representative of Employee.

6. Expenses. During the Term, the Company shall reimburse Employee upon presentation of appropriate vouchers or receipts in accordance with the Company's expense reimbursement policies for executive officers, for all out-of-pocket business travel and entertainment expenses incurred or expended by Employee in connection with the performance of his duties under this Agreement.

7. Termination Procedure.

a) Notice of Termination. Any termination of Employee's Employment by the Company or by Employee during the Term (other than termination pursuant to Section 8(a) of this Agreement) shall be communicated by written notice

("Notice of Termination") to the other party hereto in accordance with Section 13 herein. For purposes of this Agreement, a Notice of Termination shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's Employment under the provision so indicated.

b) Date of Termination. "Date of Termination" shall mean (a) if Employee's Employment is terminated by his death, the date of death, (b) if Employee's Employment is terminated pursuant to Section 8(b) herein, 30 days after Notice of Termination (provided that Employee shall not have returned to the substantial performance of his duties on a full-time basis during such 30 day period), (c) if Employee's Employment terminates upon the expiration of the Term and Employee's Employment is not renewed pursuant to Section 3 of this Agreement, the date of expiration of the Term, and (d) if Employee's Employment is terminated for any other reason, the date on which Notice of Termination is given or any later date (within 30 days after the giving of such notice) set forth in such Notice of Termination.

8. Termination of Employment.

a) Death. In the event of the death of Employee during the Term, Employee's Employment hereunder shall be terminated as of the date of his death and Employee's designated beneficiary, or, in the absence of such designation, the estate or other legal representative of Employee (collectively, the "Estate"), shall be paid Employee's unpaid Base Salary through the month in which the death occurs and any unpaid Bonus Compensation for any fiscal year which has ended as of the date of such termination or which was at least fifty percent (50%) completed as of the date of death. In the case of such incomplete fiscal year, the Bonus Compensation shall be determined based upon the assumption that Employee would have earned the target Bonus Compensation in accordance with Section 4(b) and pro-rated, and all such Bonus Compensation, if any, payable as a result of this Section 8(a) shall be payable at the same time as bonuses would be payable to other executive officers (regardless of whether such other officers earned any such bonus). The Estate shall be entitled to all other death benefits in accordance with the terms of the Company's benefit programs and plans.

b) Disability. In the event Employee shall be unable to render the services or perform his duties hereunder by reason of illness, injury or incapacity (whether physical, mental, emotional or psychological) (any of the foregoing shall be referred to herein as a "Disability") for a period of either (i) 180 consecutive days or (ii) 270 days in any consecutive 365-day period, the Company shall have the right to terminate this Agreement by giving Employee 30 days' prior written notice. Any determination of Disability shall be made by the Board in its reasonable good faith discretion. If Employee's Employment hereunder is so terminated, Employee shall be paid, offset by payments under any disability insurance policy in effect, Employee's unpaid Base Salary through the month in which the termination occurs, plus Bonus Compensation on the same basis as is set forth in Section 8(a) above. The Employee shall be entitled to receive all benefits in accordance with the terms of this Agreement and of the Company's benefit programs and plans.

c) Termination of Employment by the Company for Cause.

(i) Nothing herein shall prevent the Company from terminating Employee's Employment for Cause (as hereinafter defined). From and after the Date of Termination, Employee shall no longer be entitled to receive Base Salary and Bonus Compensation and the Company shall no longer be required to pay premiums on any life insurance or disability policy for Employee. Any rights and benefits which Employee may have in respect of any other compensation or any employee benefit plans or programs of the Company, whether pursuant to Section 4(c) or otherwise, shall be determined in accordance with the terms of such other compensation arrangements or plans or programs. The term "Cause," as used herein, shall mean: (A) Employee's conviction, or plea of guilty or *nolo contendere* to, a felony; (B) Employee's engaging in willful misconduct that is economically injurious to the Company (including, but not limited to, a willful violation of Sections 10 or 11 of this Agreement or the embezzlement of funds or misappropriation of other property of the Company or any subsidiary); or (C) Employee shall breach this Agreement in a material manner or engage in fraudulent conduct as regards the Company which results either in personal enrichment to Employee or material injury to the Company. Notwithstanding the foregoing, under no circumstances shall Employee's refusal or unwillingness to make any of the certifications required of him as Chief Executive Officer of the Company pursuant to Section 302 or Section 906 of the Sarbanes-Oxley Act of 2002, or any rules or regulations promulgated thereunder, or any similar requirements of any federal, state, local or foreign governmental authority or agency, or of any national securities exchange or quotation system on which any class or series of the Company's capital stock is then traded or listed for quotation, constitute or give rise to a basis for termination for "Cause."

(ii) The Company shall provide Employee with Notice of Termination stating that it intends to terminate Employee's Employment for Cause under this Section 8(c) and specifying the particular act or acts on the basis of which the Board intends to terminate Employee's Employment. Employee shall then be given the opportunity, within 15 days of his receipt of such notice, to have a meeting with the Board to discuss such act or acts (other than with respect to an action described in Sections 8(c)(i)(A) or (B) above as to which the Board may immediately terminate Employee's Employment for Cause). Other than with respect to an action described in Sections 8(c)(i)(A) or (B) above, Employee shall be given seven days after his meeting with the Board to take reasonable steps to cease or correct the performance (or nonperformance) giving rise to such Notice of Termination. In the event the Board determines that Employee has failed within such seven-day period to take reasonable steps to cease or correct such performance (or nonperformance), Employee shall be given the opportunity, within 10 days of his receipt of written notice to such effect, to have a meeting with the Board to discuss such determination. Following that meeting, if the Board believes that Employee has failed to take reasonable steps to cease or correct his performance (or nonperformance) as above described, the Board may thereupon terminate the Employment of Employee for Cause.

d) Termination Other than for Cause, Death or Disability.

(i) Termination. This Agreement may be terminated by the Company (in addition to termination pursuant to Sections 8(a), (b) or (c) above) or Employee at any time and for any reason or upon the expiration of the Term.

(ii) Severance and Non-Competition Payments. If the Employee's employment is terminated under this Section 8(d) (including a Constructive Termination (as hereinafter defined), other than as a termination by Employee as a result of death or Disability of Employee or for Cause (and other than during the six months following a "change in control" (as hereinafter defined) of the Company)), the following shall apply:

A) the Company shall pay to Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, as soon as practicable following the Date of Termination, (x) the greater of a lump-sum payment equal to two times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term and (y) a lump-sum payment equal to the greater of two times the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year in which the Date of Termination occurs or the target Bonus Compensation due under the remaining Term (whether or not such target is actually met). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release (as hereinafter defined), but in no event more than 45 days following the execution of such Release;

B) the Company shall provide a reasonable allowance for outplacement services, not to exceed \$5,000;

C) the Company shall continue to provide Employee with the same level of medical benefits upon substantially the same terms and conditions (including contributions required by Employee for such benefits) as existed immediately prior to Employee's termination for the longer of the maximum period of time provided under federal law or the remainder of the Term; provided that the Company shall bear the costs of such benefits for the longer of 12 months or the remainder of the Term and, provided further, if Employee cannot continue to participate in the Company's plans providing such benefits, the Company shall reimburse Employee the cost of obtaining such benefits as if continued participation had been permitted. Notwithstanding the foregoing, in the event Employee obtains employment with another employer and becomes eligible to receive comparable benefits from such employer, the benefits described in this clause (C) shall cease; and

D) Employee shall be entitled to any other rights, compensation and/or benefits as may be due to Employee in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(iii) Change in Control. For purposes of this Agreement, a “change in control” of the Company shall be deemed to have occurred if any of the following events occur:

(A) an acquisition after the date of this Agreement by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this definition, the following transactions shall not constitute a change in control: (a) any acquisition by the Company or by an employee benefit plan (or related trust) sponsored or maintained by the Company or an affiliate, (b) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, (c) any acquisition by, or consummation of a Corporate Transaction with, an affiliate of the Company, or (d) a Non-Control Transaction;

(B) A change in the composition of the board of directors of the Company such that the individuals who, as of the date hereof, constitute the board of directors of the Company (such Board shall be hereinafter referred to as the “Incumbent Board”) cease for any reason to constitute at least a majority of the board of directors of the Company; provided, however, for purposes of this clause (B), any individual who becomes a member of the board of directors of the Company subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the board of directors of the Company and who were also members of the Incumbent Board (or deemed to be such pursuant to this provision) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the board of directors of the Company shall not be so considered as a member of the Incumbent Board; or

(C) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”), in each case, unless the Corporate Transaction is a Non-Control Transaction; or

For purposes of the foregoing, “Non-Control Transaction” means a Corporate Transaction as a result of which the Outstanding Company Voting Securities immediately prior to such Corporate Transaction would entitle the holders thereof immediately prior to such Corporate Transaction to exercise, directly or indirectly, more than fifty percent (50%) of the combined voting power of all of the shares of capital stock entitled to vote generally in election of directors of the corporation resulting from such Corporate Transaction immediately after such Corporate Transaction (including, without limitation,

a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries).

(iv) Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall be deemed to have occurred upon (i) the removal of Employee from, or a failure of Employee to continue as, Senior Vice President and Chief Financial Officer of the Company, (ii) any material diminution in the nature or scope of the authorities, powers, functions, duties or responsibilities attached to such positions, (iii) the relocation of the Company's principal executive offices to a location more than 50 miles from Norfolk, Virginia, or (iv) the material breach by the Company of this Agreement and, in the case of clauses (i)-(iv) above, Employee does not agree to such change (which decision is personal in nature and not subject to any fiduciary responsibilities Employee may have as an officer or director of the Company) and elects to terminate his Employment.

(v) Severance and Non-Competition Payments Following a Change in Control. In the event of a termination of employment by Employee for any reason, other than as a result of death or Disability of Employee or for Cause, within six months following a "change in control" of the Company, the Company shall pay Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) the greater of a lump-sum payment equal to two times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term, (y) the greater of a lump-sum payment equal to two times (A) the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year of termination or (B) the target Bonus Compensation due for the year of termination (whether or not such target is actually met) and (z) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vi) Severance and Non-Competition Payments Following Non-Renewal of this Agreement. If this Agreement is not renewed beyond the Term by the parties hereto, the Company shall pay Employee a severance and non-competition payment equal to: (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) a lump-sum payment equal to one times Employee's then current Base Salary and (y) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clause (x) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vii) No Mitigation. Employee shall not be required to mitigate the amount of any severance and non-competition payment provided for under this Agreement by seeking other employment or otherwise.

(viii) Excise Tax. In the event that Employee becomes entitled to any payments or benefits under this Agreement and any portion of such payments or benefits, when combined with any other payments or benefits provided to Employee (including, without limiting the generality of the foregoing, by reason of the exercise of any stock options or the receipt of any shares of stock of the Company), which in the absence of this Section 8(d)(ii)(J), would be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the amount payable to Employee under this Agreement shall be reduced to the largest amount or greatest right (for example, by deferring the vesting date of Employee's options) such that none of the amounts payable to Employee under this Agreement and any other payments or benefits received or to be received by Employee as a result of, or in connection with, an event constituting a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(A) of the Code) (collectively, a "Control Change") or the termination of Employment (including a Constructive Termination, and whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Control Change or any person having such a relationship with the Company or such person as to require attribution of stock ownership between the parties under Section 318(a) of the Code) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code. The Company shall cooperate in good faith with Employee in making such determination. In the event that the vesting date of any option is deferred hereunder, the term during which such option may be exercised shall be extended until the ninetieth (90th) day following the full vesting thereof.

9. Release. Employee acknowledges and agrees that the payments set forth in Section 8 of this Agreement constitute liquidated damages for any claim of breach of contract under this Agreement as it relates to termination of Employee's employment. In order to receive any of the payments set forth above, prior to the payment of such amounts, Employee shall execute and agree to be bound by an agreement relating to the waiver and general release of any and all claims (other than claims for the compensation and benefits payable under Section 8 hereof) arising out of or relating to Employee's employment and termination of employment (the "Release"), which Release shall be in substantially the form annexed hereto as Exhibit B (with such changes as counsel to the Company may reasonably require as a result of changes in law after the date hereof).

10. Confidential Information.

a) Employee covenants and agrees that he will not at any time, either during the Term or thereafter, use, disclose or make accessible to any other person, firm, partnership, corporation or any other entity any Confidential Information (as defined below) pertaining to the business of the Company except (i) while employed by the Company, in the business of and for the benefit of the Company or (ii) when required to

do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Company to divulge, disclose or make accessible such information. For purposes of this Agreement, "Confidential Information" shall mean non-public information concerning the Company's financial data, statistical data, strategic business plans, product development (or other proprietary product data), customer and supplier lists, customer and supplier information, information relating to practices, processes, methods, trade secrets, marketing plans and other non-public, proprietary and confidential information of the Company; provided, however, that Confidential Information shall not include any information which (x) is known generally to the public other than as a result of unauthorized disclosure by Employee, (y) becomes available to the Employee on a non-confidential basis from a source other than the Company or (z) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Company. It is specifically understood and agreed by Employee that any Confidential Information received by Employee during his Employment by the Company is deemed Confidential Information for purposes of this Agreement. In the event Employee's Employment is terminated hereunder for any reason, he immediately shall return to the Company all tangible Confidential Information in his possession.

b) Employee and the Company agree that this covenant regarding Confidential Information is a reasonable covenant under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction, such covenant is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended. Employee agrees that any breach of the covenant contained in this Section 10 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 10.

11. Non-Competition; Non-Solicitation.

a) Employee agrees that during the Non-Competition Period (as defined in Section 11(d) below), without the prior written consent of the Company: (i) he shall not be a principal, manager, agent, consultant, officer, director or employee of, or, directly or indirectly, own more than 1% percent of any class or series of equity securities in, any partnership, corporation or other entity, which, now or at such time, has material operations which are engaged in any business activity competitive (directly or indirectly) with the Business of the Company (a "Competing Entity"); and (ii) he shall not, on behalf of any Competing Entity, directly or indirectly, have any dealings or contact with any suppliers or customers of the Company. As used in this Agreement, the term "Business" means the purchase, collection and management of portfolios of defaulted consumer receivables, but shall not include such collection and management activities to the extent they are incidental to a business primarily engaged in loan origination or servicing. Notwithstanding the foregoing, an entity will not be deemed to be a Competing Entity,

and Employee will not be deemed to be engaged in the Business, if (i) Employee is employed by an entity that is engaged in any meaningful way in one or more businesses other than the Business (the "Non-Competing Businesses"), (ii) such entity's relationship with Employee relates solely to the Non-Competing Businesses, and (iii) if requested by the Company, such entity and Employee shall provide the Company with reasonable assurances that Employee will have no direct or indirect involvement in the Business on behalf of such entity.

b) During the Non-Competition Period and for one year thereafter (two years after the Term), Employee agrees that, without the prior written consent of the Company (and other than on behalf of the Company), Employee shall not, on his own behalf or on behalf of any person or entity, directly or indirectly, (i) solicit the customers or suppliers of the Company to terminate their relationship with the Company (or to modify such relationship in a manner that is adverse to the interests of the Company) or (ii) hire or solicit the employment of any employee who has been employed by the Company at the time of Employee's termination or at any time during the six months immediately preceding such date of hiring or solicitation. This provision does not prohibit the solicitation of employees by means of a general advertisement.

c) Employee and the Company agree that the covenants of non-competition and non-solicitation are reasonable covenants under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction such covenants are not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of these covenants as to the court shall appear not reasonable and to enforce the remainder of these covenants as so amended. Employee agrees that any breach of the covenants contained in this Section 11 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 11.

d) The provisions of this Section 11 shall extend for the Term and survive the termination of this Agreement for one year from the date of such termination (herein referred to as the "Non-Competition Period").

e) The provisions of this Section 11 shall terminate if this Agreement is terminated by the Company other than for Cause, or in the event of a Constructive Termination of this Agreement or if the Company defaults on any of its payment obligations set forth in this Agreement, which payment default is not cured within fifteen (15) days after notice.

12. Limitation of Liability and Indemnity. The limitation of liability and indemnity provisions of Section 8.1 of the Amended and Restated ByLaws of the Company and Article 9 of the Amended and Restated Certificate of Incorporation of the Company are a contractual benefit to Employee and are a material consideration for Employee's employment.

13. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given if delivered personally or sent by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, as follows (or to another address specified in writing by the recipient prior to the sending of such notice or communication):

If to the Company, to: Portfolio Recovery Associates, Inc.
120 Corporate Boulevard
Norfolk, Virginia 23502
Attn: General Counsel
Fax:

If to Employee, to: Mr. Kevin P. Stevenson
2364 Kerr Dr
Virginia Beach, Virginia 23454
Fax:

14. Entire Agreement. This Agreement and the Option Agreement contain the entire agreement between the parties hereto with respect to the matters contemplated herein and supersede all prior agreements or understandings among the parties related to such matters. In case of any conflict between the provisions hereof and the Option Agreement, the provisions of this Agreement shall be controlling.

15. Successors; Binding Effect. Except as otherwise provided herein, this Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns and upon Employee. "Successors and assigns" shall mean, in the case of the Company, any successor pursuant to a merger, consolidation, or sale, or other transfer of all or substantially all of the assets or Common Stock of the Company, provided that, should the Company assign or transfer this Agreement, the Company will require any successor to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such assignment or transfer had taken place.

16. No Assignment. Except as contemplated by Section 15 above, this Agreement shall not be assignable or otherwise transferable by either party.

17. Withholding. All payments hereunder shall be subject to any required withholding of federal, state and local taxes pursuant to any applicable law or regulation.

18. Amendment or Modification; Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Board and is agreed to in writing, signed by Employee and by a duly authorized officer of the Company (other than Employee). Except as otherwise specifically provided in this

Agreement, no waiver by either party hereto of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar provision or condition at the same or at any prior or subsequent time.

19. Fees and Expenses. If either party institutes any action or proceedings to enforce any rights the party has under this Agreement, or for damages by reason of any alleged breach of any provision of this Agreement, or for a declaration of each party's rights or obligations hereunder or to set aside any provision hereof, or for any other judicial remedy, the prevailing party shall be entitled to reimbursement from the other party for its costs and expenses incurred thereby, including but not limited to, reasonable attorneys' fees and disbursements.

20. Governing Law. The validity, interpretation, construction, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Delaware, without regard to its conflicts of law rules.

21. Titles. Titles to the Sections in this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the title of any Section.

22. Counterparts. This Agreement may be executed in one or more counterparts, which together shall constitute one agreement. It shall not be necessary for each party to sign each counterpart so long as each party has signed at least one counterpart.

23. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms and provisions of this Agreement in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: /s/ Judith S. Scott

Name: Judith S. Scott
Position: Secretary

By: /s/ Kevin P. Stevenson

Kevin P. Stevenson

PORTFOLIO RECOVERY ASSOCIATES, INC.

STOCK OPTION AGREEMENT

Portfolio Recovery Associates, Inc., a Delaware corporation (the "Company"), has duly adopted the 2002 Stock Option Plan (the "Plan"), the terms of which are hereby incorporated by reference. In the case of any conflict between the provisions hereof and those of the Plan, the provisions of this Agreement shall be controlling. A copy of the Plan is available upon request by the Optionee to the Secretary of the Company.

In accordance with Section 6 of the Plan, a committee of the Board of Directors (the "Board") of the Company designated by the Board to administer the Plan (the "Committee") adopted a resolution granting you (the "Optionee") a stock option (the "Option") under the Plan to purchase the number of shares (the "Shares") of the Company's common stock, par value \$.01 per share (the "Common Stock"), specified below, for the exercise price specified below and on the terms and subject to the conditions set forth in this Agreement and in the Plan.

This page is the first page of this Agreement, which describes in detail your rights with respect to the Option granted to you hereby and constitutes a legal agreement between you and the Company.

Name of Optionee: Kevin P. Stevenson
Address of Optionee: _____
Date of Grant: November 7, 2002
Option Exercise Price: (subject to Paragraph 4): *\$ 13.00
Number of Shares Subject to Option: 105,000
Type of Option: Non-qualified Stock Option [X]

IN WITNESS WHEREOF, the parties have witnessed this Agreement to be duly executed and delivered as of the Date of Grant specified above.

OPTIONEE

By: _____

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____

Judith Scott
General Counsel and Secretary

1. (a) Unless the Option is previously terminated pursuant to the Plan or this Agreement and subject to the terms of any other agreement between the Optionee and the Company (including, without limitation, any employment or other agreement which may provide for, among other things, an accelerated vesting schedule), the Option shall be exercisable in five (5) equal installments on the first five (5) anniversaries of the Date of Grant. In no event shall any Shares be purchasable under this Agreement after the seventh (7th) anniversary after the Date of Grant (the "Expiration Date"). Except as provided in subparagraph (b) hereof, the Option shall cease to be exercisable ninety (90) days after the date the Optionee terminates services as an employee or consultant of the Company or any Affiliate of the Company for reasons other than Cause and immediately upon the termination of the Optionee for Cause, and all rights of the Optionee hereunder shall thereupon terminate.

(b) If the Optionee ceases to be an employee of the Company or any Affiliate of the Company and this cessation is due to retirement (as defined by the Committee in its sole discretion), or to mental or physical disability (as defined in each case by the Committee in its sole discretion) or to death, the Option shall be exercisable as provided in this subparagraph. The Optionee or, in the event of his mental or physical disability, if permissible under applicable law with respect to any option that is not an incentive stock option (an "ISO") under Section 422 of the Internal Revenue Code, as amended (the "Code"), his duly appointed guardian or legal representative or, in the event of his death, his executor or administrator shall have the privilege of exercising the unexercised portion of the Option which the Optionee could have exercised on the day on which he ceased to be an employee of the Company or any Affiliate of the Company; provided, however, that such exercise must be in accordance with the terms of this Agreement and within (i) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's retirement or mental or physical disability or (ii)(A) twelve (12) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death or (B) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death if such death occurs during the six (6) month period following the termination of the Optionee's employment by reason of retirement or mental or physical disability, as the case may be. In no event, however, shall the Optionee, his duly appointed guardian or legal representative, or his executor or administrator, as the case may be, exercise the Option after the Expiration Date. For all purposes of this Agreement, an approved leave of absence shall not constitute an interruption or cessation of the Optionee's service as an employee of the Company or any Affiliate of the Company.

2. Nothing contained herein shall be construed to confer on the Optionee any right to be retained in the employ of the Company or any Affiliate of the Company or to derogate from any right of the Company or any Affiliate thereof to dismiss the Optionee from employment, free from any liability, or any claim under this Agreement or the Plan, unless otherwise expressly provided in the Plan or in this Agreement.

3. Subject to Section 422 of the Code, no Option and no right under any such Option shall be assignable, alienable, saleable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and such Option, and each right under any such Option, shall be exercisable during the Optionee's lifetime only by the Optionee or, if permissible under applicable law, by the Optionee's guardian or legal representative. However, the Committee may, in its discretion, provide that nonqualified stock options be transferable,

without consideration, to immediate family members (i.e., children, grandchildren or spouse) to trusts for the benefit of such immediate family members and to partnerships in which such family members are the only parties. In addition, the Optionee may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the Optionee, and to receive any distribution with respect to any Option upon the death of the Optionee. No Option, and no right under any such Option, may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate of the Company.

4. (a) In the event that the Committee shall determine that the outstanding shares of Common Stock are affected by any (i) subdivision or consolidation of shares, (ii) dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), (iii) recapitalization or other capital adjustment of the Company, or (iv) merger, consolidation or reorganization of the Company or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be made under the Plan, adjust any or all of (x) the number and type of Shares which may be subject to Options, (y) the number and type of Shares subject to the unexercised portion of the Option, and (z) the grant, purchase, or exercise price with respect to any Option or, if deemed appropriate, make provision for a cash payment to the Optionee; provided, however, in each case, that (i) with respect to ISOs no such adjustment shall be authorized to the extent that such adjustment would cause the Plan to violate Section 422 of the Code or any successor provision thereto; (ii) each such adjustment shall be made in such manner as not to constitute a cancellation and reissuance of a nonqualified stock option for purposes of Section 162(m) of the Code, or the regulations promulgated thereunder, to the extent that such reissuance would result in the grant of such Options in excess of the maximum permitted to be granted to the Optionee in any fiscal year; and (iii) the number of Shares subject to any Option denominated in Shares shall always be a whole number. In computing any adjustment under this paragraph, any fractional share shall be eliminated.

(b) In addition to the rights set forth in clause (a), in the event of a transaction described in clause (a)(iv) above, the Committee may, in its sole discretion, take any one or more of the following actions, as to outstanding Options: (i) provide that such Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation or entity (or to the extent the Company's stockholders receive capital stock of an affiliate thereof in the transaction, by such affiliate), provided, however, that any such options substituted for Incentive Stock Options shall meet the requirements of Section 424(a) of the Code, (ii) upon written notice to the Optionee, provide that (A) all exercisable but unexercised Options will terminate immediately prior to the consummation of such transaction unless exercised by the Optionee (after giving effect to the full vesting thereof upon consummation of such transaction, if applicable) within a specified period following the date of such notice and prior to the consummation of such event or transaction (which period shall not be less than fifteen (15) days) and (B) all unexercisable Options will terminate upon consummation of such event or transaction, (iii) in the event of a merger or consolidation under the terms of which holders of the Common Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the merger or consolidation (the "Merger Price"), make or

provide for a cash payment to the Optionee equal to the difference between (A) the Merger Price times the number of shares of Common Stock subject to such outstanding Options (to the extent then exercisable at prices not in excess of the Merger Price) and (B) the aggregate exercise price of all such outstanding Options, in exchange for the termination of such Options, or (iv) provide that all or any outstanding Options shall become exercisable in full immediately prior to such event or transaction and shall cease to be exercisable at any time after such event or transaction. Any exercise of the Option in contemplation of a transaction described in clause (a)(iv) above may be conditioned upon and subject to the consummation thereof, in which case, any such exercise shall be deemed to have occurred immediately prior to such transaction and any resulting termination of the Option.

5. The Option shall be exercised when written notice of such exercise, signed by the person entitled to exercise the Option, has been delivered or transmitted by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, to the Secretary of the Company at its principal office. Said written notice shall specify the number of Shares purchasable under the Option which such person then wishes to purchase and shall be accompanied by such documentation, if any, as may be required by the Company as provided in Paragraph 8 below and be accompanied by payment of the aggregate Option price. Such payment of the aggregate Option price shall be, without limitation, in the form of (i) cash, shares, outstanding Options or other consideration, or any combination thereof, having a Fair Market Value on the exercise date equal to the exercise price of the Option or portion thereof being exercised or (ii) a broker-assisted cashless exercise program established by the Committee, if then applicable to the Optionee. Delivery of said notice and such documentation shall constitute an irrevocable election to purchase the Shares specified in said notice and the date on which the Company receives said notice and documentation shall, subject to the provisions of Paragraph 7 and 8, be the date as of which the Shares so purchased shall be deemed to have been issued. The person entitled to exercise the Option shall not have the right or status as a holder of the Shares to which such exercise relates prior to receipt by the Company of such payment, notice and documentation.

6. If the Company shall become obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state, local or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax (the "Withholding Liability"), then the Optionee shall, on the date of exercise and as a condition to the issuance of the Shares subject to the Option, pay the Withholding Liability to the Company. Payment shall be by check payable to the Company; provided, however, that, with the consent of the Committee, payment may instead be made by delivery to the Company of a certificate or certificates representing Shares duly endorsed or accompanied by a duly executed stock power(s), which delivery effectively transfers to the Company good and valid title to such Shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such Shares to be valued on the basis of the Fair Market Value thereof on the date of such payment); provided further, however, that the Company is not then prohibited from purchasing or acquiring such Shares. In addition to the foregoing methods of payment, the Optionee may request in writing that the Company withhold all or a portion of the Withholding Liability from any compensation or other amounts otherwise then due and payable to the

Optionee, in which case the withholding and payment of any such amount by the Company to the relevant taxing authority shall constitute full satisfaction of the Company's obligation to pay such compensation or other amounts to Optionee.

7. Anything in this Agreement to the contrary notwithstanding, in no event may the Option be exercisable if the Company shall, at any time and in its sole discretion, determine that (i) the listing, registration or qualification of any Shares otherwise deliverable upon such exercise, upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any governmental or regulatory body is necessary or desirable in connection with such exercise. In such event, such exercise shall be held in abeyance and shall not be effective unless and until such listing, registration, qualification, consent or approval shall have been affected or obtained free of any conditions not acceptable to the Company. Pending effectiveness, the Company shall return the exercise price to the Optionee, and so long as such exercise shall be held in abeyance, the Option shall remain exercisable subject to this Section notwithstanding any termination or expiration thereof that might otherwise occur under the Option.

8. The Committee may require as a condition to the right to exercise the Option hereunder that the Company receive from the person exercising the Option representations, warranties and agreements, at the time of any such exercise, to the effect that the Shares are being purchased without any present intention to sell or otherwise distribute such Shares in violation of applicable federal securities laws and that the Shares will not be disposed of in transactions which, in the opinion of counsel to the Company, would violate the registration provisions of the Securities Act of 1933, as then amended, and the rules and regulations thereunder. The certificate issued to evidence such Shares shall bear appropriate legends summarizing such restrictions on the disposition thereof.

9. All certificates for Shares or other securities of the Company delivered under the Plan pursuant to any Option or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other restrictions of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10. The Company makes no representations or warranties as to the income, estate or other tax consequences to the Optionee of the grant or exercise of the Option or the sale or other disposition of the Shares acquired pursuant to the exercise thereof.

11. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware and applicable federal law. Subject to subparagraph 1(b) and 3(a) hereof, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors or assigns, as the case may be.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 8, 2002 by and between PORTFOLIO RECOVERY ASSOCIATES, INC., a Delaware corporation (the "Company"), and Craig A. Grube ("Employee").

W I T N E S S E T H :

WHEREAS, the Company desires that Employee serve as the Senior Vice President — Acquisitions of the Company;

WHEREAS, the Employee desires to enter into such an employment relationship upon the terms set forth in this Agreement;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties agree as follows:

1. Employment.

a) The Company hereby employs (the "Employment") Employee as the Senior Vice President — Acquisitions of the Company. Employee shall perform such duties and exercise such powers as directed by the President and Chief Executive Officer of the Company, subject to the general supervision, control and guidance of the Board of Directors of the Company (the "Board"). Employee hereby accepts the Employment and agrees to (i) render such executive services, (ii) perform such executive duties and (iii) exercise such executive supervision and powers to, for and with respect to the Company, as may be established, for the period and upon the terms set forth in this Agreement.

b) Employee shall devote substantially all of his business time and attention to the business and affairs of the Company consistent with his executive positions with the Company, except as permitted by the Nomination and Corporate Governance Committee, for vacations permitted pursuant to Section 4(d) and for Disability (as defined in Section 8(b)). This Agreement shall not be construed as preventing Employee from serving on the Boards of Directors of other companies, engaging in charitable and community affairs, or giving attention to his passive investments, provided that such activities do not interfere with the regular performance of his duties and responsibilities under this Agreement or violate any other provision of this Agreement.

2. Place of Performance. The principal place of employment of Employee shall be at the Company's principal executive offices in Norfolk, Virginia or, if such offices are relocated, within a 50 mile radius of Norfolk, Virginia (the "Metropolitan Area"). Notwithstanding the foregoing, Employee may be required to travel beyond the Metropolitan Area as reasonably required to perform his duties hereunder.

3. Term. Except as otherwise specifically provided in Section 8 below, this Agreement will be effective upon the closing of the Company's initial public offering

(the "Offering") and the term of this Agreement (as may be extended, the "Term") shall commence on the date thereof (the "Commencement Date"), and shall continue until December 31, 2005, subject to the terms and conditions of this Agreement. In the event that the Offering has not occurred as of December 31, 2002 this Agreement shall have no further effect. The Term may be terminated at an earlier date in accordance with Section 8 hereof.

4. Compensation.

a) Base Salary. Employee shall be paid a base salary (the "Base Salary") at an annual rate of \$120,000, payable at such intervals as the other executive officers of the Company are paid, but in any event at least on a monthly basis. On each January 1 following the Commencement Date, commencing January 1, 2003, Base Salary shall be increased annually by no less than 4% over the immediately preceding year's Base Salary.

b) Bonus Compensation. Employee shall receive bonus compensation ("Bonus Compensation") in accordance with paragraph (i) of this Section 4(b); provided, however, that if at any time the Management Bonus (as hereinafter defined) is not in effect, Employee shall receive bonus compensation in accordance with paragraph (ii) of this Section 4(b). Employee shall not be entitled to participate in any incentive bonus program for non-management level employees during the time the Management Bonus is in effect.

(i) Management Bonus. The performance of the business shall be reviewed at the end of each operating year and compared to such goals as are set forth in the business plan for that year as approved by the Board (the "Business Plan"). If the results of operations for the year achieve the net profitability goals for the year specified in the approved Business Plan, a bonus equal to no less than 33% of the Employee's Base Salary shall be paid to him (the "Management Bonus"). If the results of operations for the year exceed the net profitability goals of the approved Business Plan, the amount of the Employee's Management Bonus may be increased in recognition of the degree to which performance exceeded such goals, and the Employee's contribution to such superior performance results as determined in the sole discretion of the Compensation Committee of the Board (the "Committee"). If the results of operations for the year fail to achieve such net profitability goals, the amount, if any of the Employee's Management Bonus shall be within the absolute discretion of the Committee, provided that the Committee shall give reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall.

(ii) Bonus. In the event that the Management Bonus is not in effect, in addition to the Base Salary, Employee shall be entitled to such bonus compensation as may be determined from time to time by the Committee, in its sole discretion. The Committee shall base its decision on a review of the performance of the Company and the Employee's performance at the end of each year.

c) Stock Options. The Committee has granted to Employee stock options to purchase 105,000 shares of common stock of the Company, pursuant to a stock option agreement in substantially the form annexed hereto as Exhibit A (the "Option Agreement"). The stock options granted pursuant to the Option Agreement shall vest in full on a change in control. The Company shall use reasonable efforts to cause a Registration Statement on Form S-8 to be filed and to be declared effective, registering the shares to be granted hereby.]

d) Employee Benefits. In addition to the Base Salary and the Bonus Compensation, and subject to the limitations imposed herein, Employee shall be entitled to (i) receive any fringe benefits provided by the Company to its executive officers, including, but not limited to, life, hospitalization, surgical, major medical and disability insurance and sick leave, (ii) such employee benefit programs as may be offered by the Company to other employees and (iii) be a full participant in all of the Company's other benefit plans, pension plans, retirement plans and profit-sharing plans which may be in effect from time to time or may hereafter be adopted by the Company.

e) Vacation. During the Term, Employee shall be entitled to such vacation with pay during each calendar year of his Employment hereunder consistent with his position as an executive officer of the Company, but in no event less than four weeks in any such calendar year (pro-rated as necessary for partial calendar years during the Term). Such vacation may be taken, in Employee's discretion, at such time or times as are not inconsistent with the reasonable business needs of the Company. Employee shall not be entitled to any additional compensation in the event that Employee, for whatever reason, fails to take such vacation during any year of his Employment hereunder. Employee shall also be entitled to all paid holidays given by the Company to its executive officers.

5. Indemnification. Employee shall be entitled at all times to the benefit of the maximum indemnification and advancement of expenses available from time to time under the laws of the State of Delaware, and such benefit shall not be less than any other officer or director entitled to indemnification by the Company. Without limiting the foregoing, Employee shall also be entitled to the benefit of the following provisions:

a) D&O Insurance. Employee shall be covered under any directors' and officers' liability insurance policy then in effect for the Company or any of its affiliates as to which Employee is serving as a director or officer. The failure to have an insurance policy in effect at all times shall not allow Employee to assert a Constructive Termination of this Agreement, other than to the extent such failure constitutes a breach of the immediately preceding sentence.

b) Scope of Indemnification. In addition to the insurance coverage provided for in Section 5(a), the Company and any of the Company's affiliates as to which Employee has at any time served as a director, officer, employee, agent or fiduciary (collectively, the "Indemnitors") shall jointly and severally hold harmless and indemnify Employee (and his heirs, executors and administrators) to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by

him in connection with or arising out of any action, suit or proceeding (each, a "Claim") in which he may be involved by reason of his having been a director, officer, employee, agent or fiduciary of any Indemnitor (whether or not he continues to be a director, officer, employee, agent or fiduciary thereof at the time of incurring such expenses or liabilities), or by reason of any action or inaction on Employee's part while serving in any such capacity, such expenses and liabilities to include, but not be limited to, losses, damages, judgments, investigation costs, court costs and attorneys' fees and the cost of reasonable settlements.

c) Selection of Counsel. In the event the Indemnitors shall be obligated hereunder to pay any Expenses with respect to a Claim, the Indemnitors shall be entitled to assume the defense of such Claim upon the delivery to Employee of written notice of its election to do so. After delivery of such notice and the retention of such counsel by the Indemnitors, the Indemnitors will not be liable to Employee under this Agreement for any fees of counsel subsequently incurred by Employee with respect to the same Claim; provided that, (i) Employee shall have the right to employ counsel in any such Claim at his expense; and (ii) if (A) the employment of counsel by Employee has been previously authorized by the Indemnitors, (B) counsel for Employee shall have provided the Indemnitors with written advice that there is a conflict of interest between the Indemnitors and Employee in the conduct of any such defense, or (C) the Indemnitors shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Employee's counsel shall be at the expense of the Indemnitors.

d) Nonexclusivity. The indemnification rights set for in this Section 5 shall be in addition to any rights to which Employee may be entitled under any of the Indemnitors' charter documents, bylaws or agreements, any vote of stockholders or disinterested directors, the laws of the various Indemnitors' jurisdictions of formation or incorporation. The indemnification rights set forth in this Section 5 shall continue as to Employee for any action Employee took or did not take while serving in an indemnified capacity even though Employee may have ceased to serve in such capacity.

e) Survival. The indemnification and contribution provided for in this Section 5 will remain in full force and effect after any termination of Employee's employment and without regard to any investigation made by or on behalf of Employee or any agent or representative of Employee.

6. Expenses. During the Term, the Company shall reimburse Employee upon presentation of appropriate vouchers or receipts in accordance with the Company's expense reimbursement policies for executive officers, for all out-of-pocket business travel and entertainment expenses incurred or expended by Employee in connection with the performance of his duties under this Agreement.

7. Termination Procedure.

a) Notice of Termination. Any termination of Employee's Employment by the Company or by Employee during the Term (other than termination pursuant to Section 8(a) of this Agreement) shall be communicated by written notice

("Notice of Termination") to the other party hereto in accordance with Section 13 herein. For purposes of this Agreement, a Notice of Termination shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's Employment under the provision so indicated.

b) Date of Termination. "Date of Termination" shall mean (a) if Employee's Employment is terminated by his death, the date of death, (b) if Employee's Employment is terminated pursuant to Section 8(b) herein, 30 days after Notice of Termination (provided that Employee shall not have returned to the substantial performance of his duties on a full-time basis during such 30 day period), (c) if Employee's Employment terminates upon the expiration of the Term and Employee's Employment is not renewed pursuant to Section 3 of this Agreement, the date of expiration of the Term, and (d) if Employee's Employment is terminated for any other reason, the date on which Notice of Termination is given or any later date (within 30 days after the giving of such notice) set forth in such Notice of Termination.

8. Termination of Employment.

a) Death. In the event of the death of Employee during the Term, Employee's Employment hereunder shall be terminated as of the date of his death and Employee's designated beneficiary, or, in the absence of such designation, the estate or other legal representative of Employee (collectively, the "Estate"), shall be paid Employee's unpaid Base Salary through the month in which the death occurs and any unpaid Bonus Compensation for any fiscal year which has ended as of the date of such termination or which was at least fifty percent (50%) completed as of the date of death. In the case of such incomplete fiscal year, the Bonus Compensation shall be determined based upon the assumption that Employee would have earned the target Bonus Compensation in accordance with Section 4(b) and pro-rated, and all such Bonus Compensation, if any, payable as a result of this Section 8(a) shall be payable at the same time as bonuses would be payable to other executive officers (regardless of whether such other officers earned any such bonus). The Estate shall be entitled to all other death benefits in accordance with the terms of the Company's benefit programs and plans.

b) Disability. In the event Employee shall be unable to render the services or perform his duties hereunder by reason of illness, injury or incapacity (whether physical, mental, emotional or psychological) (any of the foregoing shall be referred to herein as a "Disability") for a period of either (i) 180 consecutive days or (ii) 270 days in any consecutive 365-day period, the Company shall have the right to terminate this Agreement by giving Employee 30 days' prior written notice. Any determination of Disability shall be made by the Board in its reasonable good faith discretion. If Employee's Employment hereunder is so terminated, Employee shall be paid, offset by payments under any disability insurance policy in effect, Employee's unpaid Base Salary through the month in which the termination occurs, plus Bonus Compensation on the same basis as is set forth in Section 8(a) above. The Employee shall be entitled to receive all benefits in accordance with the terms of this Agreement and of the Company's benefit programs and plans.

c) Termination of Employment by the Company for Cause.

(i) Nothing herein shall prevent the Company from terminating Employee's Employment for Cause (as hereinafter defined). From and after the Date of Termination, Employee shall no longer be entitled to receive Base Salary and Bonus Compensation and the Company shall no longer be required to pay premiums on any life insurance or disability policy for Employee. Any rights and benefits which Employee may have in respect of any other compensation or any employee benefit plans or programs of the Company, whether pursuant to Section 4(c) or otherwise, shall be determined in accordance with the terms of such other compensation arrangements or plans or programs. The term "Cause," as used herein, shall mean: (A) Employee's conviction, or plea of guilty or *nolo contendere* to, a felony; (B) Employee's engaging in willful misconduct that is economically injurious to the Company (including, but not limited to, a willful violation of Sections 10 or 11 of this Agreement or the embezzlement of funds or misappropriation of other property of the Company or any subsidiary); or (C) Employee shall breach this Agreement in a material manner or engage in fraudulent conduct as regards the Company which results either in personal enrichment to Employee or material injury to the Company. Notwithstanding the foregoing, under no circumstances shall Employee's refusal or unwillingness to make any of the certifications required of him as Chief Executive Officer of the Company pursuant to Section 302 or Section 906 of the Sarbanes-Oxley Act of 2002, or any rules or regulations promulgated thereunder, or any similar requirements of any federal, state, local or foreign governmental authority or agency, or of any national securities exchange or quotation system on which any class or series of the Company's capital stock is then traded or listed for quotation, constitute or give rise to a basis for termination for "Cause."

(ii) The Company shall provide Employee with Notice of Termination stating that it intends to terminate Employee's Employment for Cause under this Section 8(c) and specifying the particular act or acts on the basis of which the Board intends to terminate Employee's Employment. Employee shall then be given the opportunity, within 15 days of his receipt of such notice, to have a meeting with the Board to discuss such act or acts (other than with respect to an action described in Sections 8(c)(i)(A) or (B) above as to which the Board may immediately terminate Employee's Employment for Cause). Other than with respect to an action described in Sections 8(c)(i)(A) or (B) above, Employee shall be given seven days after his meeting with the Board to take reasonable steps to cease or correct the performance (or nonperformance) giving rise to such Notice of Termination. In the event the Board determines that Employee has failed within such seven-day period to take reasonable steps to cease or correct such performance (or nonperformance), Employee shall be given the opportunity, within 10 days of his receipt of written notice to such effect, to have a meeting with the Board to discuss such determination. Following that meeting, if the Board believes that Employee has failed to take reasonable steps to cease or correct his performance (or nonperformance) as above described, the Board may thereupon terminate the Employment of Employee for Cause.

d) Termination Other than for Cause, Death or Disability.

(i) Termination. This Agreement may be terminated by the Company (in addition to termination pursuant to Sections 8(a), (b) or (c) above) or Employee at any time and for any reason or upon the expiration of the Term.

(ii) Severance and Non-Competition Payments. If the Employee's employment is terminated under this Section 8(d) (including a Constructive Termination (as hereinafter defined), other than as a termination by Employee as a result of death or Disability of Employee or for Cause (and other than during the six months following a "change in control" (as hereinafter defined) of the Company)), the following shall apply:

A) the Company shall pay to Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, as soon as practicable following the Date of Termination, (x) the greater of a lump-sum payment equal to two times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term and (y) a lump-sum payment equal to the greater of two times the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year in which the Date of Termination occurs or the target Bonus Compensation due under the remaining Term (whether or not such target is actually met). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release (as hereinafter defined), but in no event more than 45 days following the execution of such Release;

B) the Company shall provide a reasonable allowance for outplacement services, not to exceed \$5,000;

C) the Company shall continue to provide Employee with the same level of medical benefits upon substantially the same terms and conditions (including contributions required by Employee for such benefits) as existed immediately prior to Employee's termination for the longer of the maximum period of time provided under federal law or the remainder of the Term; provided that the Company shall bear the costs of such benefits for the longer of 12 months or the remainder of the Term and, provided further, if Employee cannot continue to participate in the Company's plans providing such benefits, the Company shall reimburse Employee the cost of obtaining such benefits as if continued participation had been permitted. Notwithstanding the foregoing, in the event Employee obtains employment with another employer and becomes eligible to receive comparable benefits from such employer, the benefits described in this clause (C) shall cease; and

D) Employee shall be entitled to any other rights, compensation and/or benefits as may be due to Employee in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(iii) Change in Control. For purposes of this Agreement, a “change in control” of the Company shall be deemed to have occurred if any of the following events occur:

(A) an acquisition after the date of this Agreement by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this definition, the following transactions shall not constitute a change in control: (a) any acquisition by the Company or by an employee benefit plan (or related trust) sponsored or maintained by the Company or an affiliate, (b) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, (c) any acquisition by, or consummation of a Corporate Transaction with, an affiliate of the Company, or (d) a Non-Control Transaction;

(B) A change in the composition of the board of directors of the Company such that the individuals who, as of the date hereof, constitute the board of directors of the Company (such Board shall be hereinafter referred to as the “Incumbent Board”) cease for any reason to constitute at least a majority of the board of directors of the Company; provided, however, for purposes of this clause (B), any individual who becomes a member of the board of directors of the Company subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the board of directors of the Company and who were also members of the Incumbent Board (or deemed to be such pursuant to this provision) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the board of directors of the Company shall not be so considered as a member of the Incumbent Board; or

(C) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”), in each case, unless the Corporate Transaction is a Non-Control Transaction; or

For purposes of the foregoing, “Non-Control Transaction” means a Corporate Transaction as a result of which the Outstanding Company Voting Securities immediately prior to such Corporate Transaction would entitle the holders thereof immediately prior to such Corporate Transaction to exercise, directly or indirectly, more than fifty percent (50%) of the combined voting power of all of the shares of capital stock entitled to vote generally in election of directors of the corporation resulting from such Corporate Transaction immediately after such Corporate Transaction (including, without limitation,

a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries).

(iv) Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall be deemed to have occurred upon (i) the removal of Employee from, or a failure of Employee to continue as, Senior Vice President — Acquisitions, (ii) any material diminution in the nature or scope of the authorities, powers, functions, duties or responsibilities attached to such positions, (iii) the relocation of the Company's principal executive offices to a location more than 50 miles from Norfolk, Virginia, or (iv) the material breach by the Company of this Agreement and, in the case of clauses (i)-(iii) above, Employee does not agree to such change (which decision is personal in nature and not subject to any fiduciary responsibilities Employee may have as an officer or director of the Company) and elects to terminate his Employment.

(v) Severance and Non-Competition Payments Following a Change in Control. In the event of a termination of employment by Employee for any reason, other than as a result of death or Disability of Employee or for Cause, within six months following a "change in control" of the Company, the Company shall pay Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) the greater of a lump-sum payment equal to two times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term, (y) the greater of a lump-sum payment equal to two times (A) the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year of termination or (B) the target Bonus Compensation due for the year of termination (whether or not such target is actually met) and (z) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vi) Severance and Non-Competition Payments Following Non-Renewal of this Agreement. If this Agreement is not renewed beyond the Term by the parties hereto, the Company shall pay Employee a severance and non-competition payment equal to: (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) a lump-sum payment equal to one times Employee's then current Base Salary and (y) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clause (x) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vii) No Mitigation. Employee shall not be required to mitigate the amount of any severance and non-competition payment provided for under this Agreement by seeking other employment or otherwise.

(viii) Excise Tax. In the event that Employee becomes entitled to any payments or benefits under this Agreement and any portion of such payments or benefits, when combined with any other payments or benefits provided to Employee (including, without limiting the generality of the foregoing, by reason of the exercise of any stock options or the receipt of any shares of stock of the Company), which in the absence of this Section 8(d)(ii)(J), would be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the amount payable to Employee under this Agreement shall be reduced to the largest amount or greatest right (for example, by deferring the vesting date of Employee's options) such that none of the amounts payable to Employee under this Agreement and any other payments or benefits received or to be received by Employee as a result of, or in connection with, an event constituting a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(A) of the Code) (collectively, a "Control Change") or the termination of Employment (including a Constructive Termination, and whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Control Change or any person having such a relationship with the Company or such person as to require attribution of stock ownership between the parties under Section 318(a) of the Code) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code. The Company shall cooperate in good faith with Employee in making such determination. In the event that the vesting date of any option is deferred hereunder, the term during which such option may be exercised shall be extended until the ninetieth (90th) day following the full vesting thereof.

9. Release. Employee acknowledges and agrees that the payments set forth in Section 8 of this Agreement constitute liquidated damages for any claim of breach of contract under this Agreement as it relates to termination of Employee's employment. In order to receive any of the payments set forth above, prior to the payment of such amounts, Employee shall execute and agree to be bound by an agreement relating to the waiver and general release of any and all claims (other than claims for the compensation and benefits payable under Section 8 hereof) arising out of or relating to Employee's employment and termination of employment (the "Release"), which Release shall be in substantially the form annexed hereto as Exhibit B (with such changes as counsel to the Company may reasonably require as a result of changes in law after the date hereof).

10. Confidential Information.

a) Employee covenants and agrees that he will not at any time, either during the Term or thereafter, use, disclose or make accessible to any other person, firm, partnership, corporation or any other entity any Confidential Information (as defined below) pertaining to the business of the Company except (i) while employed by the Company, in the business of and for the benefit of the Company or (ii) when required to

do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Company to divulge, disclose or make accessible such information. For purposes of this Agreement, "Confidential Information" shall mean non-public information concerning the Company's financial data, statistical data, strategic business plans, product development (or other proprietary product data), customer and supplier lists, customer and supplier information, information relating to practices, processes, methods, trade secrets, marketing plans and other non-public, proprietary and confidential information of the Company; provided, however, that Confidential Information shall not include any information which (x) is known generally to the public other than as a result of unauthorized disclosure by Employee, (y) becomes available to the Employee on a non-confidential basis from a source other than the Company or (z) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Company. It is specifically understood and agreed by Employee that any Confidential Information received by Employee during his Employment by the Company is deemed Confidential Information for purposes of this Agreement. In the event Employee's Employment is terminated hereunder for any reason, he immediately shall return to the Company all tangible Confidential Information in his possession.

b) Employee and the Company agree that this covenant regarding Confidential Information is a reasonable covenant under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction, such covenant is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended. Employee agrees that any breach of the covenant contained in this Section 10 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 10.

11. Non-Competition; Non-Solicitation.

a) Employee agrees that during the Non-Competition Period (as defined in Section 11(d) below), without the prior written consent of the Company: (i) he shall not be a principal, manager, agent, consultant, officer, director or employee of, or, directly or indirectly, own more than 1% percent of any class or series of equity securities in, any partnership, corporation or other entity, which, now or at such time, has material operations which are engaged in any business activity competitive (directly or indirectly) with the Business of the Company (a "Competing Entity"); and (ii) he shall not, on behalf of any Competing Entity, directly or indirectly, have any dealings or contact with any suppliers or customers of the Company. As used in this Agreement, the term "Business" means the purchase, collection and management of portfolios of defaulted consumer receivables, but shall not include such collection and management activities to the extent they are incidental to a business primarily engaged in loan origination or servicing. Notwithstanding the foregoing, an entity will not be deemed to be a Competing Entity,

and Employee will not be deemed to be engaged in the Business, if (i) Employee is employed by an entity that is engaged in any meaningful way in one or more businesses other than the Business (the "Non-Competing Businesses"), (ii) such entity's relationship with Employee relates solely to the Non-Competing Businesses, and (iii) if requested by the Company, such entity and Employee shall provide the Company with reasonable assurances that Employee will have no direct or indirect involvement in the Business on behalf of such entity.

b) During the Non-Competition Period and for one year thereafter (two years after the Term), Employee agrees that, without the prior written consent of the Company (and other than on behalf of the Company), Employee shall not, on his own behalf or on behalf of any person or entity, directly or indirectly, (i) solicit the customers or suppliers of the Company to terminate their relationship with the Company (or to modify such relationship in a manner that is adverse to the interests of the Company) or (ii) hire or solicit the employment of any employee who has been employed by the Company at the time of Employee's termination or at any time during the six months immediately preceding such date of hiring or solicitation. This provision does not prohibit the solicitation of employees by means of a general advertisement.

c) Employee and the Company agree that the covenants of non-competition and non-solicitation are reasonable covenants under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction such covenants are not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of these covenants as to the court shall appear not reasonable and to enforce the remainder of these covenants as so amended. Employee agrees that any breach of the covenants contained in this Section 11 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 11.

d) The provisions of this Section 11 shall extend for the Term and survive the termination of this Agreement for one year from the date of such termination (herein referred to as the "Non-Competition Period").

e) The provisions of this Section 11 shall terminate if this Agreement is terminated by the Company other than for Cause, or in the event of a Constructive Termination of this Agreement or if the Company defaults on any of its payment obligations set forth in this Agreement, which payment default is not cured within fifteen (15) days after notice.

12. Limitation of Liability and Indemnity. The limitation of liability and indemnity provisions of Section 8.1 of the Amended and Restated ByLaws of the Company and Article 9 of the Amended and Restated Certificate of Incorporation of the Company are a contractual benefit to Employee and are a material consideration for Employee's employment.

13. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given if delivered personally or sent by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, as follows (or to another address specified in writing by the recipient prior to the sending of such notice or communication):

If to the Company, to: Portfolio Recovery Associates, Inc.
120 Corporate Boulevard
Norfolk, Virginia 23502
Attn: General Counsel
Fax:

If to Employee, to: Mr. Craig A. Grube
3304 Ulverston Quay
Virginia Beach, Virginia 23452
Fax:

14. Entire Agreement. This Agreement and the Option Agreement contain the entire agreement between the parties hereto with respect to the matters contemplated herein and supersede all prior agreements or understandings among the parties related to such matters. In case of any conflict between the provisions hereof and the Option Agreement, the provisions of this Agreement shall be controlling.

15. Successors; Binding Effect. Except as otherwise provided herein, this Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns and upon Employee. "Successors and assigns" shall mean, in the case of the Company, any successor pursuant to a merger, consolidation, or sale, or other transfer of all or substantially all of the assets or Common Stock of the Company, provided that, should the Company assign or transfer this Agreement, the Company will require any successor to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such assignment or transfer had taken place.

16. No Assignment. Except as contemplated by Section 15 above, this Agreement shall not be assignable or otherwise transferable by either party.

17. Withholding. All payments hereunder shall be subject to any required withholding of federal, state and local taxes pursuant to any applicable law or regulation.

18. Amendment or Modification; Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Board and is agreed to in writing, signed by Employee and by a duly authorized officer of the Company (other than Employee). Except as otherwise specifically provided in this

Agreement, no waiver by either party hereto of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar provision or condition at the same or at any prior or subsequent time.

19. Fees and Expenses. If either party institutes any action or proceedings to enforce any rights the party has under this Agreement, or for damages by reason of any alleged breach of any provision of this Agreement, or for a declaration of each party's rights or obligations hereunder or to set aside any provision hereof, or for any other judicial remedy, the prevailing party shall be entitled to reimbursement from the other party for its costs and expenses incurred thereby, including but not limited to, reasonable attorneys' fees and disbursements.

20. Governing Law. The validity, interpretation, construction, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Delaware, without regard to its conflicts of law rules.

21. Titles. Titles to the Sections in this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the title of any Section.

22. Counterparts. This Agreement may be executed in one or more counterparts, which together shall constitute one agreement. It shall not be necessary for each party to sign each counterpart so long as each party has signed at least one counterpart.

23. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms and provisions of this Agreement in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: /s/ Judith S. Scott

Name: Judith S. Scott
Position: Secretary

By: /s/ Craig A. Grube

Craig A. Grube

PORTFOLIO RECOVERY ASSOCIATES, INC.

STOCK OPTION AGREEMENT

Portfolio Recovery Associates, Inc., a Delaware corporation (the "Company"), has duly adopted the 2002 Stock Option Plan (the "Plan"), the terms of which are hereby incorporated by reference. In the case of any conflict between the provisions hereof and those of the Plan, the provisions of this Agreement shall be controlling. A copy of the Plan is available upon request by the Optionee to the Secretary of the Company.

In accordance with Section 6 of the Plan, a committee of the Board of Directors (the "Board") of the Company designated by the Board to administer the Plan (the "Committee") adopted a resolution granting you (the "Optionee") a stock option (the "Option") under the Plan to purchase the number of shares (the "Shares") of the Company's common stock, par value \$.01 per share (the "Common Stock"), specified below, for the exercise price specified below and on the terms and subject to the conditions set forth in this Agreement and in the Plan.

This page is the first page of this Agreement, which describes in detail your rights with respect to the Option granted to you hereby and constitutes a legal agreement between you and the Company.

Name of Optionee: Craig A. Grube
Address of Optionee: _____
Date of Grant: November 7, 2002
Option Exercise Price: (subject to Paragraph 4): *\$ 13.00
Number of Shares Subject to Option: 105,000
Type of Option: Non-qualified Stock Option [X]

IN WITNESS WHEREOF, the parties have witnessed this Agreement to be duly executed and delivered as of the Date of Grant specified above.

OPTIONEE

By: _____

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____

Judith Scott
General Counsel and Secretary

1. (a) Unless the Option is previously terminated pursuant to the Plan or this Agreement and subject to the terms of any other agreement between the Optionee and the Company (including, without limitation, any employment or other agreement which may provide for, among other things, an accelerated vesting schedule), the Option shall be exercisable in five (5) equal installments on the first five (5) anniversaries of the Date of Grant. In no event shall any Shares be purchasable under this Agreement after the seventh (7th) anniversary after the Date of Grant (the "Expiration Date"). Except as provided in subparagraph (b) hereof, the Option shall cease to be exercisable ninety (90) days after the date the Optionee terminates services as an employee or consultant of the Company or any Affiliate of the Company for reasons other than Cause and immediately upon the termination of the Optionee for Cause, and all rights of the Optionee hereunder shall thereupon terminate.

(b) If the Optionee ceases to be an employee of the Company or any Affiliate of the Company and this cessation is due to retirement (as defined by the Committee in its sole discretion), or to mental or physical disability (as defined in each case by the Committee in its sole discretion) or to death, the Option shall be exercisable as provided in this subparagraph. The Optionee or, in the event of his mental or physical disability, if permissible under applicable law with respect to any option that is not an incentive stock option (an "ISO") under Section 422 of the Internal Revenue Code, as amended (the "Code"), his duly appointed guardian or legal representative or, in the event of his death, his executor or administrator shall have the privilege of exercising the unexercised portion of the Option which the Optionee could have exercised on the day on which he ceased to be an employee of the Company or any Affiliate of the Company; provided, however, that such exercise must be in accordance with the terms of this Agreement and within (i) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's retirement or mental or physical disability or (ii)(A) twelve (12) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death or (B) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death if such death occurs during the six (6) month period following the termination of the Optionee's employment by reason of retirement or mental or physical disability, as the case may be. In no event, however, shall the Optionee, his duly appointed guardian or legal representative, or his executor or administrator, as the case may be, exercise the Option after the Expiration Date. For all purposes of this Agreement, an approved leave of absence shall not constitute an interruption or cessation of the Optionee's service as an employee of the Company or any Affiliate of the Company.

2. Nothing contained herein shall be construed to confer on the Optionee any right to be retained in the employ of the Company or any Affiliate of the Company or to derogate from any right of the Company or any Affiliate thereof to dismiss the Optionee from employment, free from any liability, or any claim under this Agreement or the Plan, unless otherwise expressly provided in the Plan or in this Agreement.

3. Subject to Section 422 of the Code, no Option and no right under any such Option shall be assignable, alienable, saleable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and such Option, and each right under any such Option, shall be exercisable during the Optionee's lifetime only by the Optionee or, if permissible under applicable law, by the Optionee's guardian or legal representative. However, the Committee may, in its discretion, provide that nonqualified stock options be transferable,

without consideration, to immediate family members (i.e., children, grandchildren or spouse) to trusts for the benefit of such immediate family members and to partnerships in which such family members are the only parties. In addition, the Optionee may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the Optionee, and to receive any distribution with respect to any Option upon the death of the Optionee. No Option, and no right under any such Option, may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate of the Company.

4. (a) In the event that the Committee shall determine that the outstanding shares of Common Stock are affected by any (i) subdivision or consolidation of shares, (ii) dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), (iii) recapitalization or other capital adjustment of the Company, or (iv) merger, consolidation or reorganization of the Company or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be made under the Plan, adjust any or all of (x) the number and type of Shares which may be subject to Options, (y) the number and type of Shares subject to the unexercised portion of the Option, and (z) the grant, purchase, or exercise price with respect to any Option or, if deemed appropriate, make provision for a cash payment to the Optionee; provided, however, in each case, that (i) with respect to ISOs no such adjustment shall be authorized to the extent that such adjustment would cause the Plan to violate Section 422 of the Code or any successor provision thereto; (ii) each such adjustment shall be made in such manner as not to constitute a cancellation and reissuance of a nonqualified stock option for purposes of Section 162(m) of the Code, or the regulations promulgated thereunder, to the extent that such reissuance would result in the grant of such Options in excess of the maximum permitted to be granted to the Optionee in any fiscal year; and (iii) the number of Shares subject to any Option denominated in Shares shall always be a whole number. In computing any adjustment under this paragraph, any fractional share shall be eliminated.

(b) In addition to the rights set forth in clause (a), in the event of a transaction described in clause (a)(iv) above, the Committee may, in its sole discretion, take any one or more of the following actions, as to outstanding Options: (i) provide that such Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation or entity (or to the extent the Company's stockholders receive capital stock of an affiliate thereof in the transaction, by such affiliate), provided, however, that any such options substituted for Incentive Stock Options shall meet the requirements of Section 424(a) of the Code, (ii) upon written notice to the Optionee, provide that (A) all exercisable but unexercised Options will terminate immediately prior to the consummation of such transaction unless exercised by the Optionee (after giving effect to the full vesting thereof upon consummation of such transaction, if applicable) within a specified period following the date of such notice and prior to the consummation of such event or transaction (which period shall not be less than fifteen (15) days) and (B) all unexercisable Options will terminate upon consummation of such event or transaction, (iii) in the event of a merger or consolidation under the terms of which holders of the Common Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the merger or consolidation (the "Merger Price"), make or

provide for a cash payment to the Optionee equal to the difference between (A) the Merger Price times the number of shares of Common Stock subject to such outstanding Options (to the extent then exercisable at prices not in excess of the Merger Price) and (B) the aggregate exercise price of all such outstanding Options, in exchange for the termination of such Options, or (iv) provide that all or any outstanding Options shall become exercisable in full immediately prior to such event or transaction and shall cease to be exercisable at any time after such event or transaction. Any exercise of the Option in contemplation of a transaction described in clause (a)(iv) above may be conditioned upon and subject to the consummation thereof, in which case, any such exercise shall be deemed to have occurred immediately prior to such transaction and any resulting termination of the Option.

5. The Option shall be exercised when written notice of such exercise, signed by the person entitled to exercise the Option, has been delivered or transmitted by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, to the Secretary of the Company at its principal office. Said written notice shall specify the number of Shares purchasable under the Option which such person then wishes to purchase and shall be accompanied by such documentation, if any, as may be required by the Company as provided in Paragraph 8 below and be accompanied by payment of the aggregate Option price. Such payment of the aggregate Option price shall be, without limitation, in the form of (i) cash, shares, outstanding Options or other consideration, or any combination thereof, having a Fair Market Value on the exercise date equal to the exercise price of the Option or portion thereof being exercised or (ii) a broker-assisted cashless exercise program established by the Committee, if then applicable to the Optionee. Delivery of said notice and such documentation shall constitute an irrevocable election to purchase the Shares specified in said notice and the date on which the Company receives said notice and documentation shall, subject to the provisions of Paragraph 7 and 8, be the date as of which the Shares so purchased shall be deemed to have been issued. The person entitled to exercise the Option shall not have the right or status as a holder of the Shares to which such exercise relates prior to receipt by the Company of such payment, notice and documentation.

6. If the Company shall become obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state, local or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax (the "Withholding Liability"), then the Optionee shall, on the date of exercise and as a condition to the issuance of the Shares subject to the Option, pay the Withholding Liability to the Company. Payment shall be by check payable to the Company; provided, however, that, with the consent of the Committee, payment may instead be made by delivery to the Company of a certificate or certificates representing Shares duly endorsed or accompanied by a duly executed stock power(s), which delivery effectively transfers to the Company good and valid title to such Shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such Shares to be valued on the basis of the Fair Market Value thereof on the date of such payment); provided further, however, that the Company is not then prohibited from purchasing or acquiring such Shares. In addition to the foregoing methods of payment, the Optionee may request in writing that the Company withhold all or a portion of the Withholding Liability from any compensation or other amounts otherwise then due and payable to the

Optionee, in which case the withholding and payment of any such amount by the Company to the relevant taxing authority shall constitute full satisfaction of the Company's obligation to pay such compensation or other amounts to Optionee.

7. Anything in this Agreement to the contrary notwithstanding, in no event may the Option be exercisable if the Company shall, at any time and in its sole discretion, determine that (i) the listing, registration or qualification of any Shares otherwise deliverable upon such exercise, upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any governmental or regulatory body is necessary or desirable in connection with such exercise. In such event, such exercise shall be held in abeyance and shall not be effective unless and until such listing, registration, qualification, consent or approval shall have been affected or obtained free of any conditions not acceptable to the Company. Pending effectiveness, the Company shall return the exercise price to the Optionee, and so long as such exercise shall be held in abeyance, the Option shall remain exercisable subject to this Section notwithstanding any termination or expiration thereof that might otherwise occur under the Option.

8. The Committee may require as a condition to the right to exercise the Option hereunder that the Company receive from the person exercising the Option representations, warranties and agreements, at the time of any such exercise, to the effect that the Shares are being purchased without any present intention to sell or otherwise distribute such Shares in violation of applicable federal securities laws and that the Shares will not be disposed of in transactions which, in the opinion of counsel to the Company, would violate the registration provisions of the Securities Act of 1933, as then amended, and the rules and regulations thereunder. The certificate issued to evidence such Shares shall bear appropriate legends summarizing such restrictions on the disposition thereof.

9. All certificates for Shares or other securities of the Company delivered under the Plan pursuant to any Option or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other restrictions of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10. The Company makes no representations or warranties as to the income, estate or other tax consequences to the Optionee of the grant or exercise of the Option or the sale or other disposition of the Shares acquired pursuant to the exercise thereof.

11. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware and applicable federal law. Subject to subparagraph 1(b) and 3(a) hereof, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors or assigns, as the case may be.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 27, 2002 by and between PORTFOLIO RECOVERY ASSOCIATES, INC., a Delaware corporation (the "Company"), and James L. Keown ("Employee").

WITNESSETH:

WHEREAS, the Company desires that Employee serve as the Senior Vice President — Information Technology of the Company;

WHEREAS, the Employee desires to enter into such an employment relationship upon the terms set forth in this Agreement;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties agree as follows:

1. Employment.

a) The Company hereby employs (the "Employment") Employee as the Senior Vice President — Information Technology of the Company. Employee shall perform such duties and exercise such powers as directed by the President and Chief Executive Officer of the Company, subject to the general supervision, control and guidance of the Board of Directors of the Company (the "Board"). Employee hereby accepts the Employment and agrees to (i) render such executive services, (ii) perform such executive duties and (iii) exercise such executive supervision and powers to, for and with respect to the Company, as may be established, for the period and upon the terms set forth in this Agreement.

b) Employee shall devote substantially all of his business time and attention to the business and affairs of the Company consistent with his executive positions with the Company, except as permitted by the Nomination and Corporate Governance Committee, for vacations permitted pursuant to Section 4(d) and for Disability (as defined in Section 8(b)). This Agreement shall not be construed as preventing Employee from serving on the Boards of Directors of other companies, engaging in charitable and community affairs, or giving attention to his passive investments, provided that such activities do not interfere with the regular performance of his duties and responsibilities under this Agreement or violate any other provision of this Agreement.

2. Place of Performance. The principal place of employment of Employee shall be at the Company's principal executive offices in Norfolk, Virginia or, if such offices are relocated, within a 50 mile radius of Norfolk, Virginia (the "Metropolitan Area"). Notwithstanding the foregoing, Employee may be required to travel beyond the Metropolitan Area as reasonably required to perform his duties hereunder.

3. Term. Except as otherwise specifically provided in Section 8 below, this Agreement will be effective upon the closing of the Company's initial public offering (the "Offering") and the term of this Agreement (as may be extended, the "Term") shall commence on the date thereof (the "Commencement Date"), and shall continue until December 31, 2005, subject to the terms and conditions of this Agreement. In the event that the Offering has not occurred as of December 31, 2002 this Agreement shall have no further effect. The Term may be terminated at an earlier date in accordance with Section 8 hereof.

4. Compensation.

a) Base Salary. Employee shall be paid a base salary (the "Base Salary") at an annual rate of \$105,000, payable at such intervals as the other executive officers of the Company are paid, but in any event at least on a monthly basis. On each January 1 following the Commencement Date, commencing January 1, 2003, Base Salary shall be increased annually by no less than 4% over the immediately preceding year's Base Salary.

b) Bonus Compensation. Employee shall receive bonus compensation ("Bonus Compensation") in accordance with paragraph (i) of this Section 4(b); provided, however, that if at any time the Management Bonus (as hereinafter defined) is not in effect, Employee shall receive bonus compensation in accordance with paragraph (ii) of this Section 4(b). Employee shall not be entitled to participate in any incentive bonus program for non-management level employees during the time the Management Bonus is in effect.

(i) Management Bonus. The performance of the business shall be reviewed at the end of each operating year and compared to such goals as are set forth in the business plan for that year as approved by the Board (the "Business Plan"). If the results of operations for the year achieve the net profitability goals for the year specified in the approved Business Plan, a bonus equal to no less than 25% of the Employee's Base Salary shall be paid to him (the "Management Bonus"). If the results of operations for the year exceed the net profitability goals of the approved Business Plan, the amount of the Employee's Management Bonus may be increased in recognition of the degree to which performance exceeded such goals, and the Employee's contribution to such superior performance results as determined in the sole discretion of the Compensation Committee of the Board (the "Committee"). If the results of operations for the year fail to achieve such net profitability goals, the amount, if any of the Employee's Management Bonus shall be within the absolute discretion of the Committee, provided that the Committee shall give reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall.

(ii) Bonus. In the event that the Management Bonus is not in effect, in addition to the Base Salary, Employee shall be entitled to such bonus compensation as may be determined from time to time by the Committee, in its sole discretion. The Committee shall base its decision on a review of the performance of the Company and the Employee's performance at the end of each year.

c) Stock Options. The Committee has granted to Employee stock options to purchase 10,000 shares of common stock of the Company, pursuant to a stock option agreement in substantially the form annexed hereto as Exhibit A (the "Option Agreement"). The stock options granted pursuant to the Option Agreement shall vest in full on a change in control. The Company shall use reasonable efforts to cause a Registration Statement on Form S-8 to be filed and to be declared effective, registering the shares to be granted hereby.

d) Employee Benefits. In addition to the Base Salary and the Bonus Compensation, and subject to the limitations imposed herein, Employee shall be entitled to (i) receive any fringe benefits provided by the Company to its executive officers, including, but not limited to, life, hospitalization, surgical, major medical and disability insurance and sick leave, (ii) such employee benefit programs as may be offered by the Company to other employees and (iii) be a full participant in all of the Company's other benefit plans, pension plans, retirement plans and profit-sharing plans which may be in effect from time to time or may hereafter be adopted by the Company.

e) Vacation. During the Term, Employee shall be entitled to such vacation with pay during each calendar year of his Employment hereunder consistent with his position as an executive officer of the Company, but in no event less than four weeks in any such calendar year (pro-rated as necessary for partial calendar years during the Term). Such vacation may be taken, in Employee's discretion, at such time or times as are not inconsistent with the reasonable business needs of the Company. Employee shall not be entitled to any additional compensation in the event that Employee, for whatever reason, fails to take such vacation during any year of his Employment hereunder. Employee shall also be entitled to all paid holidays given by the Company to its executive officers.

5. Indemnification. Employee shall be entitled at all times to the benefit of the maximum indemnification and advancement of expenses available from time to time under the laws of the State of Delaware, and such benefit shall not be less than any other officer or director entitled to indemnification by the Company. Without limiting the foregoing, Employee shall also be entitled to the benefit of the following provisions:

a) D&O Insurance. Employee shall be covered under any directors' and officers' liability insurance policy then in effect for the Company or any of its affiliates as to which Employee is serving as a director or officer. The failure to have an insurance policy in effect at all times shall not allow Employee to assert a Constructive Termination of this Agreement, other than to the extent such failure constitutes a breach of the immediately preceding sentence.

b) Scope of Indemnification. In addition to the insurance coverage provided for in Section 5(a), the Company and any of the Company's affiliates as to which Employee has at any time served as a director, officer, employee, agent or fiduciary (collectively, the "Indemnitors") shall jointly and severally hold harmless and indemnify Employee (and his heirs, executors and administrators) to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by

him in connection with or arising out of any action, suit or proceeding (each, a "Claim") in which he may be involved by reason of his having been a director, officer, employee, agent or fiduciary of any Indemnitor (whether or not he continues to be a director, officer, employee, agent or fiduciary thereof at the time of incurring such expenses or liabilities), or by reason of any action or inaction on Employee's part while serving in any such capacity, such expenses and liabilities to include, but not be limited to, losses, damages, judgments, investigation costs, court costs and attorneys' fees and the cost of reasonable settlements.

c) Selection of Counsel. In the event the Indemnitors shall be obligated hereunder to pay any Expenses with respect to a Claim, the Indemnitors shall be entitled to assume the defense of such Claim upon the delivery to Employee of written notice of its election to do so. After delivery of such notice and the retention of such counsel by the Indemnitors, the Indemnitors will not be liable to Employee under this Agreement for any fees of counsel subsequently incurred by Employee with respect to the same Claim; provided that, (i) Employee shall have the right to employ counsel in any such Claim at his expense; and (ii) if (A) the employment of counsel by Employee has been previously authorized by the Indemnitors, (B) counsel for Employee shall have provided the Indemnitors with written advice that there is a conflict of interest between the Indemnitors and Employee in the conduct of any such defense, or (C) the Indemnitors shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Employee's counsel shall be at the expense of the Indemnitors.

d) Nonexclusivity. The indemnification rights set for in this Section 5 shall be in addition to any rights to which Employee may be entitled under any of the Indemnitors' charter documents, bylaws or agreements, any vote of stockholders or disinterested directors, the laws of the various Indemnitors' jurisdictions of formation or incorporation. The indemnification rights set forth in this Section 5 shall continue as to Employee for any action Employee took or did not take while serving in an indemnified capacity even though Employee may have ceased to serve in such capacity.

e) Survival. The indemnification and contribution provided for in this Section 5 will remain in full force and effect after any termination of Employee's employment and without regard to any investigation made by or on behalf of Employee or any agent or representative of Employee.

6. Expenses. During the Term, the Company shall reimburse Employee upon presentation of appropriate vouchers or receipts in accordance with the Company's expense reimbursement policies for executive officers, for all out-of-pocket business travel and entertainment expenses incurred or expended by Employee in connection with the performance of his duties under this Agreement.

7. Termination Procedure.

a) Notice of Termination. Any termination of Employee's Employment by the Company or by Employee during the Term (other than termination pursuant to Section 8(a) of this Agreement) shall be communicated by written notice

("Notice of Termination") to the other party hereto in accordance with Section 13 herein. For purposes of this Agreement, a Notice of Termination shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's Employment under the provision so indicated.

b) Date of Termination. "Date of Termination" shall mean (a) if Employee's Employment is terminated by his death, the date of death, (b) if Employee's Employment is terminated pursuant to Section 8(b) herein, 30 days after Notice of Termination (provided that Employee shall not have returned to the substantial performance of his duties on a full-time basis during such 30 day period), (c) if Employee's Employment terminates upon the expiration of the Term and Employee's Employment is not renewed pursuant to Section 3 of this Agreement, the date of expiration of the Term, and (d) if Employee's Employment is terminated for any other reason, the date on which Notice of Termination is given or any later date (within 30 days after the giving of such notice) set forth in such Notice of Termination.

8. Termination of Employment.

a) Death. In the event of the death of Employee during the Term, Employee's Employment hereunder shall be terminated as of the date of his death and Employee's designated beneficiary, or, in the absence of such designation, the estate or other legal representative of Employee (collectively, the "Estate"), shall be paid Employee's unpaid Base Salary through the month in which the death occurs and any unpaid Bonus Compensation for any fiscal year which has ended as of the date of such termination or which was at least fifty percent (50%) completed as of the date of death. In the case of such incomplete fiscal year, the Bonus Compensation shall be determined based upon the assumption that Employee would have earned the target Bonus Compensation in accordance with Section 4(b) and pro-rated, and all such Bonus Compensation, if any, payable as a result of this Section 8(a) shall be payable at the same time as bonuses would be payable to other executive officers (regardless of whether such other officers earned any such bonus). The Estate shall be entitled to all other death benefits in accordance with the terms of the Company's benefit programs and plans.

b) Disability. In the event Employee shall be unable to render the services or perform his duties hereunder by reason of illness, injury or incapacity (whether physical, mental, emotional or psychological) (any of the foregoing shall be referred to herein as a "Disability") for a period of either (i) 180 consecutive days or (ii) 270 days in any consecutive 365-day period, the Company shall have the right to terminate this Agreement by giving Employee 30 days' prior written notice. Any determination of Disability shall be made by the Board in its reasonable good faith discretion. If Employee's Employment hereunder is so terminated, Employee shall be paid, offset by payments under any disability insurance policy in effect, Employee's unpaid Base Salary through the month in which the termination occurs, plus Bonus Compensation on the same basis as is set forth in Section 8(a) above. The Employee shall be entitled to receive all benefits in accordance with the terms of this Agreement and of the Company's benefit programs and plans.

c) Termination of Employment by the Company for Cause.

(i) Nothing herein shall prevent the Company from terminating Employee's Employment for Cause (as hereinafter defined). From and after the Date of Termination, Employee shall no longer be entitled to receive Base Salary and Bonus Compensation and the Company shall no longer be required to pay premiums on any life insurance or disability policy for Employee. Any rights and benefits which Employee may have in respect of any other compensation or any employee benefit plans or programs of the Company, whether pursuant to Section 4(c) or otherwise, shall be determined in accordance with the terms of such other compensation arrangements or plans or programs. The term "Cause," as used herein, shall mean: (A) Employee's conviction, or plea of guilty or *nolo contendere* to, a felony; (B) Employee's engaging in willful misconduct that is economically injurious to the Company (including, but not limited to, a willful violation of Sections 10 or 11 of this Agreement or the embezzlement of funds or misappropriation of other property of the Company or any subsidiary); or (C) Employee shall breach this Agreement in a material manner or engage in fraudulent conduct as regards the Company which results either in personal enrichment to Employee or material injury to the Company. Notwithstanding the foregoing, under no circumstances shall Employee's refusal or unwillingness to make any of the certifications required of him as Chief Executive Officer of the Company pursuant to Section 302 or Section 906 of the Sarbanes-Oxley Act of 2002, or any rules or regulations promulgated thereunder, or any similar requirements of any federal, state, local or foreign governmental authority or agency, or of any national securities exchange or quotation system on which any class or series of the Company's capital stock is then traded or listed for quotation, constitute or give rise to a basis for termination for "Cause."

(ii) The Company shall provide Employee with Notice of Termination stating that it intends to terminate Employee's Employment for Cause under this Section 8(c) and specifying the particular act or acts on the basis of which the Board intends to terminate Employee's Employment. Employee shall then be given the opportunity, within 15 days of his receipt of such notice, to have a meeting with the Board to discuss such act or acts (other than with respect to an action described in Sections 8(c)(i)(A) or (B) above as to which the Board may immediately terminate Employee's Employment for Cause). Other than with respect to an action described in Sections 8(c)(i)(A) or (B) above, Employee shall be given seven days after his meeting with the Board to take reasonable steps to cease or correct the performance (or nonperformance) giving rise to such Notice of Termination. In the event the Board determines that Employee has failed within such seven-day period to take reasonable steps to cease or correct such performance (or nonperformance), Employee shall be given the opportunity, within 10 days of his receipt of written notice to such effect, to have a meeting with the Board to discuss such determination. Following that meeting, if the Board believes that Employee has failed to take reasonable steps to cease or correct his performance (or nonperformance) as above described, the Board may thereupon terminate the Employment of Employee for Cause.

d) Termination Other than for Cause, Death or Disability.

(i) Termination. This Agreement may be terminated by the Company (in addition to termination pursuant to Sections 8(a), (b) or (c) above) or Employee at any time and for any reason or upon the expiration of the Term.

(ii) Severance and Non-Competition Payments. If the Employee's employment is terminated under this Section 8(d) (including a Constructive Termination (as hereinafter defined), other than as a termination by Employee as a result of death or Disability of Employee or for Cause (and other than during the six months following a "change in control" (as hereinafter defined) of the Company), the following shall apply:

A) the Company shall pay to Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, as soon as practicable following the Date of Termination, (x) the greater of a lump-sum payment equal to one times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term and (y) a lump-sum payment equal to the greater of one times the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year in which the Date of Termination occurs or the target Bonus Compensation due under the remaining Term (whether or not such target is actually met). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release (as hereinafter defined), but in no event more than 45 days following the execution of such Release;

B) the Company shall provide a reasonable allowance for outplacement services, not to exceed \$5,000;

C) the Company shall continue to provide Employee with the same level of medical benefits upon substantially the same terms and conditions (including contributions required by Employee for such benefits) as existed immediately prior to Employee's termination for the longer of the maximum period of time provided under federal law or the remainder of the Term; provided that the Company shall bear the costs of such benefits for the longer of three months or the remainder of the Term and, provided further, if Employee cannot continue to participate in the Company's plans providing such benefits, the Company shall reimburse Employee the cost of obtaining such benefits as if continued participation had been permitted. Notwithstanding the foregoing, in the event Employee obtains employment with another employer and becomes eligible to receive comparable benefits from such employer, the benefits described in this clause (C) shall cease; and

D) Employee shall be entitled to any other rights, compensation and/or benefits as may be due to Employee in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(iii) Change in Control. For purposes of this Agreement, a “change in control” of the Company shall be deemed to have occurred if any of the following events occur:

(A) An acquisition after the date of this Agreement by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this definition, the following transactions shall not constitute a change in control: (a) any acquisition by the Company or by an employee benefit plan (or related trust) sponsored or maintained by the Company or an affiliate, (b) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, (c) any acquisition by, or consummation of a Corporate Transaction with, an affiliate of the Company, or (d) a Non-Control Transaction;

(B) A change in the composition of the board of directors of the Company such that the individuals who, as of the date hereof, constitute the board of directors of the Company (such Board shall be hereinafter referred to as the “Incumbent Board”) cease for any reason to constitute at least a majority of the board of directors of the Company; provided, however, for purposes of this clause (B), any individual who becomes a member of the board of directors of the Company subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the board of directors of the Company and who were also members of the Incumbent Board (or deemed to be such pursuant to this provision) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the board of directors of the Company shall not be so considered as a member of the Incumbent Board; or

(C) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”), in each case, unless the Corporate Transaction is a Non-Control Transaction; or

For purposes of the foregoing, “Non-Control Transaction” means a Corporate Transaction as a result of which the Outstanding Company Voting Securities immediately prior to such Corporate Transaction would entitle the holders thereof immediately prior to such Corporate Transaction to exercise, directly or indirectly, more than fifty percent (50%) of the combined voting power of all of the shares of capital stock entitled to vote generally in election of directors of the corporation resulting from such Corporate Transaction immediately after such Corporate Transaction (including, without limitation,

a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries).

(iv) Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall be deemed to have occurred upon (i) the removal of Employee from, or a failure of Employee to continue as, Senior Vice President — Information Technology, (ii) any material diminution in the nature or scope of the authorities, powers, functions, duties or responsibilities attached to such positions, (iii) the relocation of the Company's principal executive offices to a location more than 50 miles from Norfolk, Virginia, or (iv) the material breach by the Company of this Agreement and, in the case of clauses (i)-(iii) above, Employee does not agree to such change (which decision is personal in nature and not subject to any fiduciary responsibilities Employee may have as an officer or director of the Company) and elects to terminate his Employment.

(v) Severance and Non-Competition Payments Following a Change in Control. In the event of a termination of employment by Employee for any reason, other than as a result of death or Disability of Employee or for Cause, within six months following a "change in control" of the Company, the Company shall pay Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) the greater of a lump-sum payment equal to one times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term, (y) the greater of a lump-sum payment equal to one times (A) the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year of termination or (B) the target Bonus Compensation due for the year of termination (whether or not such target is actually met) and (z) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vi) Severance and Non-Competition Payments Following Non-Renewal of this Agreement. If this Agreement is not renewed beyond the Term by the parties hereto, the Company shall pay Employee a severance and non-competition payment equal to: (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) a lump-sum payment equal to one-quarter times Employee's then current Base Salary and (y) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clause (x) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vii) No Mitigation. Employee shall not be required to mitigate the amount of any severance and non-competition payment provided for under this Agreement by seeking other employment or otherwise.

(viii) Excise Tax. In the event that Employee becomes entitled to any payments or benefits under this Agreement and any portion of such payments or benefits, when combined with any other payments or benefits provided to Employee (including, without limiting the generality of the foregoing, by reason of the exercise of any stock options or the receipt of any shares of stock of the Company), which in the absence of this Section 8(d)(ii)(J), would be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the amount payable to Employee under this Agreement shall be reduced to the largest amount or greatest right (for example, by deferring the vesting date of Employee's options) such that none of the amounts payable to Employee under this Agreement and any other payments or benefits received or to be received by Employee as a result of, or in connection with, an event constituting a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(A) of the Code) (collectively, a "Control Change") or the termination of Employment (including a Constructive Termination, and whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Control Change or any person having such a relationship with the Company or such person as to require attribution of stock ownership between the parties under Section 318(a) of the Code) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code. The Company shall cooperate in good faith with Employee in making such determination. In the event that the vesting date of any option is deferred hereunder, the term during which such option may be exercised shall be extended until the ninetieth (90th) day following the full vesting thereof.

9. Release. Employee acknowledges and agrees that the payments set forth in Section 8 of this Agreement constitute liquidated damages for any claim of breach of contract under this Agreement as it relates to termination of Employee's employment. In order to receive any of the payments set forth above, prior to the payment of such amounts, Employee shall execute and agree to be bound by an agreement relating to the waiver and general release of any and all claims (other than claims for the compensation and benefits payable under Section 8 hereof) arising out of or relating to Employee's employment and termination of employment (the "Release"), which Release shall be in substantially the form annexed hereto as Exhibit B (with such changes as counsel to the Company may reasonably require as a result of changes in law after the date hereof).

10. Confidential Information.

a) Employee covenants and agrees that he will not at any time, either during the Term or thereafter, use, disclose or make accessible to any other person, firm, partnership, corporation or any other entity any Confidential Information (as defined below) pertaining to the business of the Company except (i) while employed by the Company, in the business of and for the benefit of the Company or (ii) when required to

do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Company to divulge, disclose or make accessible such information. For purposes of this Agreement, "Confidential Information" shall mean non-public information concerning the Company's financial data, statistical data, strategic business plans, product development (or other proprietary product data), customer and supplier lists, customer and supplier information, information relating to practices, processes, methods, trade secrets, marketing plans and other non-public, proprietary and confidential information of the Company; provided, however, that Confidential Information shall not include any information which (x) is known generally to the public other than as a result of unauthorized disclosure by Employee, (y) becomes available to the Employee on a non-confidential basis from a source other than the Company or (z) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Company. It is specifically understood and agreed by Employee that any Confidential Information received by Employee during his Employment by the Company is deemed Confidential Information for purposes of this Agreement. In the event Employee's Employment is terminated hereunder for any reason, he immediately shall return to the Company all tangible Confidential Information in his possession.

b) Employee and the Company agree that this covenant regarding Confidential Information is a reasonable covenant under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction, such covenant is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended. Employee agrees that any breach of the covenant contained in this Section 10 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 10.

11. Non-Competition; Non-Solicitation.

a) Employee agrees that during the Non-Competition Period (as defined in Section 11(d) below), without the prior written consent of the Company: (i) he shall not be a principal, manager, agent, consultant, officer, director or employee of, or, directly or indirectly, own more than 1% percent of any class or series of equity securities in, any partnership, corporation or other entity, which, now or at such time, has material operations which are engaged in any business activity competitive (directly or indirectly) with the Business of the Company (a "Competing Entity"); and (ii) he shall not, on behalf of any Competing Entity, directly or indirectly, have any dealings or contact with any suppliers or customers of the Company. As used in this Agreement, the term "Business" means the purchase, collection and management of portfolios of defaulted consumer receivables, but shall not include such collection and management activities to the extent they are incidental to a business primarily engaged in loan origination or servicing. Notwithstanding the foregoing, an entity will not be deemed to be a Competing Entity,

and Employee will not be deemed to be engaged in the Business, if (i) Employee is employed by an entity that is engaged in any meaningful way in one or more businesses other than the Business (the "Non-Competing Businesses"), (ii) such entity's relationship with Employee relates solely to the Non-Competing Businesses, and (iii) if requested by the Company, such entity and Employee shall provide the Company with reasonable assurances that Employee will have no direct or indirect involvement in the Business on behalf of such entity.

b) During the Non-Competition Period and for one year thereafter (two years after the Term), Employee agrees that, without the prior written consent of the Company (and other than on behalf of the Company), Employee shall not, on his own behalf or on behalf of any person or entity, directly or indirectly, (i) solicit the customers or suppliers of the Company to terminate their relationship with the Company (or to modify such relationship in a manner that is adverse to the interests of the Company) or (ii) hire or solicit the employment of any employee who has been employed by the Company at the time of Employee's termination or at any time during the six months immediately preceding such date of hiring or solicitation. This provision does not prohibit the solicitation of employees by means of a general advertisement.

c) Employee and the Company agree that the covenants of non-competition and non-solicitation are reasonable covenants under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction such covenants are not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of these covenants as to the court shall appear not reasonable and to enforce the remainder of these covenants as so amended. Employee agrees that any breach of the covenants contained in this Section 11 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 11.

d) The provisions of this Section 11 shall extend for the Term and survive the termination of this Agreement for one year from the date of such termination (herein referred to as the "Non-Competition Period").

e) The provisions of this Section 11 shall terminate if this Agreement is terminated by the Company other than for Cause, or in the event of a Constructive Termination of this Agreement or if the Company defaults on any of its payment obligations set forth in this Agreement, which payment default is not cured within fifteen (15) days after notice.

12. Limitation of Liability and Indemnity. The limitation of liability and indemnity provisions of Section 8.1 of the Amended and Restated ByLaws of the Company and Article 9 of the Amended and Restated Certificate of Incorporation of the Company are a contractual benefit to Employee and are a material consideration for Employee's employment.

13. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given if delivered personally or sent by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, as follows (or to another address specified in writing by the recipient prior to the sending of such notice or communication):

If to the Company, to:

Portfolio Recovery Associates, Inc.
120 Corporate Boulevard
Norfolk, Virginia 23502
Attn: General Counsel
Fax:

If to Employee, to:

Mr. James L. Keown
932 Gideon Rd.
Virginia Beach, Virginia 23454
Fax:

14. Entire Agreement. This Agreement and the Option Agreement contain the entire agreement between the parties hereto with respect to the matters contemplated herein and supersede all prior agreements or understandings among the parties related to such matters. In case of any conflict between the provisions hereof and the Option Agreement, the provisions of this Agreement shall be controlling.

15. Successors; Binding Effect. Except as otherwise provided herein, this Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns and upon Employee. "Successors and assigns" shall mean, in the case of the Company, any successor pursuant to a merger, consolidation, or sale, or other transfer of all or substantially all of the assets or Common Stock of the Company, provided that, should the Company assign or transfer this Agreement, the Company will require any successor to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such assignment or transfer had taken place.

16. No Assignment. Except as contemplated by Section 15 above, this Agreement shall not be assignable or otherwise transferable by either party.

17. Withholding. All payments hereunder shall be subject to any required withholding of federal, state and local taxes pursuant to any applicable law or regulation.

18. Amendment or Modification; Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Board and is agreed to in writing, signed by Employee and by a duly authorized officer of the Company (other than Employee). Except as otherwise specifically provided in this

Agreement, no waiver by either party hereto of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar provision or condition at the same or at any prior or subsequent time.

19. Fees and Expenses. If either party institutes any action or proceedings to enforce any rights the party has under this Agreement, or for damages by reason of any alleged breach of any provision of this Agreement, or for a declaration of each party's rights or obligations hereunder or to set aside any provision hereof, or for any other judicial remedy, the prevailing party shall be entitled to reimbursement from the other party for its costs and expenses incurred thereby, including but not limited to, reasonable attorneys' fees and disbursements.

20. Governing Law. The validity, interpretation, construction, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Delaware, without regard to its conflicts of law rules.

21. Titles. Titles to the Sections in this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the title of any Section.

22. Counterparts. This Agreement may be executed in one or more counterparts, which together shall constitute one agreement. It shall not be necessary for each party to sign each counterpart so long as each party has signed at least one counterpart.

23. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms and provisions of this Agreement in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: /s/ Judith S. Scott

Name: Judith S. Scott
Position: Secretary

By: /s/ James L. Keown

James L. Keown

PORTFOLIO RECOVERY ASSOCIATES, INC.

STOCK OPTION AGREEMENT

Portfolio Recovery Associates, Inc., a Delaware corporation (the "Company"), has duly adopted the 2002 Stock Option Plan (the "Plan"), the terms of which are hereby incorporated by reference. In the case of any conflict between the provisions hereof and those of the Plan, the provisions of this Agreement shall be controlling. A copy of the Plan is available upon request by the Optionee to the Secretary of the Company.

In accordance with Section 6 of the Plan, a committee of the Board of Directors (the "Board") of the Company designated by the Board to administer the Plan (the "Committee") adopted a resolution granting you (the "Optionee") a stock option (the "Option") under the Plan to purchase the number of shares (the "Shares") of the Company's common stock, par value \$.01 per share (the "Common Stock"), specified below, for the exercise price specified below and on the terms and subject to the conditions set forth in this Agreement and in the Plan.

This page is the first page of this Agreement, which describes in detail your rights with respect to the Option granted to you hereby and constitutes a legal agreement between you and the Company.

Name of Optionee: James L. Keown
Address of Optionee: _____
Date of Grant: November 7, 2002
Option Exercise Price: (subject to Paragraph 4): *\$13.00
Number of Shares Subject to Option: 10,000
Type of Option: Non-qualified Stock Option [X]

IN WITNESS WHEREOF, the parties have witnessed this Agreement to be duly executed and delivered as of the Date of Grant specified above.

OPTIONEE

By: _____

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____
Judith Scott
General Counsel and Secretary

1. (a) Unless the Option is previously terminated pursuant to the Plan or this Agreement and subject to the terms of any other agreement between the Optionee and the Company (including, without limitation, any employment or other agreement which may provide for, among other things, an accelerated vesting schedule), the Option shall be exercisable in five (5) equal installments on the first five (5) anniversaries of the Date of Grant. In no event shall any Shares be purchasable under this Agreement after the seventh (7th) anniversary after the Date of Grant (the "Expiration Date"). Except as provided in subparagraph (b) hereof, the Option shall cease to be exercisable ninety (90) days after the date the Optionee terminates services as an employee or consultant of the Company or any Affiliate of the Company for reasons other than Cause and immediately upon the termination of the Optionee for Cause, and all rights of the Optionee hereunder shall thereupon terminate.

(b) If the Optionee ceases to be an employee of the Company or any Affiliate of the Company and this cessation is due to retirement (as defined by the Committee in its sole discretion), or to mental or physical disability (as defined in each case by the Committee in its sole discretion) or to death, the Option shall be exercisable as provided in this subparagraph. The Optionee or, in the event of his mental or physical disability, if permissible under applicable law with respect to any option that is not an incentive stock option (an "ISO") under Section 422 of the Internal Revenue Code, as amended (the "Code"), his duly appointed guardian or legal representative or, in the event of his death, his executor or administrator shall have the privilege of exercising the unexercised portion of the Option which the Optionee could have exercised on the day on which he ceased to be an employee of the Company or any Affiliate of the Company; provided, however, that such exercise must be in accordance with the terms of this Agreement and within (i) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's retirement or mental or physical disability or (ii)(A) twelve (12) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death or (B) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death if such death occurs during the six (6) month period following the termination of the Optionee's employment by reason of retirement or mental or physical disability, as the case may be. In no event, however, shall the Optionee, his duly appointed guardian or legal representative, or his executor or administrator, as the case may be, exercise the Option after the Expiration Date. For all purposes of this Agreement, an approved leave of absence shall not constitute an interruption or cessation of the Optionee's service as an employee of the Company or any Affiliate of the Company.

2. Nothing contained herein shall be construed to confer on the Optionee any right to be retained in the employ of the Company or any Affiliate of the Company or to derogate from any right of the Company or any Affiliate thereof to dismiss the Optionee from employment, free from any liability, or any claim under this Agreement or the Plan, unless otherwise expressly provided in the Plan or in this Agreement.

3. Subject to Section 422 of the Code, no Option and no right under any such Option shall be assignable, alienable, saleable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and such Option, and each right under any such Option, shall be exercisable during the Optionee's lifetime only by the Optionee or, if permissible under applicable law, by the Optionee's guardian or legal representative. However, the Committee may, in its discretion, provide that nonqualified stock options be transferable,

without consideration, to immediate family members (i.e., children, grandchildren or spouse) to trusts for the benefit of such immediate family members and to partnerships in which such family members are the only parties. In addition, the Optionee may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the Optionee, and to receive any distribution with respect to any Option upon the death of the Optionee. No Option, and no right under any such Option, may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate of the Company.

4. (a) In the event that the Committee shall determine that the outstanding shares of Common Stock are affected by any (i) subdivision or consolidation of shares, (ii) dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), (iii) recapitalization or other capital adjustment of the Company, or (iv) merger, consolidation or reorganization of the Company or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be made under the Plan, adjust any or all of (x) the number and type of Shares which may be subject to Options, (y) the number and type of Shares subject to the unexercised portion of the Option, and (z) the grant, purchase, or exercise price with respect to any Option or, if deemed appropriate, make provision for a cash payment to the Optionee; provided, however, in each case, that (i) with respect to ISOs no such adjustment shall be authorized to the extent that such adjustment would cause the Plan to violate Section 422 of the Code or any successor provision thereto; (ii) each such adjustment shall be made in such manner as not to constitute a cancellation and reissuance of a nonqualified stock option for purposes of Section 162(m) of the Code, or the regulations promulgated thereunder, to the extent that such reissuance would result in the grant of such Options in excess of the maximum permitted to be granted to the Optionee in any fiscal year; and (iii) the number of Shares subject to any Option denominated in Shares shall always be a whole number. In computing any adjustment under this paragraph, any fractional share shall be eliminated.

(b) In addition to the rights set forth in clause (a), in the event of a transaction described in clause (a)(iv) above, the Committee may, in its sole discretion, take any one or more of the following actions, as to outstanding Options: (i) provide that such Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation or entity (or to the extent the Company's stockholders receive capital stock of an affiliate thereof in the transaction, by such affiliate), provided, however, that any such options substituted for Incentive Stock Options shall meet the requirements of Section 424(a) of the Code, (ii) upon written notice to the Optionee, provide that (A) all exercisable but unexercised Options will terminate immediately prior to the consummation of such transaction unless exercised by the Optionee (after giving effect to the full vesting thereof upon consummation of such transaction, if applicable) within a specified period following the date of such notice and prior to the consummation of such event or transaction (which period shall not be less than fifteen (15) days) and (B) all unexercisable Options will terminate upon consummation of such event or transaction, (iii) in the event of a merger or consolidation under the terms of which holders of the Common Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the merger or consolidation (the "Merger Price"), make or

provide for a cash payment to the Optionee equal to the difference between (A) the Merger Price times the number of shares of Common Stock subject to such outstanding Options (to the extent then exercisable at prices not in excess of the Merger Price) and (B) the aggregate exercise price of all such outstanding Options, in exchange for the termination of such Options, or (iv) provide that all or any outstanding Options shall become exercisable in full immediately prior to such event or transaction and shall cease to be exercisable at any time after such event or transaction. Any exercise of the Option in contemplation of a transaction described in clause (a)(iv) above may be conditioned upon and subject to the consummation thereof, in which case, any such exercise shall be deemed to have occurred immediately prior to such transaction and any resulting termination of the Option.

5. The Option shall be exercised when written notice of such exercise, signed by the person entitled to exercise the Option, has been delivered or transmitted by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, to the Secretary of the Company at its principal office. Said written notice shall specify the number of Shares purchasable under the Option which such person then wishes to purchase and shall be accompanied by such documentation, if any, as may be required by the Company as provided in Paragraph 8 below and be accompanied by payment of the aggregate Option price. Such payment of the aggregate Option price shall be, without limitation, in the form of (i) cash, shares, outstanding Options or other consideration, or any combination thereof, having a Fair Market Value on the exercise date equal to the exercise price of the Option or portion thereof being exercised or (ii) a broker-assisted cashless exercise program established by the Committee, if then applicable to the Optionee. Delivery of said notice and such documentation shall constitute an irrevocable election to purchase the Shares specified in said notice and the date on which the Company receives said notice and documentation shall, subject to the provisions of Paragraph 7 and 8, be the date as of which the Shares so purchased shall be deemed to have been issued. The person entitled to exercise the Option shall not have the right or status as a holder of the Shares to which such exercise relates prior to receipt by the Company of such payment, notice and documentation.

6. If the Company shall become obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state, local or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax (the "Withholding Liability"), then the Optionee shall, on the date of exercise and as a condition to the issuance of the Shares subject to the Option, pay the Withholding Liability to the Company. Payment shall be by check payable to the Company; provided, however, that, with the consent of the Committee, payment may instead be made by delivery to the Company of a certificate or certificates representing Shares duly endorsed or accompanied by a duly executed stock power(s), which delivery effectively transfers to the Company good and valid title to such Shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such Shares to be valued on the basis of the Fair Market Value thereof on the date of such payment); provided further, however, that the Company is not then prohibited from purchasing or acquiring such Shares. In addition to the foregoing methods of payment, the Optionee may request in writing that the Company withhold all or a portion of the Withholding Liability from any compensation or other amounts otherwise then due and payable to the

Optionee, in which case the withholding and payment of any such amount by the Company to the relevant taxing authority shall constitute full satisfaction of the Company's obligation to pay such compensation or other amounts to Optionee.

7. Anything in this Agreement to the contrary notwithstanding, in no event may the Option be exercisable if the Company shall, at any time and in its sole discretion, determine that (i) the listing, registration or qualification of any Shares otherwise deliverable upon such exercise, upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any governmental or regulatory body is necessary or desirable in connection with such exercise. In such event, such exercise shall be held in abeyance and shall not be effective unless and until such listing, registration, qualification, consent or approval shall have been affected or obtained free of any conditions not acceptable to the Company. Pending effectiveness, the Company shall return the exercise price to the Optionee, and so long as such exercise shall be held in abeyance, the Option shall remain exercisable subject to this Section notwithstanding any termination or expiration thereof that might otherwise occur under the Option.

8. The Committee may require as a condition to the right to exercise the Option hereunder that the Company receive from the person exercising the Option representations, warranties and agreements, at the time of any such exercise, to the effect that the Shares are being purchased without any present intention to sell or otherwise distribute such Shares in violation of applicable federal securities laws and that the Shares will not be disposed of in transactions which, in the opinion of counsel to the Company, would violate the registration provisions of the Securities Act of 1933, as then amended, and the rules and regulations thereunder. The certificate issued to evidence such Shares shall bear appropriate legends summarizing such restrictions on the disposition thereof.

9. All certificates for Shares or other securities of the Company delivered under the Plan pursuant to any Option or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other restrictions of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10. The Company makes no representations or warranties as to the income, estate or other tax consequences to the Optionee of the grant or exercise of the Option or the sale or other disposition of the Shares acquired pursuant to the exercise thereof.

11. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware and applicable federal law. Subject to subparagraph 1(b) and 3(a) hereof, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors or assigns, as the case may be.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 8, 2002 by and between PORTFOLIO RECOVERY ASSOCIATES, INC., a Delaware corporation (the "Company"), and Judith S. Scott ("Employee").

W I T N E S S E T H :

WHEREAS, the Company desires that Employee serve as the Senior Vice President and General Counsel of the Company;

WHEREAS, the Employee desires to enter into such an employment relationship upon the terms set forth in this Agreement;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties agree as follows:

1. Employment.

a) The Company hereby employs (the "Employment") Employee as the Senior Vice President and General Counsel of the Company. Employee shall perform such duties and exercise such powers as directed by the President and Chief Executive Officer of the Company, subject to the general supervision, control and guidance of the Board of Directors of the Company (the "Board"). Employee hereby accepts the Employment and agrees to (i) render such executive services, (ii) perform such executive duties and (iii) exercise such executive supervisory powers to, for and with respect to the Company, as may be established, for the period and upon the terms set forth in this Agreement.

b) Employee shall devote substantially all of his business time and attention to the business and affairs of the Company consistent with his executive positions with the Company, except as permitted by the Nomination and Corporate Governance Committee, for vacations permitted pursuant to Section 4(d) and for Disability (as defined in Section 8(b)). This Agreement shall not be construed as preventing Employee from serving on the Boards of Directors of other companies, engaging in charitable and community affairs, or giving attention to his passive investments, provided that such activities do not interfere with the regular performance of his duties and responsibilities under this Agreement or violate any other provision of this Agreement.

2. Place of Performance. The principal place of employment of Employee shall be at the Company's principal executive offices in Norfolk, Virginia or, if such offices are relocated, within a 50 mile radius of Norfolk, Virginia (the "Metropolitan Area"). Notwithstanding the foregoing, Employee may be required to travel beyond the Metropolitan Area as reasonably required to perform his duties hereunder.

3. Term. Except as otherwise specifically provided in Section 8 below, this Agreement will be effective upon the closing of the Company's initial public offering (the "Offering") and the term of this Agreement (as may be extended, the "Term") shall commence on the date thereof (the "Commencement Date"), and shall continue until December 31, 2005, subject to the terms and conditions of this Agreement. In the event that the Offering has not occurred as of December 31, 2002 this Agreement shall have no further effect. The Term may be terminated at an earlier date in accordance with Section 8 hereof.

4. Compensation.

a) Base Salary. Employee shall be paid a base salary (the "Base Salary") at an annual rate of \$85,000, payable at such intervals as the other executive officers of the Company are paid, but in any event at least on a monthly basis. On each January 1 following the Commencement Date, commencing January 1, 2003, Base Salary shall be increased annually by no less than 4% over the immediately preceding year's Base Salary.

b) Bonus Compensation. Employee shall receive bonus compensation ("Bonus Compensation") in accordance with paragraph (i) of this Section 4(b); provided, however, that if at any time the Management Bonus (as hereinafter defined) is not in effect, Employee shall receive bonus compensation in accordance with paragraph (ii) of this Section 4(b). Employee shall not be entitled to participate in any incentive bonus program for non-management level employees during the time the Management Bonus is in effect.

(i) Management Bonus. The performance of the business shall be reviewed at the end of each operating year and compared to such goals as are set forth in the business plan for that year as approved by the Board (the "Business Plan"). If the results of operations for the year achieve the net profitability goals for the year specified in the approved Business Plan, a bonus equal to no less than 25% of the Employee's Base Salary shall be paid to him (the "Management Bonus"). If the results of operations for the year exceed the net profitability goals of the approved Business Plan, the amount of the Employee's Management Bonus may be increased in recognition of the degree to which performance exceeded such goals, and the Employee's contribution to such superior performance results as determined in the sole discretion of the Compensation Committee of the Board (the "Committee"). If the results of operations for the year fail to achieve such net profitability goals, the amount, if any of the Employee's Management Bonus shall be within the absolute discretion of the Committee, provided that the Committee shall give reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall.

(ii) Bonus. In the event that the Management Bonus is not in effect, in addition to the Base Salary, Employee shall be entitled to such bonus compensation as may be determined from time to time by the Committee, in its sole discretion. The Committee shall base its decision on a review of the performance of the Company and the Employee's performance at the end of each year.

c) Stock Options. The Committee has granted to Employee stock options to purchase 25,000 shares of common stock of the Company, pursuant to a stock option agreement in substantially the form annexed hereto as Exhibit A (the "Option Agreement"). The stock options granted pursuant to the Option Agreement shall vest in full on a change in control. The Company shall use reasonable efforts to cause a Registration Statement on Form S-8 to be filed and to be declared effective, registering the shares to be granted hereby.

d) Employee Benefits. In addition to the Base Salary and the Bonus Compensation, and subject to the limitations imposed herein, Employee shall be entitled to (i) receive any fringe benefits provided by the Company to its executive officers, including, but not limited to, life, hospitalization, surgical, major medical and disability insurance and sick leave, (ii) such employee benefit programs as may be offered by the Company to other employees and (iii) be a full participant in all of the Company's other benefit plans, pension plans, retirement plans and profit-sharing plans which may be in effect from time to time or may hereafter be adopted by the Company.

e) Vacation. During the Term, Employee shall be entitled to such vacation with pay during each calendar year of his Employment hereunder consistent with his position as an executive officer of the Company, but in no event less than four weeks in any such calendar year (pro-rated as necessary for partial calendar years during the Term). Such vacation may be taken, in Employee's discretion, at such time or times as are not inconsistent with the reasonable business needs of the Company. Employee shall not be entitled to any additional compensation in the event that Employee, for whatever reason, fails to take such vacation during any year of his Employment hereunder. Employee shall also be entitled to all paid holidays given by the Company to its executive officers.

5. Indemnification. Employee shall be entitled at all times to the benefit of the maximum indemnification and advancement of expenses available from time to time under the laws of the State of Delaware, and such benefit shall not be less than any other officer or director entitled to indemnification by the Company. Without limiting the foregoing, Employee shall also be entitled to the benefit of the following provisions:

a) D&O Insurance. Employee shall be covered under any directors' and officers' liability insurance policy then in effect for the Company or any of its affiliates as to which Employee is serving as a director or officer. The failure to have an insurance policy in effect at all times shall not allow Employee to assert a Constructive Termination of this Agreement, other than to the extent such failure constitutes a breach of the immediately preceding sentence.

b) Scope of Indemnification. In addition to the insurance coverage provided for in Section 5(a), the Company and any of the Company's affiliates as to which Employee has at any time served as a director, officer, employee, agent or fiduciary (collectively, the "Indemnitors") shall jointly and severally hold harmless and indemnify Employee (and his heirs, executors and administrators) to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by

him in connection with or arising out of any action, suit or proceeding (each, a "Claim") in which he may be involved by reason of his having been a director, officer, employee, agent or fiduciary of any Indemnitor (whether or not he continues to be a director, officer, employee, agent or fiduciary thereof at the time of incurring such expenses or liabilities), or by reason of any action or inaction on Employee's part while serving in any such capacity, such expenses and liabilities to include, but not be limited to, losses, damages, judgments, investigation costs, court costs and attorneys' fees and the cost of reasonable settlements.

c) Selection of Counsel. In the event the Indemnitors shall be obligated hereunder to pay any Expenses with respect to a Claim, the Indemnitors shall be entitled to assume the defense of such Claim upon the delivery to Employee of written notice of its election to do so. After delivery of such notice and the retention of such counsel by the Indemnitors, the Indemnitors will not be liable to Employee under this Agreement for any fees of counsel subsequently incurred by Employee with respect to the same Claim; provided that, (i) Employee shall have the right to employ counsel in any such Claim at his expense; and (ii) if (A) the employment of counsel by Employee has been previously authorized by the Indemnitors, (B) counsel for Employee shall have provided the Indemnitors with written advice that there is a conflict of interest between the Indemnitors and Employee in the conduct of any such defense, or (C) the Indemnitors shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Employee's counsel shall be at the expense of the Indemnitors.

d) Nonexclusivity. The indemnification rights set for in this Section 5 shall be in addition to any rights to which Employee may be entitled under any of the Indemnitors' charter documents, bylaws or agreements, any vote of stockholders or disinterested directors, the laws of the various Indemnitors' jurisdictions of formation or incorporation. The indemnification rights set forth in this Section 5 shall continue as to Employee for any action Employee took or did not take while serving in an indemnified capacity even though Employee may have ceased to serve in such capacity.

e) Survival. The indemnification and contribution provided for in this Section 5 will remain in full force and effect after any termination of Employee's employment and without regard to any investigation made by or on behalf of Employee or any agent or representative of Employee.

6. Expenses. During the Term, the Company shall reimburse Employee upon presentation of appropriate vouchers or receipts in accordance with the Company's expense reimbursement policies for executive officers, for all out-of-pocket business travel and entertainment expenses incurred or expended by Employee in connection with the performance of his duties under this Agreement.

7. Termination Procedure.

a) Notice of Termination. Any termination of Employee's Employment by the Company or by Employee during the Term (other than termination pursuant to Section 8(a) of this Agreement) shall be communicated by written notice

("Notice of Termination") to the other party hereto in accordance with Section 13 herein. For purposes of this Agreement, a Notice of Termination shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's Employment under the provision so indicated.

b) Date of Termination. "Date of Termination" shall mean (a) if Employee's Employment is terminated by his death, the date of death, (b) if Employee's Employment is terminated pursuant to Section 8(b) herein, 30 days after Notice of Termination (provided that Employee shall not have returned to the substantial performance of his duties on a full-time basis during such 30 day period), (c) if Employee's Employment terminates upon the expiration of the Term and Employee's Employment is not renewed pursuant to Section 3 of this Agreement, the date of expiration of the Term, and (d) if Employee's Employment is terminated for any other reason, the date on which Notice of Termination is given or any later date (within 30 days after the giving of such notice) set forth in such Notice of Termination.

8. Termination of Employment.

a) Death. In the event of the death of Employee during the Term, Employee's Employment hereunder shall be terminated as of the date of his death and Employee's designated beneficiary, or, in the absence of such designation, the estate or other legal representative of Employee (collectively, the "Estate"), shall be paid Employee's unpaid Base Salary through the month in which the death occurs and any unpaid Bonus Compensation for any fiscal year which has ended as of the date of such termination or which was at least fifty percent (50%) completed as of the date of death. In the case of such incomplete fiscal year, the Bonus Compensation shall be determined based upon the assumption that Employee would have earned the target Bonus Compensation in accordance with Section 4(b) and pro-rated, and all such Bonus Compensation, if any, payable as a result of this Section 8(a) shall be payable at the same time as bonuses would be payable to other executive officers (regardless of whether such other officers earned any such bonus). The Estate shall be entitled to all other death benefits in accordance with the terms of the Company's benefit programs and plans.

b) Disability. In the event Employee shall be unable to render the services or perform his duties hereunder by reason of illness, injury or incapacity (whether physical, mental, emotional or psychological) (any of the foregoing shall be referred to herein as a "Disability") for a period of either (i) 180 consecutive days or (ii) 270 days in any consecutive 365-day period, the Company shall have the right to terminate this Agreement by giving Employee 30 days' prior written notice. Any determination of Disability shall be made by the Board in its reasonable good faith discretion. If Employee's Employment hereunder is so terminated, Employee shall be paid, offset by payments under any disability insurance policy in effect, Employee's unpaid Base Salary through the month in which the termination occurs, plus Bonus Compensation on the same basis as is set forth in Section 8(a) above. The Employee shall be entitled to receive all benefits in accordance with the terms of this Agreement and of the Company's benefit programs and plans.

c) Termination of Employment by the Company for Cause.

(i) Nothing herein shall prevent the Company from terminating Employee's Employment for Cause (as hereinafter defined). From and after the Date of Termination, Employee shall no longer be entitled to receive Base Salary and Bonus Compensation and the Company shall no longer be required to pay premiums on any life insurance or disability policy for Employee. Any rights and benefits which Employee may have in respect of any other compensation or any employee benefit plans or programs of the Company, whether pursuant to Section 4(c) or otherwise, shall be determined in accordance with the terms of such other compensation arrangements or plans or programs. The term "Cause," as used herein, shall mean: (A) Employee's conviction, or plea of guilty or *nolo contendere* to, a felony; (B) Employee's engaging in willful misconduct that is economically injurious to the Company (including, but not limited to, a willful violation of Sections 10 or 11 of this Agreement or the embezzlement of funds or misappropriation of other property of the Company or any subsidiary); or (C) Employee shall breach this Agreement in a material manner or engage in fraudulent conduct as regards the Company which results either in personal enrichment to Employee or material injury to the Company. Notwithstanding the foregoing, under no circumstances shall Employee's refusal or unwillingness to make any of the certifications required of him as Chief Executive Officer of the Company pursuant to Section 302 or Section 906 of the Sarbanes-Oxley Act of 2002, or any rules or regulations promulgated thereunder, or any similar requirements of any federal, state, local or foreign governmental authority or agency, or of any national securities exchange or quotation system on which any class or series of the Company's capital stock is then traded or listed for quotation, constitute or give rise to a basis for termination for "Cause."

(ii) The Company shall provide Employee with Notice of Termination stating that it intends to terminate Employee's Employment for Cause under this Section 8(c) and specifying the particular act or acts on the basis of which the Board intends to terminate Employee's Employment. Employee shall then be given the opportunity, within 15 days of his receipt of such notice, to have a meeting with the Board to discuss such act or acts (other than with respect to an action described in Sections 8(c)(i)(A) or (B) above as to which the Board may immediately terminate Employee's Employment for Cause). Other than with respect to an action described in Sections 8(c)(i)(A) or (B) above, Employee shall be given seven days after his meeting with the Board to take reasonable steps to cease or correct the performance (or nonperformance) giving rise to such Notice of Termination. In the event the Board determines that Employee has failed within such seven-day period to take reasonable steps to cease or correct such performance (or nonperformance), Employee shall be given the opportunity, within 10 days of his receipt of written notice to such effect, to have a meeting with the Board to discuss such determination. Following that meeting, if the Board believes that Employee has failed to take reasonable steps to cease or correct his performance (or nonperformance) as above described, the Board may thereupon terminate the Employment of Employee for Cause.

d) Termination Other than for Cause, Death or Disability.

(i) Termination. This Agreement may be terminated by the Company (in addition to termination pursuant to Sections 8(a), (b) or (c) above) or Employee at any time and for any reason or upon the expiration of the Term.

(ii) Severance and Non-Competition Payments. If the Employee's employment is terminated under this Section 8(d) (including a Constructive Termination (as hereinafter defined), other than as a termination by Employee as a result of death or Disability of Employee or for Cause (and other than during the six months following a "change in control" (as hereinafter defined) of the Company), the following shall apply:

A) the Company shall pay to Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, as soon as practicable following the Date of Termination, (x) the greater of a lump-sum payment equal to one times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term and (y) a lump-sum payment equal to the greater of one times the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year in which the Date of Termination occurs or the target Bonus Compensation due under the remaining Term (whether or not such target is actually met). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release (as hereinafter defined), but in no event more than 45 days following the execution of such Release;

B) the Company shall provide a reasonable allowance for outplacement services, not to exceed \$5,000;

C) the Company shall continue to provide Employee with the same level of medical benefits upon substantially the same terms and conditions (including contributions required by Employee for such benefits) as existed immediately prior to Employee's termination for the longer of the maximum period of time provided under federal law or the remainder of the Term; provided that the Company shall bear the costs of such benefits for the longer of three months or the remainder of the Term and, provided further, if Employee cannot continue to participate in the Company's plans providing such benefits, the Company shall reimburse Employee the cost of obtaining such benefits as if continued participation had been permitted. Notwithstanding the foregoing, in the event Employee obtains employment with another employer and becomes eligible to receive comparable benefits from such employer, the benefits described in this clause (C) shall cease; and

D) Employee shall be entitled to any other rights, compensation and/or benefits as may be due to Employee in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(iii) Change in Control. For purposes of this Agreement, a “change in control” of the Company shall be deemed to have occurred if any of the following events occur:

(A) An acquisition after the date of this Agreement by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this definition, the following transactions shall not constitute a change in control: (a) any acquisition by the Company or by an employee benefit plan (or related trust) sponsored or maintained by the Company or an affiliate, (b) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, (c) any acquisition by, or consummation of a Corporate Transaction with, an affiliate of the Company, or (d) a Non-Control Transaction;

(B) A change in the composition of the board of directors of the Company such that the individuals who, as of the date hereof, constitute the board of directors of the Company (such Board shall be hereinafter referred to as the “Incumbent Board”) cease for any reason to constitute at least a majority of the board of directors of the Company; provided, however, for purposes of this clause (B), any individual who becomes a member of the board of directors of the Company subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the board of directors of the Company and who were also members of the Incumbent Board (or deemed to be such pursuant to this provision) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the board of directors of the Company shall not be so considered as a member of the Incumbent Board; or

(C) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”), in each case, unless the Corporate Transaction is a Non-Control Transaction; or

For purposes of the foregoing, “Non-Control Transaction” means a Corporate Transaction as a result of which the Outstanding Company Voting Securities immediately prior to such Corporate Transaction would entitle the holders thereof immediately prior to such Corporate Transaction to exercise, directly or indirectly, more than fifty percent (50%) of the combined voting power of all of the shares of capital stock entitled to vote generally in election of directors of the corporation resulting from such Corporate Transaction immediately after such Corporate Transaction (including, without limitation,

a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries).

(iv) Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall be deemed to have occurred upon (i) the removal of Employee from, or a failure of Employee to continue as, Senior Vice President and General Counsel, (ii) any material diminution in the nature or scope of the authorities, powers, functions, duties or responsibilities attached to such positions, (iii) the relocation of the Company's principal executive offices to a location more than 50 miles from Norfolk, Virginia, or (iv) the material breach by the Company of this Agreement and, in the case of clauses (i)-(iii) above, Employee does not agree to such change (which decision is personal in nature and not subject to any fiduciary responsibilities Employee may have as an officer or director of the Company) and elects to terminate his Employment.

(v) Severance and Non-Competition Payments Following a Change in Control. In the event of a termination of employment by Employee for any reason, other than as a result of death or Disability of Employee or for Cause, within six months following a "change in control" of the Company, the Company shall pay Employee (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) the greater of a lump-sum payment equal to one times Employee's then current Base Salary or the minimum Base Salary due under the remaining Term, (y) the greater of a lump-sum payment equal to one times (A) the amount of the Bonus Compensation, if any, paid to Employee in the year immediately prior to the year of termination or (B) the target Bonus Compensation due for the year of termination (whether or not such target is actually met) and (z) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clauses (x) and (y) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vi) Severance and Non-Competition Payments Following Non-Renewal of this Agreement. If this Agreement is not renewed beyond the Term by the parties hereto, the Company shall pay Employee a severance and non-competition payment equal to: (w) his Base Salary and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination, plus a pro rata portion of the target Bonus Compensation for the year in which the Termination occurs (whether or not such target is actually met) determined based upon the days elapsed in the year divided by 365, (x) a lump-sum payment equal to one-quarter times Employee's then current Base Salary and (y) the benefits set forth in Sections 8(d)(ii)(B), (C) and (D). Such payment under clause (x) hereof shall be made as soon as administratively feasible following the Date of Termination and the execution of a valid Release, but in no event more than 45 days following the execution of such Release.

(vii) No Mitigation. Employee shall not be required to mitigate the amount of any severance and non-competition payment provided for under this Agreement by seeking other employment or otherwise.

(viii) Excise Tax. In the event that Employee becomes entitled to any payments or benefits under this Agreement and any portion of such payments or benefits, when combined with any other payments or benefits provided to Employee (including, without limiting the generality of the foregoing, by reason of the exercise of any stock options or the receipt of any shares of stock of the Company), which in the absence of this Section 8(d)(ii)(J), would be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the amount payable to Employee under this Agreement shall be reduced to the largest amount or greatest right (for example, by deferring the vesting date of Employee's options) such that none of the amounts payable to Employee under this Agreement and any other payments or benefits received or to be received by Employee as a result of, or in connection with, an event constituting a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(A) of the Code) (collectively, a "Control Change") or the termination of Employment (including a Constructive Termination, and whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Control Change or any person having such a relationship with the Company or such person as to require attribution of stock ownership between the parties under Section 318(a) of the Code) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code. The Company shall cooperate in good faith with Employee in making such determination. In the event that the vesting date of any option is deferred hereunder, the term during which such option may be exercised shall be extended until the ninetieth (90th) day following the full vesting thereof.

9. Release. Employee acknowledges and agrees that the payments set forth in Section 8 of this Agreement constitute liquidated damages for any claim of breach of contract under this Agreement as it relates to termination of Employee's employment. In order to receive any of the payments set forth above, prior to the payment of such amounts, Employee shall execute and agree to be bound by an agreement relating to the waiver and general release of any and all claims (other than claims for the compensation and benefits payable under Section 8 hereof) arising out of or relating to Employee's employment and termination of employment (the "Release"), which Release shall be in substantially the form annexed hereto as Exhibit B (with such changes as counsel to the Company may reasonably require as a result of changes in law after the date hereof).

10. Confidential Information.

a) Employee covenants and agrees that he will not at any time, either during the Term or thereafter, use, disclose or make accessible to any other person, firm, partnership, corporation or any other entity any Confidential Information (as defined below) pertaining to the business of the Company except (i) while employed by the Company, in the business of and for the benefit of the Company or (ii) when required to

do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Company to divulge, disclose or make accessible such information. For purposes of this Agreement, "Confidential Information" shall mean non-public information concerning the Company's financial data, statistical data, strategic business plans, product development (or other proprietary product data), customer and supplier lists, customer and supplier information, information relating to practices, processes, methods, trade secrets, marketing plans and other non-public, proprietary and confidential information of the Company; provided, however, that Confidential Information shall not include any information which (x) is known generally to the public other than as a result of unauthorized disclosure by Employee, (y) becomes available to the Employee on a non-confidential basis from a source other than the Company or (z) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Company. It is specifically understood and agreed by Employee that any Confidential Information received by Employee during his Employment by the Company is deemed Confidential Information for purposes of this Agreement. In the event Employee's Employment is terminated hereunder for any reason, he immediately shall return to the Company all tangible Confidential Information in his possession.

b) Employee and the Company agree that this covenant regarding Confidential Information is a reasonable covenant under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction, such covenant is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended. Employee agrees that any breach of the covenant contained in this Section 10 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 10.

11. Non-Competition; Non-Solicitation.

a) Employee agrees that during the Non-Competition Period (as defined in Section 11(d) below), without the prior written consent of the Company: (i) he shall not be a principal, manager, agent, consultant, officer, director or employee of, or, directly or indirectly, own more than 1% percent of any class or series of equity securities in, any partnership, corporation or other entity, which, now or at such time, has material operations which are engaged in any business activity competitive (directly or indirectly) with the Business of the Company (a "Competing Entity"); and (ii) he shall not, on behalf of any Competing Entity, directly or indirectly, have any dealings or contact with any suppliers or customers of the Company. As used in this Agreement, the term "Business" means the purchase, collection and management of portfolios of defaulted consumer receivables, but shall not include such collection and management activities to the extent they are incidental to a business primarily engaged in loan origination or servicing. Notwithstanding the foregoing, an entity will not be deemed to be a Competing Entity,

and Employee will not be deemed to be engaged in the Business, if (i) Employee is employed by an entity that is engaged in any meaningful way in one or more businesses other than the Business (the "Non-Competing Businesses"), (ii) such entity's relationship with Employee relates solely to the Non-Competing Businesses, and (iii) if requested by the Company, such entity and Employee shall provide the Company with reasonable assurances that Employee will have no direct or indirect involvement in the Business on behalf of such entity.

b) During the Non-Competition Period and for one year thereafter (two years after the Term), Employee agrees that, without the prior written consent of the Company (and other than on behalf of the Company), Employee shall not, on his own behalf or on behalf of any person or entity, directly or indirectly, (i) solicit the customers or suppliers of the Company to terminate their relationship with the Company (or to modify such relationship in a manner that is adverse to the interests of the Company) or (ii) hire or solicit the employment of any employee who has been employed by the Company at the time of Employee's termination or at any time during the six months immediately preceding such date of hiring or solicitation. This provision does not prohibit the solicitation of employees by means of a general advertisement.

c) Employee and the Company agree that the covenants of non-competition and non-solicitation are reasonable covenants under the circumstances, and further agree that if, in the opinion of any court of competent jurisdiction such covenants are not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of these covenants as to the court shall appear not reasonable and to enforce the remainder of these covenants as so amended. Employee agrees that any breach of the covenants contained in this Section 11 would irreparably injure the Company. Accordingly, Employee agrees that the Company, in addition to pursuing any other remedies it may have in law or in equity, may obtain an injunction against Employee from any court having jurisdiction over the matter, restraining any further violation of this Section 11.

d) The provisions of this Section 11 shall extend for the Term and survive the termination of this Agreement for one year from the date of such termination (herein referred to as the "Non-Competition Period").

e) The provisions of this Section 11 shall terminate if this Agreement is terminated by the Company other than for Cause, or in the event of a Constructive Termination of this Agreement or if the Company defaults on any of its payment obligations set forth in this Agreement, which payment default is not cured within fifteen (15) days after notice.

12. Limitation of Liability and Indemnity. The limitation of liability and indemnity provisions of Section 8.1 of the Amended and Restated ByLaws of the Company and Article 9 of the Amended and Restated Certificate of Incorporation of the Company are a contractual benefit to Employee and are a material consideration for Employee's employment.

13. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given if delivered personally or sent by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, as follows (or to another address specified in writing by the recipient prior to the sending of such notice or communication):

If to the Company, to:

Portfolio Recovery Associates, Inc.
120 Corporate Boulevard
Norfolk, Virginia 23502
Attn: General Counsel
Fax:

If to Employee, to:

Mr. Judith S. Scott
405 Pin Oak Rd.
Newport News, Virginia 23601
Fax:

14. Entire Agreement. This Agreement and the Option Agreement contain the entire agreement between the parties hereto with respect to the matters contemplated herein and supersede all prior agreements or understandings among the parties related to such matters. In case of any conflict between the provisions hereof and the Option Agreement, the provisions of this Agreement shall be controlling.

15. Successors; Binding Effect. Except as otherwise provided herein, this Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns and upon Employee. "Successors and assigns" shall mean, in the case of the Company, any successor pursuant to a merger, consolidation, or sale, or other transfer of all or substantially all of the assets or Common Stock of the Company, provided that, should the Company assign or transfer this Agreement, the Company will require any successor to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such assignment or transfer had taken place.

16. No Assignment. Except as contemplated by Section 15 above, this Agreement shall not be assignable or otherwise transferable by either party.

17. Withholding. All payments hereunder shall be subject to any required withholding of federal, state and local taxes pursuant to any applicable law or regulation.

18. Amendment or Modification; Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Board and is agreed to in writing, signed by Employee and by a duly authorized officer of the Company (other than Employee). Except as otherwise specifically provided in this

Agreement, no waiver by either party hereto of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar provision or condition at the same or at any prior or subsequent time.

19. Fees and Expenses. If either party institutes any action or proceedings to enforce any rights the party has under this Agreement, or for damages by reason of any alleged breach of any provision of this Agreement, or for a declaration of each party's rights or obligations hereunder or to set aside any provision hereof, or for any other judicial remedy, the prevailing party shall be entitled to reimbursement from the other party for its costs and expenses incurred thereby, including but not limited to, reasonable attorneys' fees and disbursements.

20. Governing Law. The validity, interpretation, construction, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Delaware, without regard to its conflicts of law rules.

21. Titles. Titles to the Sections in this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the title of any Section.

22. Counterparts. This Agreement may be executed in one or more counterparts, which together shall constitute one agreement. It shall not be necessary for each party to sign each counterpart so long as each party has signed at least one counterpart.

23. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms and provisions of this Agreement in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: /s/ Steven D. Fredackson

Name: Steven D. Fredackson
Position: President

By: /s/ Judith S. Scott

Judith S. Scott

PORTFOLIO RECOVERY ASSOCIATES, INC.

STOCK OPTION AGREEMENT

Portfolio Recovery Associates, Inc., a Delaware corporation (the "Company"), has duly adopted the 2002 Stock Option Plan (the "Plan"), the terms of which are hereby incorporated by reference. In the case of any conflict between the provisions hereof and those of the Plan, the provisions of this Agreement shall be controlling. A copy of the Plan is available upon request by the Optionee to the Secretary of the Company.

In accordance with Section 6 of the Plan, a committee of the Board of Directors (the "Board") of the Company designated by the Board to administer the Plan (the "Committee") adopted a resolution granting you (the "Optionee") a stock option (the "Option") under the Plan to purchase the number of shares (the "Shares") of the Company's common stock, par value \$.01 per share (the "Common Stock"), specified below, for the exercise price specified below and on the terms and subject to the conditions set forth in this Agreement and in the Plan.

This page is the first page of this Agreement, which describes in detail your rights with respect to the Option granted to you hereby and constitutes a legal agreement between you and the Company.

Name of Optionee: Judith S. Scott
Address of Optionee: _____
Date of Grant: November 7, 2002
Option Exercise Price: (subject to Paragraph 4): *\$13.00
Number of Shares Subject to Option: 25,000
Type of Option: Non-qualified Stock Option [X]

IN WITNESS WHEREOF, the parties have witnessed this Agreement to be duly executed and delivered as of the Date of Grant specified above.

OPTIONEE

By: _____

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____
Judith Scott
General Counsel and Secretary

1. (a) Unless the Option is previously terminated pursuant to the Plan or this Agreement and subject to the terms of any other agreement between the Optionee and the Company (including, without limitation, any employment or other agreement which may provide for, among other things, an accelerated vesting schedule), the Option shall be exercisable in five (5) equal installments on the first five (5) anniversaries of the Date of Grant. In no event shall any Shares be purchasable under this Agreement after the seventh (7th) anniversary after the Date of Grant (the "Expiration Date"). Except as provided in subparagraph (b) hereof, the Option shall cease to be exercisable ninety (90) days after the date the Optionee terminates services as an employee or consultant of the Company or any Affiliate of the Company for reasons other than Cause and immediately upon the termination of the Optionee for Cause, and all rights of the Optionee hereunder shall thereupon terminate.

(b) If the Optionee ceases to be an employee of the Company or any Affiliate of the Company and this cessation is due to retirement (as defined by the Committee in its sole discretion), or to mental or physical disability (as defined in each case by the Committee in its sole discretion) or to death, the Option shall be exercisable as provided in this subparagraph. The Optionee or, in the event of his mental or physical disability, if permissible under applicable law with respect to any option that is not an incentive stock option (an "ISO") under Section 422 of the Internal Revenue Code, as amended (the "Code"), his duly appointed guardian or legal representative or, in the event of his death, his executor or administrator shall have the privilege of exercising the unexercised portion of the Option which the Optionee could have exercised on the day on which he ceased to be an employee of the Company or any Affiliate of the Company; provided, however, that such exercise must be in accordance with the terms of this Agreement and within (i) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's retirement or mental or physical disability or (ii)(A) twelve (12) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death or (B) six (6) months after the date on which the Optionee's employment is terminated by reason of the Optionee's death if such death occurs during the six (6) month period following the termination of the Optionee's employment by reason of retirement or mental or physical disability, as the case may be. In no event, however, shall the Optionee, his duly appointed guardian or legal representative, or his executor or administrator, as the case may be, exercise the Option after the Expiration Date. For all purposes of this Agreement, an approved leave of absence shall not constitute an interruption or cessation of the Optionee's service as an employee of the Company or any Affiliate of the Company.

2. Nothing contained herein shall be construed to confer on the Optionee any right to be retained in the employ of the Company or any Affiliate of the Company or to derogate from any right of the Company or any Affiliate thereof to dismiss the Optionee from employment, free from any liability, or any claim under this Agreement or the Plan, unless otherwise expressly provided in the Plan or in this Agreement.

3. Subject to Section 422 of the Code, no Option and no right under any such Option shall be assignable, alienable, saleable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and such Option, and each right under any such Option, shall be exercisable during the Optionee's lifetime only by the Optionee or, if permissible under applicable law, by the Optionee's guardian or legal representative. However, the Committee may, in its discretion, provide that nonqualified stock options be transferable,

without consideration, to immediate family members (i.e., children, grandchildren or spouse) to trusts for the benefit of such immediate family members and to partnerships in which such family members are the only parties. In addition, the Optionee may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the Optionee, and to receive any distribution with respect to any Option upon the death of the Optionee. No Option, and no right under any such Option, may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate of the Company.

4. (a) In the event that the Committee shall determine that the outstanding shares of Common Stock are affected by any (i) subdivision or consolidation of shares, (ii) dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), (iii) recapitalization or other capital adjustment of the Company, or (iv) merger, consolidation or reorganization of the Company or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be made under the Plan, adjust any or all of (x) the number and type of Shares which may be subject to Options, (y) the number and type of Shares subject to the unexercised portion of the Option, and (z) the grant, purchase, or exercise price with respect to any Option or, if deemed appropriate, make provision for a cash payment to the Optionee; provided, however, in each case, that (i) with respect to ISOs no such adjustment shall be authorized to the extent that such adjustment would cause the Plan to violate Section 422 of the Code or any successor provision thereto; (ii) each such adjustment shall be made in such manner as not to constitute a cancellation and reissuance of a nonqualified stock option for purposes of Section 162(m) of the Code, or the regulations promulgated thereunder, to the extent that such reissuance would result in the grant of such Options in excess of the maximum permitted to be granted to the Optionee in any fiscal year; and (iii) the number of Shares subject to any Option denominated in Shares shall always be a whole number. In computing any adjustment under this paragraph, any fractional share shall be eliminated.

(b) In addition to the rights set forth in clause (a), in the event of a transaction described in clause (a)(iv) above, the Committee may, in its sole discretion, take any one or more of the following actions, as to outstanding Options: (i) provide that such Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation or entity (or to the extent the Company's stockholders receive capital stock of an affiliate thereof in the transaction, by such affiliate), provided, however, that any such options substituted for Incentive Stock Options shall meet the requirements of Section 424(a) of the Code, (ii) upon written notice to the Optionee, provide that (A) all exercisable but unexercised Options will terminate immediately prior to the consummation of such transaction unless exercised by the Optionee (after giving effect to the full vesting thereof upon consummation of such transaction, if applicable) within a specified period following the date of such notice and prior to the consummation of such event or transaction (which period shall not be less than fifteen (15) days) and (B) all unexercisable Options will terminate upon consummation of such event or transaction, (iii) in the event of a merger or consolidation under the terms of which holders of the Common Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the merger or consolidation (the "Merger Price"), make or

provide for a cash payment to the Optionee equal to the difference between (A) the Merger Price times the number of shares of Common Stock subject to such outstanding Options (to the extent then exercisable at prices not in excess of the Merger Price) and (B) the aggregate exercise price of all such outstanding Options, in exchange for the termination of such Options, or (iv) provide that all or any outstanding Options shall become exercisable in full immediately prior to such event or transaction and shall cease to be exercisable at any time after such event or transaction. Any exercise of the Option in contemplation of a transaction described in clause (a)(iv) above may be conditioned upon and subject to the consummation thereof, in which case, any such exercise shall be deemed to have occurred immediately prior to such transaction and any resulting termination of the Option.

5. The Option shall be exercised when written notice of such exercise, signed by the person entitled to exercise the Option, has been delivered or transmitted by facsimile transmission, overnight courier, or certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally or sent by facsimile transmission (provided that a confirmation copy is sent by overnight courier), one day after deposit with an overnight courier, or if mailed, five days after the date of deposit in the United States mails, to the Secretary of the Company at its principal office. Said written notice shall specify the number of Shares purchasable under the Option which such person then wishes to purchase and shall be accompanied by such documentation, if any, as may be required by the Company as provided in Paragraph 8 below and be accompanied by payment of the aggregate Option price. Such payment of the aggregate Option price shall be, without limitation, in the form of (i) cash, shares, outstanding Options or other consideration, or any combination thereof, having a Fair Market Value on the exercise date equal to the exercise price of the Option or portion thereof being exercised or (ii) a broker-assisted cashless exercise program established by the Committee, if then applicable to the Optionee. Delivery of said notice and such documentation shall constitute an irrevocable election to purchase the Shares specified in said notice and the date on which the Company receives said notice and documentation shall, subject to the provisions of Paragraph 7 and 8, be the date as of which the Shares so purchased shall be deemed to have been issued. The person entitled to exercise the Option shall not have the right or status as a holder of the Shares to which such exercise relates prior to receipt by the Company of such payment, notice and documentation.

6. If the Company shall become obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state, local or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax (the "Withholding Liability"), then the Optionee shall, on the date of exercise and as a condition to the issuance of the Shares subject to the Option, pay the Withholding Liability to the Company. Payment shall be by check payable to the Company; provided, however, that, with the consent of the Committee, payment may instead be made by delivery to the Company of a certificate or certificates representing Shares duly endorsed or accompanied by a duly executed stock power(s), which delivery effectively transfers to the Company good and valid title to such Shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such Shares to be valued on the basis of the Fair Market Value thereof on the date of such payment); provided further, however, that the Company is not then prohibited from purchasing or acquiring such Shares. In addition to the foregoing methods of payment, the Optionee may request in writing that the Company withhold all or a portion of the Withholding Liability from any compensation or other amounts otherwise then due and payable to the

Optionee, in which case the withholding and payment of any such amount by the Company to the relevant taxing authority shall constitute full satisfaction of the Company's obligation to pay such compensation or other amounts to Optionee.

7. Anything in this Agreement to the contrary notwithstanding, in no event may the Option be exercisable if the Company shall, at any time and in its sole discretion, determine that (i) the listing, registration or qualification of any Shares otherwise deliverable upon such exercise, upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any governmental or regulatory body is necessary or desirable in connection with such exercise. In such event, such exercise shall be held in abeyance and shall not be effective unless and until such listing, registration, qualification, consent or approval shall have been affected or obtained free of any conditions not acceptable to the Company. Pending effectiveness, the Company shall return the exercise price to the Optionee, and so long as such exercise shall be held in abeyance, the Option shall remain exercisable subject to this Section notwithstanding any termination or expiration thereof that might otherwise occur under the Option.

8. The Committee may require as a condition to the right to exercise the Option hereunder that the Company receive from the person exercising the Option representations, warranties and agreements, at the time of any such exercise, to the effect that the Shares are being purchased without any present intention to sell or otherwise distribute such Shares in violation of applicable federal securities laws and that the Shares will not be disposed of in transactions which, in the opinion of counsel to the Company, would violate the registration provisions of the Securities Act of 1933, as then amended, and the rules and regulations thereunder. The certificate issued to evidence such Shares shall bear appropriate legends summarizing such restrictions on the disposition thereof.

9. All certificates for Shares or other securities of the Company delivered under the Plan pursuant to any Option or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other restrictions of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10. The Company makes no representations or warranties as to the income, estate or other tax consequences to the Optionee of the grant or exercise of the Option or the sale or other disposition of the Shares acquired pursuant to the exercise thereof.

11. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware and applicable federal law. Subject to subparagraph 1(b) and 3(a) hereof, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors or assigns, as the case may be.

Exhibit 10.7

Customer No.
Loan No.

RBC Centura

LOAN AND SECURITY AGREEMENT

(SD-L&S)

This LOAN AND SECURITY AGREEMENT ("Agreement") is entered into as of the 28th day of November, 2003, by and between RBC CENTURA BANK ("Bank") and PORTFOLIO RECOVERY ASSOCIATES, INC., a Delaware corporation ("Borrower").

RECITALS

Borrower wishes to obtain credit from time to time from Bank, and Bank desires to extend credit to Borrower for use by Borrower in its business. This Agreement sets forth the terms and conditions on which Bank will advance credit to Borrower.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND INTERPRETATION.

1.1 Definitions. Capitalized terms used herein and not defined in the specific section in which they are used shall have the meanings assigned to such terms in Exhibit A. Terms not defined in a specific section or in Exhibit A which are defined in the Code shall have the meanings assigned to such terms in the Code.

1.2 Accounting Terms. All accounting terms not specifically defined in Exhibit A shall be construed in accordance with GAAP and all calculations shall be made in accordance with GAAP. The term "financial statements" shall include the accompanying notes and schedules.

1.3 Use and Application of Terms. To the end of achieving the full realization by Bank of its rights and remedies under this Agreement, including payment in full of the Obligations, in using and applying the various terms, provisions and conditions in this Agreement, the following shall apply: (i) the terms "hereby", "hereof", "herein", "hereunder" and any similar words refer to this Agreement; (ii) words in the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular numbered meaning include the plural number, and vice versa; (iii) words importing persons include firms, companies, associations, general partnerships, limited partnerships, limited liability partnerships, limited liability limited partnerships, limited liability companies, trusts, business trusts, corporations and other registered or legal organizations, including public and quasi-public bodies, as well as individuals; (iv) the use of the terms "including" or "included in", or the use of examples generally, are not intended to be limiting, but shall mean, without limitation, the examples provided and others that are not listed, whether similar or dissimilar; (v) the phrase "costs and expenses", or variations thereof, shall include, without limitation, the reasonable fees of the following persons: attorneys, legal assistants, accountants, engineers, surveyors, appraisers and other professionals and service providers; (vi) as the context requires, the word "and" may have a joint meaning or a several meaning and the word "or" may have an inclusive meaning or an exclusive meaning; (vii) this Agreement shall not be applied, interpreted and construed more strictly against a person because that person or that person's attorney drafted this Agreement; and (viii) wherever possible each provision of this Agreement and the other Loan Documents shall be interpreted and applied in such manner as to be effective and valid under applicable Requirements of Law, but if any provision of this Agreement or any of the other Loan Documents shall be prohibited or invalid under such law, or the application thereof shall be prohibited or invalid under such law, such provision shall be ineffective to the extent of such

prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions, or the application thereof shall be in a manner and to an extent permissible under applicable Requirements of Law.

2. CREDIT EXTENSIONS.

2.1 Credit Extensions. Subject to and upon the terms and conditions of this Agreement and provided that no Event of Default has occurred and is continuing, Bank shall make available to Borrower the Revolving Facility and Credit Extensions thereunder generally described as follows: a revolving line of credit in an amount equal to the lesser of: (i) Twenty-five Million dollars (\$25,000,000); or (ii) twenty percent (20%) of Borrower's and Portfolio Recovery Associates, LLC's Estimated Remaining Collections of all Eligible Asset Pools (the "Revolving Facility"). The Revolving Facility and related Credit Extensions which are to be made available to Borrower are more fully described below in this Section 2.1 and unless otherwise provided in this Agreement, the Revolving Facility and related Credit Extensions shall be evidenced by one or more Promissory Notes from Borrower to Bank and the Credit Extensions shall bear interest, and the Credit Extensions, the interest and the fees, charges, premiums and costs and expenses associated therewith, shall be repayable in accordance with the terms of such Promissory Notes and this Agreement.

(a) Revolving Facility. At any time from the date hereof through the Revolving Maturity Date, Borrower may request and Bank agrees to make advances ("Advance" or "Advances") to Borrower to finance working capital needs for its business and to finance acquisitions permitted by Section 7.3 – and not for any other purpose. The aggregate amount of outstanding Advances shall not exceed at any time the Committed Revolving Line. If no Event of Default has occurred and is continuing, amounts borrowed under the Revolving Facility may be repaid and reborrowed at any time prior to the Revolving Maturity Date.

2.2 Credit Extensions – Disbursements. Whenever Borrower desires an Advance, Borrower shall notify Bank by facsimile transmission or telephone no later than 10:00 a.m. eastern time, on the Business Day on which Borrower desires the Advance to be made. Each notification by facsimile transmission shall include the information requested on the form attached as Exhibit B, shall be submitted substantially in the form of Exhibit B and shall be signed by a Responsible Officer or a designee thereof. Each notification by telephone shall include the information requested on the form attached as Exhibit B and each notification by telephone shall be followed within one Business Day by a facsimile transmission which meets the criteria regarding a facsimile transmission. Bank shall be entitled to rely on any telephonic notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof. Bank shall not have any liability to Borrower or any other person for its failure to make an Advance on the date requested by Borrower, unless such failure is the result of willful misconduct or gross negligence of Bank; and if Bank's failure is a result of willful misconduct or gross negligence, its liability shall be limited to actual damages only – Bank shall not be liable for indirect, speculative, consequential or punitive damages and losses. If Borrower maintains its operating deposit account with Bank, Bank will credit the amount of the Advances to such account.

2.3 Overadvances. If, at any time, the aggregate amount of the outstanding principal under any Credit Extension exceeds the maximum amount that is permitted to be outstanding at any one time, as provided in this Section 2, the Borrower shall immediately pay to Bank, in cash, the amount of such excess.

2.4 Charging of Payments. Bank may, after the occurrence of an Event of Default at its option, set-off and apply to the Obligations and otherwise exercise its rights of recoupment as to any and all (i) balances and deposits of Borrower held by Bank, (ii) indebtedness and other obligations at any time owing to or for the credit or the account of Borrower by Bank and by any of Bank's Affiliates. Bank may, after notice to Borrower at its option, also charge all payments required to be made on any of the Obligations against the Committed Revolving Line. If Bank charges the aforementioned payments against the Committed Revolving Line, the same shall be deemed an Advance thereunder and the amount of the Advance shall thereafter accrue interest at the interest rate applicable from time to time to Advances; and if Bank charges payments as aforesaid, Bank may, in its discretion, limit, declare a moratorium on and terminate Borrower's right under this Agreement to receive additional Advances, after notice to Borrower and Bank's decision to do one of the foregoing does not prevent it from later doing any one or more of the others.

2.5 Fees. In addition to the other fees, charges, costs and expenses required to be paid by Borrower under this Agreement and the other Loan Documents, Borrower shall pay to Bank the fees, charges, costs and expenses set forth in this Section 2.5.

(a) Unused Facility Fee. Borrower shall pay to Bank an annualized one half of one percent (0.50%) Unused Facility Fee, which shall be payable monthly, and which shall be based upon the average amount of the Unused Revolving Facility.

(b) Bank Expenses. On the Closing Date, Borrower shall pay to Bank all reasonable Bank Expenses incurred through the Closing Date and shall pay, as and when demand is so made by Bank to Borrower, all reasonable Bank Expenses incurred relating to completion, after the Closing Date, of matters related to closing of this Agreement. Borrower shall be responsible for its own fees and expenses, including its legal fees.

(c) Annual Commitment Fee. Beginning on the Closing Date and on the same date each year hereafter throughout the term of the Revolving Facility, Borrower shall pay to Bank an annual Commitment Fee of Ten Thousand Dollars (\$10,000) for the commitment made in Section 2.1, which fee shall be nonrefundable.

2.6 Documentary and Intangible Taxes; Additional Costs. To the extent not prohibited by law and notwithstanding who is liable for payment of the taxes and fees, Borrower shall pay, on Bank's demand, all intangible personal property taxes, documentary stamp taxes, excise taxes and other similar taxes assessed, charged and required to be paid in connection with the Credit Extensions and any extension, renewal and modification thereof, or assessed, charged and required to be paid in connection with this Agreement, any of the other Loan Documents and any extension, renewal and modification of any of the foregoing. If, with respect to this Agreement or the transactions hereunder, any Requirement of Law (i) subjects Bank to any tax (except federal, state and local income taxes on the overall net income of Bank), (ii) imposes, modifies and deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in, or loans by Bank, or (iii) imposes upon Bank any other condition, and the result of any of the foregoing is to increase the cost to Bank, reduce the income receivable by Bank or impose any expense upon Bank with respect to the Obligations, Borrower agrees to pay to Bank the amount of such increase in cost, reduction in income or additional expense within thirty (30) days following presentation by Bank of a statement of the amount and setting forth Bank's calculation thereof, all in reasonable detail, which statement shall be deemed true and correct absent manifest error.

2.7 Term of Agreement. This Agreement shall become effective on the Closing Date and shall continue in full force and effect until the last to occur of (i) payment in full of all of the Obligations or (ii) termination of Bank's obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Bank shall have the right to limit, declare a moratorium on and terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default; and such action by Bank shall not constitute a termination of this Agreement, shall not constitute a termination of Borrower's obligations under this Agreement and the other Loan Documents and shall not adversely affect or impair Bank's security interests in the Collateral. Bank's decision to do any one of the foregoing (i.e., limit, declare a moratorium and terminate its obligations to make Credit Extensions) shall not prevent it from exercising any one or more of the other options available to it at any other time. Bank shall review the Revolving Maturity Date annually, and shall notify Borrower not less than sixty (60) days before each anniversary of this Agreement only if it intends to extend the Revolving Maturity Date to a date which is one year beyond the then current Revolving Maturity Date.

3. CONDITIONS OF CREDIT EXTENSIONS.

3.1 Conditions Precedent to Initial Credit Extension. The obligation of Bank to make the initial Credit Extension is subject to the condition precedent that all of the conditions and requirements set forth in this Section 3.1 and Section 3.2 have been satisfied and completed, or the satisfaction and completion thereof waived by Bank. If all of the conditions are not met to Bank's satisfaction, or the completion thereof waived by Bank, Bank may, at its option, (i) withhold disbursement until the same are met, (ii) close and require that any unsatisfied conditions be satisfied as a condition subsequent to closing within such period of time as may be designated by the Bank or (iii) terminate its obligation to make any Credit Extension and recover from Borrower all Bank Expenses

incurred by Bank in connection with its preparations for making the Credit Extensions, together with the fees and other costs and expenses required to be paid by Borrower under the Commitment. A waiver by Bank of a condition must be in writing to be effective and a waiver as to one or more conditions shall not constitute a waiver as to other conditions and shall not establish a “course of dealing or practice” that would require a waiver of the same or a similar condition at some later time.

(a) Loan Documents, etc. Bank shall have received an original of this Agreement, duly executed by Borrower and any other persons who are parties hereto, and all of the information, certifications, certificates, authorizations, consents, approvals, title and other insurance policies and commitments, financial statements, financing statements, agreements, documents and records as Bank and its counsel may deem reasonably necessary or appropriate.

(b) Payment of Fees. Bank shall have received payment of the fees and Bank Expenses then due, as specified in Section 2.

(c) No Event of Default. No Event of Default shall have occurred and be continuing as of the Closing Date, or after giving effect to the initial Credit Extension to be made at or immediately after closing.

(d) Additional Matters. All other legal and non-legal matters as Bank or its counsel deem reasonably necessary or appropriate to be satisfied, completed and received prior to the initial Credit Extension shall be satisfied, completed and received in form and substance satisfactory to the Bank and its counsel; and Bank’s counsel shall have received duly executed counterpart originals, or certified or other such copies of all records as such counsel may reasonably request.

3.2 Conditions Precedent to All Credit Extensions. The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is further subject to all of the conditions and requirements set forth in this Section 3.2 being satisfied and completed, or the satisfaction and completion thereof waived by Bank.

(a) Loan Payment/Advance Request Form. Bank shall have received, as and when required, a completed Loan Payment/Advance Request Form in the form of Exhibit B attached hereto.

(b) Representations and Warranties: No Event of Default. The representations and warranties referenced in Section 5 and in the other Loan Documents shall be true and correct on and as of the date of such Loan Payment/Advance Request Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would exist after giving effect to such Credit Extension (provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete as of such date). The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this subsection.

(c) Audit of Collateral. At Bank’s election, the Bank shall have received from Borrower an internally prepared report of the Collateral (including, without limitation, Borrower’s Accounts), in a format consistent with the form attached as Exhibit 3.2(c), the results of which have been approved by Borrower’s accountants. In the event Borrower’s accountants make material corrections or modifications to the report presented to them for review, Borrower shall immediately inform the Bank of such corrections or modifications.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral to secure the prompt repayment of any and all Obligations and to secure the prompt performance by Borrower of each of its covenants, duties and obligations under the Loan Documents. Except as set forth in the Schedule, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired or arising after the date hereof. Notwithstanding any limitation of, moratorium on or

termination of Bank's obligation to make Credit Extensions under this Agreement, Bank's security interest on the Collateral shall remain in full force and effect for so long as any Obligations are outstanding.

4.2 Delivery of Additional Documentation Required. To the extent that such documentation is physically available to Borrower; Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all Financing Statements and other documents and records that Bank may request, in form and substance satisfactory to Bank and its counsel, to perfect and continue perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents. Borrower hereby consents to the filing by Bank of Financing Statements and such other instruments and documents in any jurisdictions or locations deemed advisable or necessary in Bank's discretion to preserve, protect and perfect Bank's security interest and rights in the Collateral. Borrower further consents to and ratifies the filing of such Financing Statements and other instruments and documents prior to the Closing Date. If Borrower has executed and delivered to Bank a separate security agreement or agreements in connection with any or all of the Obligations, that security agreement or those security agreements and the security interests created therein shall be in addition to and not in substitution of this Agreement and the security interests created hereby, and this Agreement shall be in addition to and not in substitution of the other security agreement or agreements and the security interests created thereby. In all cases this Agreement and the aforesaid security agreement or agreements, as well as all other evidences or records of any and all of the Obligations and agreements of Borrower, Bank and other persons who may be obligated on any of the Obligations, shall be applied and enforced in harmony with and in conjunction with each other to the end that Bank realizes fully upon its rights and remedies in each and the Liens created by each; and, to the extent conflicts exist between this Agreement and the other security agreements and records, they shall be resolved in favor of Bank for the purpose of achieving the full realization of Bank's rights and remedies thereunder and the Liens as aforesaid.

(a) All computer records representing or evidencing an Account shall contain (by way of stamp or other method satisfactory to Bank) the following language: "**Pledged to RBC Centura Bank as Collateral**". Upon an Event of Default, if requested by Bank, all contracts, documents, instruments and chattel paper evidencing an Account shall contain (by way of stamp or other method satisfactory to Bank) the above quoted language. Failure to deliver physical possession of any instruments, documents, or writings in respect of any Account to Bank shall not invalidate Bank's security interest therein. To the extent that possession may be required by applicable law for perfection of Bank's security interest, the original chattel paper and instruments representing the Accounts shall be deemed to be held by Bank, although kept by Borrower or Guarantor as the custodial agent of Bank. Borrower or Guarantor (as case may be) shall, at any reasonable time and at Borrower's or Guarantor's own expense, upon Bank's reasonable request, be physically delivered to Bank on computer disk or other electronic data storage means which shall be machine readable in Microsoft Access or such other form as mutually agreed upon by the parties hereto, copies of all Accounts (including any instruments, documents or writings in respect of any Account together with all other instruments, documents or writings in respect of any collateral securing each Account, then in Borrower's or Guarantor's control) assigned to Bank to any reasonable place or places designated by Bank. All Accounts shall, regardless of their location, be deemed to be under Bank's dominion and control (with both paper and computer files so labeled) and deemed to be in Bank's possession.)

4.3 Power of Attorney. Borrower does hereby irrevocably constitute and appoint Bank its true and lawful attorney with full power of substitution, for it and in its name, place and stead, to execute, deliver and file such agreements, documents, notices, statements and records, to include, without limitation, Financing Statements, and to do or undertake such other acts as Bank, after notice to Borrower, and after providing a copy of any such item to Borrower in its sole discretion, deems necessary or advisable to effect the terms and conditions of this Agreement, the other Loan Documents and to otherwise preserve, protect and perfect the security of the security interest in the Collateral. The foregoing appointment is and the same shall be coupled with an interest in favor of Bank. Notwithstanding the foregoing present grant of a power of attorney by Borrower to Bank, except as otherwise provided in this Agreement and except with respect to filing of Financing Statements and other actions Bank deems necessary or appropriate to preserve, protect, and perfect or continue the perfection of its security interests in the Collateral, Bank shall not exercise the rights granted to it under this Section 4.3 until after the occurrence of an Event of Default, or the occurrence of an event which, upon the giving of any required notice or the lapse of any required period of time, would be an Event of Default.

4.4 Right to Inspect and Audit. Bank (through any of its officers, employees, agents or other persons designated by Bank) shall have the right, at its own expense (except after the occurrence of an Event of Default at Borrower's expense and without notice) upon reasonable prior notice, from time to time during Borrower's usual business hours, to inspect Borrower's Books and to make copies thereof and to inspect, check, test, audit and appraise the Collateral and Borrower's business affairs in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to the Collateral and Borrower's compliance with the terms and conditions of this Agreement and the other Loan Documents. Bank shall make reasonable efforts to minimize disruption of Borrower's operations when conducting such work. Borrower shall permit representatives of Bank to discuss the business, operations, properties and financial and other conditions of Borrower with its officers, board members, executives, managers, members, partners, employees, agents, independent certified public accountants and others, as applicable. The representatives of Bank will maintain the confidentiality of non-public information obtained from such discussions or otherwise and will not trade the Borrower's stock based upon material, non-public information concerning the Company that the representatives of the Bank may obtain. Notwithstanding the foregoing provisions of this Section 4.4, Bank shall not be required to give prior notice or limit its inspections to normal business hours if it deems an emergency or other extraordinary situation to exist with respect to the Collateral, Borrower's Books and its other rights hereunder.

4.5 Collection of Accounts. In addition to its other rights and remedies in this Agreement, Bank shall have the rights and remedies set forth in this Section 4.5, all of which may be exercised by Bank upon the occurrence of an Event of Default, or the occurrence of an event which, upon the giving of any required notice or the lapse of any required period of time, would be an Event of Default.

(a) After the occurrence of an Event of Default, or the occurrence of an event or condition which, after the giving of any required notice and the lapse of any required period of time, would be an Event of Default, Bank is authorized and empowered at any time in its sole discretion (i) to demand, collect, settle, compromise for, recover payment of, to hold as additional security for the Obligations and to apply against the Obligations any and all sums which are now owing and which may hereafter arise and become due and owing upon any of said Accounts and upon any other obligation to Borrower (to include making, settling, adjusting, collecting and recovering payment of all claims under and decisions with respect to Borrower's policies of insurance), (ii) to enforce payment of any Account and any other obligation of any person to Borrower either in its own name or in the name of Borrower, (iii) to endorse in the name of Borrower and to collect any instrument or other medium of payment, whether tangible or electronic, tendered or received in payment of the Accounts that constitute Collateral and any other obligation to Borrower; (iv) to sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts and notices to account debtors; and (v) dispose of any Collateral constituting Accounts and to convert any Collateral constituting Accounts into other forms of Collateral. But, under no circumstances shall Bank be under any duty to act in regard to any of the foregoing matters. Without limiting the provisions of Section 4.3 hereof, but in addition thereto, Borrower hereby appoints Bank and any employee or representative of Bank as Bank may from time to time designate, as attorneys-in-fact for Borrower, to sign and endorse in the name of Borrower, to give notices in the name of Borrower and to perform all other actions necessary or desirable in the reasonable discretion of Bank to effect these provisions and carry out the intent hereof. Borrower hereby ratifies and approves all lawful acts of such attorneys-in-fact and except as otherwise provided for herein, neither Bank nor any other such attorneys-in-fact will be liable for any lawful acts of commission or omission nor for any error of judgment or mistake of fact or law. The foregoing power, being coupled with an interest, is irrevocable so long as any Account pledged and assigned to Bank remains unpaid and this Agreement or any other Loan Document is in force. The costs and expenses of such collection and enforcement shall be borne solely by Borrower whether the same are incurred by Bank or on behalf of Bank or Borrower and, if paid or incurred by Bank, the same shall be an Obligation owing by Borrower to Bank, payable on demand with interest at the Default Rate, and secured by this Agreement and the other Loan Documents. Borrower hereby irrevocably authorizes and consents to all account debtors and other persons communicating after an Event of Default with Bank, or its agent, with respect to Borrower's property, business and affairs and to all of the foregoing persons acting after an Event of Default upon and in accordance with Bank's, or its representative's, instructions, directions and demands, including, without limitation, Bank's request and demand to pay money and deliver other property to Bank or Bank's representatives, all without liability to Borrower for so doing, except as otherwise provided herein.

(b) After the occurrence of an Event of Default, or the occurrence of an event or condition which after the giving of any required notice and then lapse of any required period of time, would be an Event of Default, at Bank's request, Borrower will forthwith upon receipt of all checks, drafts, cash and other tangible and electronic remittances in payment or on account of Borrower's Accounts, deposit the same in a special bank account maintained with Bank or its representative, over which Bank and its representative (as applicable) have the sole power of withdrawal and will designate with each such deposit the particular Account upon which the remittance was made. The funds in said account shall be held by Bank as security for the Obligations. Said proceeds shall be deposited in precisely the form received except for the endorsement of Borrower where necessary to permit collection of items, which endorsement Borrower agrees to make, and which endorsement Bank and its representative (as applicable) are also hereby authorized to make on Borrower's behalf. Pending such deposit, Borrower agrees that it will not commingle any such checks, drafts, cash and other remittances with any of Borrower's funds or property, but will hold them separate and apart therefrom and upon an express trust for Bank until deposit thereof is made in the special account. After the occurrence of an Event of Default, or the occurrence of an event or condition which after the giving of any required notice and then lapse of any required period of time, would be an Event of Default, Bank may at anytime and from time to time, in its sole discretion, apply any part of the credit balance in the special account to the payment of all or any of the Obligations, and to payment of any other obligations owing to Bank under or on account of this Agreement or any of the other Loan Documents. On the Revolving Maturity Date and upon the full and final payment of all of the Obligations and the other obligations as aforesaid, together with a termination of Bank's obligation to make additional Advances, Bank will pay over to the Borrower any excess good and collected funds received by Bank from Borrower, whether received as a deposit in the special account or received as a direct payment on any of the Obligations.

(c) After the occurrence of an Event of Default, or the occurrence of an event or condition which after the giving of any required notice and then lapse of any required period of time, would be an Event of Default, Bank shall have the absolute and unconditional right to apply for and to obtain the appointment of a receiver, custodian or similar official for all or a portion of the Collateral, including, without limitation, the Accounts, to, among other things, manage and sell the same, or any part thereof, and to collect and apply the proceeds therefrom to payment of the Obligations as provided in this Agreement and the other Loan Documents. Any such receiver, custodian or similar official, if required, shall be qualified and licensed as a collection agency in each state or territory in which any customer Accounts may be so collected or managed. In the event of such application, Borrower consents to the appointment of such qualified and licensed receiver, custodian or similar official and agrees that such receiver, custodian or similar official may be appointed without further notice to Borrower beyond any notice required to be given to Borrower prior to the occurrence of an Event of Default, if any, without regard to the adequacy of any security for the Obligations secured hereby and without regard to the solvency of Borrower or any other person who or which may be liable for the payment of the Obligations or any other obligations of Borrower hereunder. All costs and expenses related to the appointment of a receiver, custodian or other similar official hereunder shall be the responsibility of Borrower, but if paid by Bank, Borrower hereby agrees to pay to Bank, on demand, all such costs and expenses, together with interest thereon from the date of payment at the Default Rate. All sums so paid by Bank, and the interest thereon, shall be an Obligation owing by Borrower to Bank, and secured by this Agreement and the other Loan Documents. Notwithstanding the appointment of any receiver, custodian or other similar official, Bank shall be entitled as pledgee to the possession and control of any cash, deposits, accounts, account receivables, documents, chattel paper, documents of title or instruments at the present or any future time held by, or payable or deliverable under the terms of the Loan Documents to Bank. If the balance of the Obligation outstanding is ZERO at any time prior to the Revolving Maturity Date, and no Event of Default has occurred or is continuing and Bank has no further obligation to make Advances, Bank shall terminate the appointment of any such receiver custodian or similar official.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants to Bank that, as of the date of this Agreement, there are no Subsidiaries of Borrower other than the Guarantor. Further, Borrower represents and warrants to Bank that the certifications, representations and warranties set forth in the Certificate of Borrower which has been executed and delivered by Borrower to Bank contemporaneously with the execution and delivery of this Agreement by Borrower to Bank are true, correct and accurate as of the date of this Agreement or such other date as may be specifically set forth in a particular certification, representation or warranty. Borrower agrees that all certifications, representations and warranties set forth herein shall be continuing certifications, representations and warranties of Borrower to Bank.

6. AFFIRMATIVE COVENANTS.

Borrower covenants and agrees that until the termination of Bank's obligation under this Agreement to make Credit Extensions and the payment in full of the Obligations, Borrower shall do each and all of the matters set forth in this Section 6; and Borrower acknowledges to Bank that the breach or default by Borrower of any of the covenants and agreements set forth below in this Section 6 is and the same shall be material.

6.1 Good Standing and Government Compliance. Borrower shall maintain in good standing its and each of its Subsidiaries' organizational existence in their respective jurisdictions of organization and maintain qualification in each jurisdiction in which the conduct of their respective businesses or their respective ownership of property requires that they be so qualified. Borrower shall comply, and shall cause each Subsidiary to comply with all Requirements of Law to which they are subject, and shall maintain, and shall cause each of its Subsidiaries to maintain, in force all licenses, approvals and agreements, the loss of which or failure to comply with which could have a Material Adverse Effect, or an adverse effect in a material manner on the Collateral or the priority of Bank's security interest in the Collateral.

6.2 Payment/Performance. Borrower shall pay when due all amounts owing to Bank under this Agreement and the other Loan Documents and promptly perform all other obligations of Borrower thereunder and hereunder.

6.3 Use of Loan Funds. Borrower shall use all loan proceeds disbursed to Borrower only for the purposes stated in this Agreement and the other Loan Documents.

6.4 Financial Statements; Reports; Certificates.

(a) Borrower shall deliver to Bank each and all of the financial statements, reports, certificates and other records referenced under this subsection (a) and such other statements, reports, certificates and records as Bank may reasonably request from time to time.

(i) As soon as available, but in any event within fifteen (15) days after the end of each calendar month, Borrower shall deliver to Bank internally prepared consolidated financial statements.

(ii) Beginning with the fiscal year ending December 31, 2004, as soon as available, but in any event within one hundred twenty (120) days after the end of Borrower's fiscal year, Borrower shall deliver to Bank audited CPA prepared consolidated and, upon request of Bank, internally prepared consolidating, financial statements of Borrower (including a balance sheet, an income statement and a statement of retained earnings, each with the related notes and changes in the financial position for such year and setting forth in comparative form the figures for the prior year) prepared in accordance with GAAP, consistently applied, together with (with respect to the CPA prepared statements) an opinion on such financial statements that is unqualified or qualified in a manner acceptable to Bank from an independent certified public accounting firm reasonably acceptable to Bank. After the occurrence of an Event of Default, Bank may request and Borrower shall so provide audited CPA prepared consolidating statements which meet the foregoing requirements established for consolidated statements.

(iii) Within fifteen (15) days after the last day of each fiscal quarter, Borrower shall deliver to Bank a statement of Borrower's Net Finance Receivable prepared and presented in a manner and format consistent with past practice, conducted by PriceWaterhouseCoopers, LLP, or such other accounting firm of national standing selected by Borrower as is acceptable to Bank.

(iv) If applicable, Borrower shall deliver to Bank copies of all statements, reports and notices sent or made available generally by Borrower to its security holders or to any holders of Subordinated Debt and all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission.

(v) Promptly upon receipt of notice thereof, Borrower shall deliver to Bank a report of any legal actions pending or threatened against Borrower or any Subsidiary that, in the reasonable opinion of Borrower, could result in damages or costs to Borrower or any Subsidiary of One Hundred Thousand Dollars (\$100,000) or more.

(b) Within fifteen (15) days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate dated and signed by a Responsible Officer in substantially the form of Exhibit D hereto that provides the required information that is current within one day.

(c) Within fifteen (15) days after the last day of each month, Borrower shall deliver to Bank with the monthly financial statements a Compliance Certificate signed by a Responsible Officer in substantially the form of Exhibit E hereto.

(d) Borrower shall provide such additional statements and information as Bank may from time to time request, in form reasonably acceptable to Bank. Bank shall keep such information confidential which is marked "Confidential" and which has not been disclosed to third parties, and shall not disclose such information to any department of Bank which provides investment and stock brokerage services.

6.5 Taxes. Borrower shall make, and shall cause each Subsidiary to make, due and timely payment of, or deposit or withholding of, all federal, state and local taxes, assessments or contributions required of it by all Requirements of Law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment, deposit or withholding thereof; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6.6 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers and all other hazards and risks required by Bank, acting reasonably and taking into account the types and risks customarily insured against by businesses similar to Borrower's. Unless otherwise directed by Bank, the insurance shall be all risk replacement cost insurance with agreed amount endorsement, standard noncontributing mortgagee clauses and standard waiver of subrogation clauses. Borrower shall also maintain general liability, workmen's compensation and other insurance in amounts and of a type that are customary to businesses similar to Borrower's, unless Bank directs otherwise, in which event Borrower shall maintain such insurance in amounts and types as Bank directs.

(b) All policies of insurance shall be in such form and with such companies as may be reasonably satisfactory to Bank. All policies of property insurance shall contain a lender's loss payable endorsement, in a form reasonably satisfactory to Bank, showing Bank as an additional loss payee, and all liability insurance policies shall show Bank as an additional insured. All policies shall specify that the insurer must give at least twenty (20) days' notice to Bank before canceling its policy for any reason. Upon Bank's request, Borrower shall deliver to Bank certified copies of the policies of insurance and evidence of all premium payments. All proceeds payable under any casualty policy or policies shall, at Bank's option, be payable to Bank to be applied on account of the Obligations, except for casualty policies insuring loss of assets encumbered by Permitted Liens which are prior to the Lien of Bank.

6.7 Primary Depository. Borrower and each of Borrower's wholly owned Subsidiaries shall maintain its primary operating depository accounts with Bank during the term of the Revolving Facility.

6.8 Financial Covenants. On a consolidated basis, Borrower shall maintain, as of the last day of each calendar month unless stated otherwise, and Borrower shall fully and timely comply on a consolidated basis with, each and every one of the financial maintenance covenants set forth in this Section and others that may be contained in this Agreement and the other Loan Documents.

(a) Debt Coverage. A ratio greater than 8.0:1, calculated on a rolling twelve-month basis.

(b) Debt to Tangible Net Worth. A ratio less than 0.40:1.

(c) Net Income. Borrower shall report a minimum Net Income per quarter of at least One Dollar (\$1.00) (to be tested at the end of each fiscal quarter of Borrower).

6.9 Maintenance of Property. Borrower shall keep and maintain the Collateral in good working order and condition and make all needful and proper repairs, replacements, additions, or improvements thereto as are necessary, reasonable wear and tear excepted.

6.10 Maintain Security Interest. Borrower shall maintain, protect and preserve the security interest of Bank in the Collateral and the lien position of Bank in the Collateral, including, without limitation, (i) the filing of “claims” under insurance policies and (ii) protecting, defending and maintain the validity and enforceability of the Trademarks, Patents and Copyrights.

6.11 Deposit Accounts. Borrower shall maintain and shall cause all of its Subsidiaries to maintain all their deposit accounts with Bank, except that such deposit accounts may be maintained elsewhere, but only if subject to a control agreement in form and substance satisfactory to Bank.

6.12 Further Assurances. At any time and from time to time, Borrower shall execute and deliver such further instruments, agreements, documents and other records and take such further action as may be requested by Bank to effect the purposes of this Agreement, including, without limitation, the perfection and continuation of perfection of Bank’s security interests in the Collateral.

7. NEGATIVE COVENANTS.

Borrower covenants and agrees that until the termination of Bank’s obligation under this Agreement to make Credit Extensions and the payment in full of the Obligations, Borrower shall not do or permit to be done any of the matters set forth in this Section 7; and Borrower acknowledges to Bank that the breach or default by Borrower of any of the covenants and agreements set forth below in this Section 7 is and the same shall be material.

7.1 Dispositions. Borrower shall not convey, sell, lease, transfer and otherwise dispose of and Borrower shall not permit any of its Subsidiaries to convey, sell, lease, transfer and otherwise dispose of (with respect to both Borrower and Borrower’s Subsidiaries, by operation of law or otherwise) any part of and any interest in their respective businesses and properties, including the Collateral, other than Permitted Transfers.

7.2 Change in Business; Change in Management or Executive Office. Borrower shall not engage in any business, or permit any of its Subsidiaries to engage in any business, other than as reasonably related or incidental to the businesses currently engaged in by Borrower. Borrower shall not have a Change in Management and will not, without thirty (30) days’ prior written notification to Bank, relocate its chief executive office, change its state of organization or change any other matter that will or could result in Bank’s security interests in the Collateral becoming unperfected.

7.3 Mergers or Acquisitions; New Subsidiary. Except for Permitted Acquisitions, Borrower shall not merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another person without the prior written consent of Bank, which Bank may grant or withhold in its sole and absolute discretion. Borrower shall not create or cause to be created or to come into existence any new Subsidiary after the Closing Date, without the prior written consent of the Bank.

7.4 Indebtedness. Borrower shall not create, incur, assume or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness and normal and customary unsecured indebtedness incurred in the ordinary course of business. With respect to Indebtedness described in clause (c) of the definition of Permitted Indebtedness in Exhibit A, to the extent not specifically prohibited by the terms of such Indebtedness, Bank shall have a subordinate lien in and to all equipment and property financed or acquired with such Indebtedness.

7.5 Encumbrances. Borrower shall not create, incur, assume or allow any Lien with respect to the Collateral or any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens, or covenant to any other person that Borrower in the future will refrain from creating, incurring, assuming or allowing any Lien with respect to any of Borrower’s property.

7.6 Judgments. Borrower shall not permit a judgment or judgments for the payment of money in excess of \$500,000 in the aggregate to be entered against it or any Subsidiary which judgment Borrower permits to remain unsatisfied or unstayed for a period of thirty (30) days after the same is entered against Borrower or a Subsidiary.

7.7 Distributions. Except for Permitted Dividends and Permitted Investments, Borrower shall not pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, or permit any of its Subsidiaries to do so.

7.8 Investments. Borrower shall not directly or indirectly acquire or own, or make any Investment in or to any person, or permit any of its Subsidiaries to do, other than Permitted Investments.

7.9 Loans. Except for Permitted Investments and Permitted Acquisitions, Borrower shall not make or commit to make, or permit any of its Subsidiaries to make or commit to make, any advance, loan, extension of credit or capital contribution to, or purchase of any stock, bonds, notes, debentures or other securities of any person.

7.10 Loans to Officers. Borrower shall not make, or permit any of its Subsidiaries to make, any loan or advance directly or indirectly for the benefit of any past, present, or future stockholder, director, officer, executive, manager, member, partner or employee of Borrower or a Subsidiary, at the case may be, other than advances or loans made in the ordinary course of business consistent with past practice, including but not limited to employee relocation loans, employee bridge loans and other incidental loans to employees, all in the ordinary course of business.

7.11 Compensation. Borrower shall not pay, or permit any Subsidiary to pay, any compensation to any past, present and future shareholder, director, officer, executive, member, manager, partner and employee, whether through salary, bonus or otherwise, if contrary to Borrower's compensation policies or the executive compensation rules established by the Securities and Exchange Commission or the Nasdaq Stock Exchange.

7.12 Transactions with Affiliates. Borrower shall not directly or indirectly enter into or permit to exist, or permit any Subsidiary to directly or indirectly enter into or permit to exist, any material transaction with any Affiliate of Borrower or any Subsidiary except for transactions that are in the ordinary course of Borrower's or such Subsidiary's business, upon fair and reasonable terms that are no less favorable to Borrower or Subsidiary than would be obtained in an arm's length transaction with a non-affiliated Person.

7.13 Subordinated Debt. Borrower shall not make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.14 Inventory and Equipment. Borrower shall not store, or permit any Subsidiary to store, its Inventory and shall not store, or permit any Subsidiary to store, its Equipment with a bailee, warehouseman or similar person unless Bank has received a pledge of the warehouse receipt covering such Inventory and Equipment. Except for Inventory sold in the ordinary course of business and except for such other locations as Bank may approve in writing, Borrower shall not move or relocate its Inventory and shall not move or relocate its Equipment from the location or locations identified in the Certificate of Borrower and such other locations of which Borrower gives Bank prior written notice and as to which Borrower signs and files a Financing Statement where needed to perfect Bank's security interest.

7.15 Licenses. Borrower shall not become bound by, or permit its Subsidiaries to become bound by, any license, agreement or other record which would have a Material Adverse Effect.

7.16 Compliance. Borrower shall not become or be controlled by an "investment company", within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or

use the proceeds of any Credit Extension for such purpose, or permit any of its Subsidiaries to do any of the foregoing.

7.17 Negative Pledge Agreements. Borrower shall not permit the inclusion in any contract to which it becomes a party of any provisions that could restrict or invalidate the creation of a security interest in Borrower's rights and interests in any Collateral.

7.18 Third Party Agreements. Borrower shall not enter into any agreement containing any provision that would be violated or breached by the performance of the obligations of Borrower under this Agreement.

8. EVENTS OF DEFAULT.

The occurrence of any one or more of the events, conditions, circumstances and matters set forth below in this Section 8 shall constitute an Event of Default by Borrower under this Agreement and the other Loan Documents. Notwithstanding the foregoing and anything else in this Agreement to the contrary, if any of the Obligations are payable on demand by Bank, then, in such event, there are no conditions precedent to Bank's right to demand payment of such Obligations, in whole or in part, at any time and from time to time, without prior notice, until the entire unpaid balance outstanding under such Obligations, including principal, interest, fees, premiums, charges and costs and expenses are paid in full. And, there are no conditions precedent to Bank exercising any of and all of its other rights and remedies at such time or times as it deems necessary or appropriate to recover full payment of the Obligations, including, without limitation, the exercise of any of and all of its rights and remedies set forth in Section 9 below, the exercise of any of and all of its other rights and remedies granted to it under the Loan Documents and the exercise of any of and all of its rights and remedies at law and in equity.

8.1 Default under Obligations. The occurrence of any event of default or default condition under any of the Obligations, including, without limitation, Borrower's failure to pay, when due, the principal of and interest on any of the Obligations, or Borrower's failure to pay, when due, any and all other amounts due under any of the Obligations, including, without limitation, any taxes, fees, charges, premiums and costs and expenses.

8.2 Covenant Default. Borrower fails to perform or satisfy any obligation under Section 6 or violates any of the covenants contained in Section 7 of this Agreement, or fails or neglects to perform or observe or otherwise defaults under any other term, provision, condition, covenant or agreement contained in this Agreement, in any of the other Loan Documents, or in any other present or future instrument, document, agreement and other record between Borrower and Bank or from Borrower to Bank or for the benefit of Bank, whether monetary or non-monetary, and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within ten (10) days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default is non-monetary and cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed thirty (30) days) to attempt to cure such non-monetary default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default (provided that Bank shall not be required to make any Credit Extensions during such cure period).

8.3 Guarantor Default. The failure of any other person obligated for the payment of any of the Obligations, either directly or indirectly, or obligated under this Agreement or any of the other Loan Documents to perform any of the terms and conditions imposed upon such other person by any of said agreements, as and when the same are required to be so performed, or the occurrence of some other default by such other person under any of said agreements.

8.4 Termination of Supporting Obligation. The termination of or the occurrence of an event of default or a default condition under any guaranty agreement or other supporting obligation (inclusive of letters of credit, third person pledge agreements and third person security agreements) which applies to this Agreement or any of the other Loan Documents.

8.5 Attachment. Borrower's assets, or any part or portion thereof, are attached, seized, subjected to a writ or distress warrant, or are levied upon, or come into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) days, or if Borrower is enjoined, restrained or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency or instrumentality thereof, or by any state, county, municipal or governmental agency, and the same is not paid within ten (10) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be required to be made during such cure period).

8.6 Insolvency. Borrower becomes insolvent, or an Insolvency Proceeding is commenced by Borrower, or an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within thirty (30) days (provided that no Credit Extensions will be required to be made prior to the dismissal of such Insolvency Proceeding).

8.7 Other Agreements. The occurrence of a default in any agreement or agreements to which Borrower is a party with a third person or persons which results in a right by such third person or persons, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in the aggregate in excess of 2% of Borrower's Tangible Net Worth or that could have a Material Adverse Effect.

8.8 Subordinated Debt. Borrower makes any payment on account of Subordinated Debt, except to the extent the payment is allowed under any subordination agreement entered into with Bank.

8.9 Misrepresentations. Any misrepresentation or misstatement exists now or hereafter in any warranty or representation set forth herein, in any other Loan Document or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or any other Loan Document, or to induce Bank to enter into this Agreement or any other Loan Document.

8.10 Subsidiary Default. Default by any of Borrower's Subsidiaries under any Indebtedness or other obligation now owing or which hereafter arises and is owing to Bank.

9. BANK'S RIGHTS AND REMEDIES UPON DEFAULT.

9.1 Rights and Remedies upon an Event of Default. If an Event of Default shall occur under this Agreement, in addition to any other rights and remedies which may be available to Bank and without limiting any other rights and remedies granted to Bank in this Agreement, the other Loan Documents and at law and in equity, including, without limitation, the rights and remedies provided to Bank under the Code, which rights and remedies are fully exercisable by Bank as and when provided herein and therein, Bank shall have the rights and remedies set forth below in this Section 9.1, any and all of which it may exercise at its election, without notice of its election and without demand.

(a) Acceleration of Obligations. Bank may, at its option, accelerate and declare immediately due and payable the Obligations, as well as any of and all of the other indebtedness and obligations owing under this Agreement and the other Loan Documents that are not already due hereunder and that are not already due thereunder. If there is more than one Obligation, Bank may accelerate and declare immediately due and payable all of the Obligations, or Bank may from time to time and at any number of times after the occurrence of an Event of Default, accelerate and declare immediately due and payable any one or more of the Obligations as Bank in its discretion elects to accelerate (provided that upon the occurrence of an Event of Default described in Section 8 under the heading "Insolvency", all Obligations shall become immediately due and payable without any action by Bank).

(b) Terminate Credit Extensions. Bank may limit Borrower's right to receive any and all advances under this Agreement and under any other agreement between Bank and Borrower to such amounts

as Bank determines from time to time to be appropriate under the circumstances, Bank may impose a moratorium on future advances under this Agreement and under any other agreement between Bank and Borrower, and Bank may terminate the right of Borrower to receive advances under this Agreement and under any other agreement between Borrower and Bank, and in all the foregoing instances, Bank's rights relative to Credit Extensions may be exercised cumulatively, concurrently, alternatively and in any other manner and at any time or times as Bank deems appropriate, in its discretion.

(c) Protection of Collateral. Bank may make such payments and do or cause to be done such acts as Bank considers necessary or advisable to protect the Collateral and to preserve, protect, perfect and continue the perfection of its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank and its representatives to enter the premises where the Collateral is located, to do, among other things Bank deems necessary or advisable, the following: (i) take and maintain possession of the Collateral, or any part or parts of it, (ii) pay, purchase, contest or compromise any encumbrance, charge or lien which in Bank's determination appears to be prior or superior to its security interest, and (iii) pay all costs and expenses incurred in connection with any of the foregoing. With respect to any of Borrower's premises, Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of Bank's rights and remedies provided herein, at law, in equity and otherwise.

(d) Sale and Disposition of Collateral Upon Default.

(i) Bank, directly and through others on its behalf, may ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale and/or sell the Collateral, or part or parts thereof, for cash or on terms, at one or more private or public sales held at such place or places as Bank determines to be commercially reasonable, after having complied with the provisions of this Agreement, the other Loan Documents and applicable Requirements of Law relating to sale of the Collateral, including, without limitation, the requirements of the Code. Bank is hereby irrevocably granted a license or other right, pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, advertising matter and any property of a similar nature, together with the right of access to all tangible or electronic media in which any of the foregoing may be recorded or stored, in completing production of, management of, advertising for sale and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit. Borrower hereby agrees: (i) that fifteen (15) days notice of any intended sale or disposition of any Collateral is commercially reasonable; (ii) that a shorter period of notice of not less than five (5) days will be commercially reasonable if Bank, in its opinion, deems it necessary to move more expeditiously with disposition of the Collateral or any part thereof; and (iii) that the foregoing shall not require a notice if no notice is required under the Code.

(ii) Bank may credit bid and purchase at any sale or sales.

(iii) The proceeds of any sale of, or other realization upon, all or any part of the Collateral pursuant to this Section 9.1 shall be applied by Bank in the following order of priorities, or such other order as Bank may determine or as may be required under applicable Requirements of Law: first, to payment of the costs and expenses of such sale or other realization, and all expenses, liabilities and advances incurred or made by Bank in connection therewith, and any other unreimbursed costs and expenses for which Bank is to be reimbursed pursuant to this Agreement and the other Loan Documents; second, to the payment of unpaid principal of the Obligations; third, to the payment of accrued but unpaid interest on the Obligations; fourth, to the payment of all other amounts owing or outstanding by Borrower under the Obligations, this Agreement, the other Loan Documents and otherwise to Bank as provided herein or therein, until all the foregoing shall have been paid in full; finally, to payment to Borrower or its successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

(iv) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower, without demand by Bank, but this provision shall not require Bank to first dispose of the Collateral before attempting to recover payment of the Obligations from Borrower or any other person and Bank shall have the right to proceed successively, concurrently and alternatively against the Collateral,

the Borrower and any other person obligated on any of the Obligations in any order and at any time or times as it deems to be in its best interest.

(e) Discontinuance of Proceedings; Position of Parties Restored. If Bank shall have proceeded to enforce any right or remedy under the Loan Documents by foreclosure, entry, or otherwise and such proceedings shall have been discontinued or abandoned for any reason, or such proceedings shall have resulted in a final determination adverse to Bank, then and in every such case Borrower and Bank shall be restored to their former positions and rights hereunder, and all rights, powers and remedies of Bank shall continue as if no such proceedings had occurred or had been taken.

9.2 Remedies Cumulative. Bank's rights and remedies under this Agreement, the Loan Documents and all other agreements shall be cumulative and may be exercised successively, concurrently, alternatively and in any other order and at such time or times as Bank elects in its discretion. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law and in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

10. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by facsimile to Borrower or to Bank, as the case may be, at their respective addresses as set forth on the signature page of this Agreement. The parties may change the address at which they are to receive notices hereunder by notice in writing in the foregoing manner given to the other.

11. WAIVERS.

11.1 Waiver Of Trial By Jury. **To the extent not prohibited by applicable Requirements of Law, Borrower and Bank each hereby waive their respective rights to a jury trial of any claim or cause of action based upon or arising out of any of the Loan Documents or any of the transactions contemplated therein, including contract claims, tort claims, breach of duty claims and all other common law or statutory claims. Each party recognizes and agrees that the foregoing waiver constitutes a material inducement for it to enter into this Agreement. Each party represents and warrants that it has reviewed this waiver with its legal counsel and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel.**

11.2 Marshalling of Assets. Borrower hereby waives, to the extent permitted by law, the benefit of all appraisal, valuation, stay, extension, reinstatement and redemption laws now in force and those hereafter in force and all rights of marshalling in the event of any sale hereunder of the Collateral or any part or any interest therein.

11.3 Waiver of Action Against Third Persons. Borrower waives any right to require Bank to bring any action against any other person or to require that resort be had to any security or to any balances of any deposit or other accounts or debts or credits on the books of Bank in favor of any other person.

12. GENERAL PROVISIONS.

12.1 Indemnification. Borrower hereby agrees to defend, protect, indemnify and hold harmless Bank, all directors, officers, employees, attorneys, agents and independent contractors of Bank, from and against all claims, actions, liabilities, damages and costs and expenses asserted against, imposed upon or incurred by Bank or any of such other persons as a result of, or arising from, or relating to this Agreement, the other Loan Documents or

the transactions contemplated hereby or thereby, except for losses resulting from the gross negligence or willful misconduct of or breach of this Agreement by, the person otherwise to be indemnified hereunder.

12.2 Choice of Law. This Agreement shall be deemed to have been executed and delivered in the Commonwealth of Virginia regardless of where the signatories may be located at the time of execution and shall be governed by and construed in accordance with the substantive laws of the Commonwealth of Virginia, excluding, however, the conflict of law provisions thereof.

12.3 Incorporation of Exhibits; Customer and Loan Numbers. All exhibits, schedules, addenda and other attachments to this Agreement are by this reference incorporated herein and made a part hereof as if fully set forth in the body of this Agreement. The Customer and Loan Numbers, if any, stated in this Agreement are for Bank's internal business use and reference only and do not and shall not limit the scope and extent of Bank's rights hereunder, including the Obligations secured hereby and the security interests of Bank in the Collateral.

12.4 Maintenance of Records by Bank. Borrower acknowledges and agrees that Bank is authorized to maintain, store and otherwise retain the Loan Documents or any of them in their original, inscribed tangible form or a record thereof in an electronic medium or other non-tangible medium which permits such record to be retrieved in a perceivable form; that a record of any of the Loan Documents in a non-tangible medium which is retrievable in a perceivable form shall be the agreement of Borrower to the same extent as if such Loan Document was in its original, inscribed tangible medium and such a record shall be binding on and enforceable against Borrower notwithstanding the same is in a non-tangible form and notwithstanding the signatures of the signatories hereof are electronic, typed, printed, computer generated, facsimiles or other reproductions, representations or forms; and that Bank's certification that a non-tangible record of any of the Loan Documents is an accurate and complete copy or reproduction of the original, inscribed tangible form shall be conclusive, absent clear and convincing evidence of the incorrectness of said certification, and such non-tangible record or a reproduction thereof shall be deemed an original and have the same force and effect as the original, inscribed tangible form.

12.5 Credit Investigations; Sharing of Information; Control Agreements. Bank is irrevocably authorized by Borrower, during the term of this Agreement and until the last to occur of (i) payment in full of all the Obligations and (ii) termination of Bank's obligation to make Credit Extensions under this Agreement, to make or have made such credit investigations as it deems appropriate to evaluate Borrower's and its Subsidiaries' credit or financial standing, and Borrower authorizes Bank to share with its affiliates its experiences with Borrower and its Subsidiaries and other information in Bank's possession relative to Borrower and its Subsidiaries. Bank (i) shall not have any obligation or responsibility to provide information to third persons relative to Bank's security interest in the Collateral, this Agreement and otherwise with respect to Borrower and its Subsidiaries and (ii) shall not have any obligation or responsibility to subordinate its security interest in the Collateral to the interests of any third persons or to enter into control agreements relative to the Collateral.

12.6 Bank's Liability for Collateral. Notwithstanding anything in this Agreement or any of the other Loan Documents to the contrary, Bank may at any time or times during the term of this Agreement make such payments and do or cause to be done such acts as Bank considers necessary or advisable to protect the Collateral and to preserve, protect and perfect or continue the perfection of its security interest in the Collateral. So long as Bank complies with reasonable banking practices, except as may be provided herein to the contrary, Bank shall not in any way or manner be liable or responsible for: (i) the safekeeping of the Collateral; (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (iii) any diminution in the value thereof; or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency or other person whomsoever.

12.7 Bank Expenses. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons, as required under the terms of this Agreement and the other Loan Documents, then after ten (10) days prior written notice to Borrower, and Borrower's failure to pay such amounts, Bank may do or cause to be done any or all of the following: (i) make payment of the same or any part thereof; (ii) set up such reserves as Bank deems necessary to protect Bank from the exposure created by such failure; and (iii) obtain and maintain insurance policies of the type required by this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, shall bear interest at the Default Rate from the date of payment or deposit and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar

payments in the future or a waiver by Bank of any Event of Default under this Agreement. If Bank is requested to waive an Event of Default or forbear taking action relative thereto, Bank may condition any waiver or forbearance it elects, in its discretion, to grant Borrower on payment by Borrower of such fees to Bank as Bank deems appropriate under the circumstances and may condition any such waiver or forbearance on Borrower reimbursing Bank for all costs and expenses Bank incurs in connection with such waiver or forbearance.

12.8 No Waiver; No Course of Dealing. Bank, at any time or times, may grant extensions of time for payment or other indulgences or accommodations to any person obligated on any of the Obligations, or permit the renewal, amendment or modification thereof or substitution or replacement thereof, or permit the substitution, exchange or release of any property securing any of the Obligations and may add or release any person primarily or secondarily liable on any of the Obligations, all without releasing Borrower from any of its liabilities and obligations under any of the Loan Documents and without Bank waiving any of its rights and remedies under any of the Loan Documents, or otherwise. No delay or forbearance by Bank in exercising any or all of its rights and remedies hereunder and under the other Loan Documents or rights and remedies otherwise afforded by law or in equity shall operate as a waiver thereof or preclude the exercise thereof during the continuance of any Event of Default as set forth herein or in the event of any subsequent Event of Default hereunder. Also, no act or inaction of Bank under any of the Loan Documents shall be deemed to constitute or establish a “course of performance or dealing” that would require Bank to so act or refrain from acting in any particular manner at a later time under similar or dissimilar circumstances.

12.9 Relationship of Parties; Successors and Assigns. The relationship of Bank to Borrower is that of a creditor to an obligor (inclusive of a person obligated on a supporting obligation) and a creditor to a debtor; and in furtherance thereof and in explanation thereof, Bank has no fiduciary, trust, guardian, representative, partnership, joint venturer or other similar relationship to or with Borrower and no such relationship shall be drawn or implied from any of the Loan Documents and any of Bank’s actions or inactions hereunder or with respect hereto – and, Bank has no obligation to Borrower or any other person relative to administration of any of the Obligations and the Collateral, or any part or parts thereof, except as otherwise set forth herein. The covenants, terms and conditions herein contained shall bind, and the benefits and powers shall inure to, the respective heirs, executors, administrators, successors and assigns of the parties hereto, as well as any persons who become bound hereto as a debtor. If two or more persons or entities have joined as Borrower, each of the persons and entities shall be jointly and severally obligated to perform the conditions and covenants herein contained. The term “Bank” shall include any payee of the Obligations hereby secured and any transferee or assignee thereof, whether by operation of law or otherwise, and Bank may transfer, assign or negotiate all or any of the Obligations secured by this Agreement from time to time without the consent of Borrower and without notice to Borrower and any transferee or assignee of Bank or any transferee or assignee of another may do the same without Borrower’s consent and without notice to Borrower. Borrower waives and will not assert against any transferee or assignee of Bank any claims, defenses, set-offs or rights of recoupment which Borrower could assert against Bank, except defenses which Borrower cannot waive.

12.10 Time of Essence. Time is of the essence for the performance of all of Borrower’s covenants and agreements (inclusive of the Obligations) set forth in this Agreement and each of the Loan Documents.

12.11 Amendments in Writing; Integration. All amendments to or terminations of this Agreement must be in writing. All prior agreements, understandings, representations, warranties and negotiations between the parties hereto with respect to the subject matter of this Agreement, if any, are merged into this Agreement and the Loan Documents.

12.12 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

12.13 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding. Notwithstanding anything in this Agreement or the other Loan Documents to the contrary, the obligations of Borrower to indemnify Bank as described in Section 12.1 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

12.14 Limited License. During the term of this Agreement, Borrower hereby grants to Bank and its Affiliates, a non-exclusive, world-wide, non-transferable, royalty-free irrevocable license to use the Borrower's Marks (as herein defined) solely for and in connection with the general marketing, promotion and advertising activities of Bank and its Affiliates. General marketing, promotion and advertising activities shall include press releases, product brochures, tombstone ads and other advertising typical in industry practice and disclosure of Borrower's Marks on the Bank's website, including a link to the Borrower's website. "Marks" shall mean Borrower's names, logos, Trademarks, trade names, service marks and world wide web addresses. Bank shall use commercially reasonable efforts to cause the appropriate designation "™" or the registration symbol "®" to be placed adjacent to the Marks in connection with the use thereof. Notwithstanding the foregoing, Bank shall be under no obligation to use any of such Marks. Any marketing, promotion or advertising materials which incorporate Borrower's Marks shall be submitted to Borrower for approval prior to publication.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

EXHIBIT A- DEFINITIONS

“Accounts” shall have a broad meaning and shall include all accounts (as such term is defined in Article 9 of the Code) owned by the Borrower and all accounts in which the Borrower has any rights (including, without limitation, rights to grant a security interest in accounts owned by other persons), both now existing and hereafter owned, acquired and arising; and, to the extent not included in the term accounts as so defined after ascribing a broad meaning thereto, all accounts receivable, health-care-insurance receivables, credit and charge card receivables, bills, acceptances, documents, choses in action, chattel paper (both tangible and electronic), promissory notes and other instruments, deposit accounts, license fees payable for use of software, commercial tort claims, letter of credit rights and letters of credit, rights to payment for money or funds advanced or sold other than through use of a credit card, lottery winnings, rights to payment with respect to investment property, general intangibles and other forms of obligations and rights to payment of any nature, now owing to the Borrower and hereafter arising and owing to the Borrower, together with (i) the proceeds of all of the accounts and other property and property rights described hereinabove, including all of the proceeds of Borrower’s rights with respect to any of its goods and services represented thereby, whether delivered or returned by customers, and all rights as an unpaid vendor and lienor, including rights of stoppage in transit and of recovering possession by any proceedings, including replevin and reclamation, and (ii) all customer lists, books and records, ledgers, account cards, and other records including those stored on computer or electronic media, whether now in existence or hereafter created, relating to any of the foregoing; including, without limitation, an account established for a bank credit card, retail credit card, consumer installment loan, defaulted auto loans or lines of credit in the name of an Account Debtor, as set forth and described in a Purchase Agreement, and all unpaid balances due from such Account Debtor, together with all available documents evidencing such Account Debtor’s agreement to make payment of such unpaid balances, including without limitation each available credit card application or agreement, and each available promissory note, receivable, obligation, chattel paper, payment agreement, contract, installment sale agreement or other obligation or promise to pay of an Account Debtor, all as described and referred to in a Purchase Agreement.

“Account Debtor” means any person or persons that are an obligor in any contractual arrangement for amounts due to Borrower, Guarantors or any co-signor in respect of such contractual arrangement.

“Affiliate” means, with respect to any person, any person that owns or controls directly or indirectly such person, any person that controls or is controlled by or is under common control with such person, and each of such person’s senior executive officers, directors and partners.

“Agreement” means this Loan and Security Agreement, and any and all amendments, modifications, renewals, extensions, replacements and substitutions thereof and therefor.

“Asset Pool” means all Accounts and other Assets, as the context may require, which Accounts shall all have been purchased from a single creditor and from which Borrower or Guarantor have purchased such Accounts on the same Business Day, together with (i) each and every Asset obtained in replacement or satisfaction of or substitution for, any such Account so purchased, (ii) each and every item of property obtained by Borrower or Guarantor as a result of its collection activities with respect to any such purchased Account (iii) each and every item of collateral or security, including all security interests, liens, guarantees and other interests securing payment of any purchased Account, and all other rights and interests of Borrower or Guarantor with respect to each purchased Account, (iv) each judgment rendered against a purchased Account Debtor in respect to an Account, together with all lien rights related thereto, (v) Asset Pool Proceeds derived from or paid or payable with respect thereto, together with any and all earnings thereon, and (vi) each and every other right, claim and interest associated therewith. With respect to an Asset Pool: (a) the term “Account” shall mean a purchased account established for a bank credit card, retail credit card, consumer installment loan, defaulted auto loans or lines of credit in the name of an Account Debtor, as set forth and described in a Purchase Agreement, and all unpaid balances due from such Account Debtor, together with (to the extent available) all documents evidencing such Account Debtor’s agreement to make payment of such unpaid balances, including, without limitation, each credit card application or agreement, and each promissory note, receivable, obligation, chattel paper, payment agreement, contract, installment sale agreement or other obligation or promise to pay of an Account Debtor, all as described and referred to in a Purchase Agreement; and (h) the term “Asset” shall mean each purchased Account and any property or other right obtained by Borrower in connection with collection of any such purchased Account or in substitution therefor, all of which constitutes part of the Asset Pool into which such purchased Account was initially delivered.

“Asset Pool Proceeds” means, with respect to an Asset Pool, any and all payments, revenues, income, receipts,

collections, recoveries and other proceeds or assets received with respect to such Asset Pool, including, without limitation, (i) payments of principal, interest, fees, late charges, insufficient funds charges, guaranty payments and any interest thereon, credit insurance costs, guaranty fees and other amounts recovered on account of any Asset in such Asset Pool, and (ii) settlements, compromises, liquidations, foreclosure proceeds, dispositions, sales, transfers or other proceeds, whether cash or otherwise, received as a result of or in any way in connection with collection activities related to any Asset or in connection with the sale of any Asset constituting a part of such Asset Pool.

“Asset Pool Report” means a report, in a form and substance acceptable to the Bank, that sets forth each Asset Pool purchased by Borrower in the form attached hereto as Exhibit F.

“Asset Pool Seller” means, with respect to an Asset Pool, the party which has agreed to sell a specified Asset Pool to Borrower or any Guarantor pursuant to the terms of a Purchase Agreement.

“Available Unused Revolving Facility” means the amount of the Unused Revolving Facility that Borrower is entitled to receive as an Advance pursuant to the terms of this Agreement.

“Bank” means RBC Centura Bank and its successors, assigns, transferees and the holder of this Agreement and the other Loan Documents.

“Bank Expenses” means all costs and expenses incurred and suffered by Bank in connection with the preparation, negotiation, administration and enforcement of the Loan Documents and its rights and remedies thereunder, including, without limitation, perfection, audit, inspection, protection and enforcement of Bank’s security interests in the Collateral.

“Borrower” means Portfolio Recovery Associates, Inc., a Delaware corporation, and its successors and permitted assigns.

“Borrower’s Books” means all of Borrower’s books and records including, without limitation, ledgers, journals, spread sheets, business plans, business projections, tax returns and accompanying worksheets and notes related thereto, governmental and regulatory filings and reports and all other records concerning Borrower’s assets and liabilities, the Collateral, business operations and financial condition; and the term includes media on which such records are stored or maintained, whether electronic, printed, imbedded in software or other computer programs or on tape files, and the equipment containing such information.

“Borrowing Base” means an amount equal to 20% of Estimated Remaining Collections of all Eligible Asset Pools, as determined by Bank with reference to the most recent Borrowing Base Report delivered by Borrower.

“Business Day” means any day that is not a Saturday, Sunday or other day on which banks in the Commonwealth of Virginia are authorized or required to close.

“Capitalized Leases” means all leases that have been or should be, in accordance with GAAP, recorded as capitalized leases.

“Change in Management” shall mean Kevin Stevenson and Steve Frederickson are no longer Chief Financial Officer and President of Borrower, respectively.

“Close” or “Closing” means the completion of the conditions precedent to the initial Credit Extension.

“Closing Date” means the date of this Agreement, which is the last date on which this Agreement is signed by a party hereto.

“Code” means the Uniform Commercial Code as in effect, from time to time, in the Commonwealth of Virginia.

“Collateral” means the property and property rights described on Exhibit C and all Negotiable Collateral and Intellectual Property Collateral to the extent not described on Exhibit C. “Commitment” means the commitment made by Bank to Borrower pursuant to this Agreement.

“Commitment Revolving Line” means Credit Extensions of up to the lesser of: (i) Twenty-five Million dollars (\$25,000,000); or (ii) twenty percent (20%) of Borrower’s and Guarantors’ Estimated Remaining Collections of all . Eligible Asset Pools.

“Contingent Obligation” or “Contingent Liabilities” means, as applied to any person, any direct or indirect liability, contingent or otherwise, of that person with respect to (i) any account, instrument, chattel paper, document, general

intangible, indebtedness, lease, dividend, letter of credit, letter of credit right or other obligation of another person, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed, co-made or discounted or sold with recourse by that person, or in respect of which that person is otherwise directly or indirectly liable; (ii) any obligations with respect to undrawn letters of credit issued for the account of that person; and (iii) all obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designated to protect a person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, both published and unpublished and whether or not the same also constitutes a trade secret, now existing and hereafter arising, created, acquired or held.

"Credit Extension" means each Advance, or any other extension of credit by Bank for the benefit of Borrower hereunder.

"Default Rate" means a rate of interest per annum equal to the contract rate of interest defined as the "Default Rate" in the Promissory Note, and if there is more than one Promissory Note, it shall mean a rate of interest per annum equal to the highest of the contract rates of interest defined in the Promissory Notes as a "Default Rate".

"Debt Coverage" means EBITDA divided by the prior year's current portion of long-term debt and Capitalized Leases plus Interest Expense.

"Debt to Tangible Net Worth" means Total Liabilities divided by Tangible Net Worth.

"EBITDA" means the total of (i) net income from continuing operations (excluding extraordinary gains or losses), and to the extent deducted in determining net income (ii) interest Expense, (iii) income taxes, (iv) depreciation, depletion and amortization expenses, and (v) payments applied to principal of the purchase price of Asset Pools.

"Eligible Asset Pool" means those existing Asset Pools accepted by Bank at closing and newly acquired Asset Pools of Borrower and Portfolio Recovery Associates, LLC acquired from Asset Pool Sellers not affiliated with the Borrower or Guarantor that in each case, meet all of the following requirements:

(i) the Accounts in such Asset Pool, taken as a whole, comply in all material respects with all applicable laws and regulations, including, but not limited to, truth in lending and credit disclosure laws and regulations;

(ii) all amounts and information appearing on the applicable Asset Pool Report furnished to Bank in connection therewith are true and correct in all material respects;

(iii) Borrower or Portfolio Recovery Associates, LLC has good and marketable title and has the right to pledge, assign and deliver the Assets of such Asset Pool, free from all liens, claims, encumbrances or security interests whatsoever;

(iv) no more than one percent (1%) of the number of Accounts in such Asset Pool constitute Accounts with respect to which the Account Debtor thereon or any guarantor thereof is employed by or related to Borrower or any Guarantor or is Borrower or any Guarantor;

(v) to the best knowledge of Borrower and Guarantor no condition exists that materially or adversely affects the Level Yield of the Asset Pool;

(vi) since the acquisition of the Asset Pool by Borrower or Portfolio Recovery Associates, LLC, no sale of any Account within the Asset Pool has occurred except arms length sales to non-affiliated third parties; and

“Estimated Remaining Collections” means the aggregate gross remaining cash collections which Borrower or Portfolio Recovery Associates, LLC anticipate to receive from an Asset Pool or as referred to by Borrower or Portfolio Recovery Associates, LLC as the “Level Yield,” determined and reported by Borrower or Portfolio Recovery Associates, LLC pursuant to their financial statements and other reporting to the Bank. Such remaining book balance shall be calculated by Borrower or Portfolio Recovery Associates, LLC (as the case may be) pursuant to a method utilized by Borrower or Portfolio Recovery Associates, LLC (as the case may be) in its past business practices, in accordance with GAAP and in compliance with procedures approved by PriceWaterhouse Coopers, or such other independent certified public accountants chosen by Borrower, who are acceptable to the Bank. Provided, however, the manner and method of computing Estimated Remaining Collections and all assumptions made in connection therewith shall be explained to Bank in full detail upon Bank’s request. Any deviation from the current method and assumptions used in computing Estimated Remaining Collections must be acceptable to Bank in its sole and absolute discretion.

“Event of Default” has the meaning assigned in Section 8.

“GAAP” means generally accepted accounting principles and practices in effect from time to time as promulgated by the American Institute of Certified Public Accountants.

“Guarantor” means Portfolio Recovery Associates, LLC, PRA Holding I, LLC and PRA Receivables Management, LLC, jointly and severally.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, and any organization exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Indebtedness” means (a) all liabilities which would be reflected on a balance sheet prepared in accordance with GAAP, (b) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (c) all obligations evidenced by notes, bonds, debentures or similar instruments, (d) all capital lease obligations and (e) all Contingent Obligations.

“Insolvency Proceeding” means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement or other relief.

“Intellectual Property Collateral” means all of Borrower’s right, title and interest in and to its intellectual property, including without limitation, the following: (i) Copyrights, Trademarks and Patents; (ii) any and all trade secrets, and any and all intellectual property rights in software and software products now or hereafter existing, created, acquired or held during the term of this Agreement; (iii) any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held during the term of this Agreement; (iv) any and all mask works or similar rights now or hereafter existing, created, acquired or held during the term of this Agreement; (v) any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above; (vi) all licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights; (vii) all amendments, renewals, re-issues, divisions, continuations and extensions of any of the Copyrights, Trademarks or Patents; and (viii) all proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

“Interest Expense” means the total of the costs of advances outstanding under Indebtedness including (i) interest charges, (ii) capitalized interest, (iii) the interest component of Capitalized Leases, (iv) fees payable in respect of letters of credit and letters of guarantee, and (v) discounts incurred and fees payable in respect of bankers’ acceptances.

“Investment” means any beneficial ownership of (including stock, partnership interest or other securities) any person, or any loan, advance or capital contribution to any person.

“IRC” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

“Knowledge” means actual knowledge or such level of knowledge or awareness as would be obtained or should have been known at the time by a prudent business person under substantially similar circumstance after diligent investigation.

“Lien” means any mortgage, lien, deed of trust, deed to secure debts, charge, pledge, security interest or other encumbrance and the term “security interest” and Lien shall be interchangeable, as necessary or appropriate.

“Loan Documents” means, collectively, this Agreement, any instruments, including promissory notes, executed and delivered by Borrower to Bank, and any one or more of the following entered into by Borrower and Bank, or by Borrower for the benefit of Bank, or by another person and Bank or by another person for benefit of Bank in connection with the Agreement or any of the Obligations, together with any and all renewals, extensions, amendments, modifications, replacements and substitutions thereof and therefor: mortgages, deeds to secure debt, deeds of trust, security agreements, negative pledge agreements, pledge agreements, guaranty agreements, control agreements, hypothecation agreements, documents, agreements and other records.

“Material Adverse Effect” means a material adverse effect on (i) the business operations or condition (financial or otherwise) of Borrower and its Subsidiaries taken as a whole or (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents as and when required thereunder. “Material Agreements” has the meaning assigned in the Certificate of Borrower.

“Negotiable Collateral” means all of Borrower’s present and future letters-of-credit and letter-of-credit rights of which it is a beneficiary, instruments (including promissory notes), drafts, securities, documents of title and chattel paper (including electronic chattel paper), and Borrower’s Books relating to any of the foregoing.

“Net Finance Receivable” means the remaining book balance of Borrower’s or a Guarantor’s net investment in all Asset Pools or as referred to by Borrower as the “unamortized portfolio price”, determined and reported by Borrower pursuant to its consolidated financial statements and other reporting provided to Bank. Such remaining book balance shall be calculated by Borrower pursuant to the method currently utilized by Borrower in its past business practices, in accordance with GAAP and in compliance with procedures approved by PriceWaterhouse Coopers or such other independent certified public accountants selected by Borrower who are acceptable to Bank.

“Net Income” means total revenues minus total expenses.

“Obligations” means all indebtedness, including principal, interest, fees, premiums, penalties, charges, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement, the other Loan Documents and any other agreement, document and record, both absolute and contingent, due and to become due, now existing and hereafter arising, including any interest and fees that accrue after the commencement of an Insolvency Proceeding and including any indebtedness, liability and obligation now owing and any indebtedness, liability and obligation hereafter arising and owing from Borrower to others that Bank has obtained or may in the future obtain by assignment or otherwise.

“Patents” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“Periodic Payments” means all installment and similar recurring payments that Borrower may now be obligated to pay and may hereafter become obligated to pay to Bank pursuant to the terms and provisions of any instrument, agreement, document and record now in existence and which may hereafter come into existence between Borrower and Bank.

“Permitted Acquisitions” means acquisitions of all or substantially all of the assets or 100% of the capital stock of another entity (the “Acquired Business”) (including by merger of the Acquired Business with Borrower or a Subsidiary of Borrower so long as the survivor of such merger is, or becomes at such time, a Guarantor and pledges on a first priority basis all its assets to secure the Obligations in the same manner as the other Guarantors, although in the case of any such merger which involves Borrower, Borrower shall be the surviving corporation), provided that the sum of the aggregate cash consideration plus the aggregate fair market value of all other consideration paid by Borrower or its Subsidiaries (including any indebtedness issued, incurred or assumed by Borrower or any of its

Subsidiaries and any capital stock, issued by Borrower) in connection with any Permitted Acquisitions in any fiscal year shall not exceed in the aggregate 5% of Borrower's Tangible Net Worth prior to such Permitted Acquisitions. "Permitted Dividends" means dividends lawfully declared and paid which (i) are declared and paid when the total amount of the Obligations is zero, (ii) would not cause a breach of this Agreement if paid, (iii) do not exceed 2% of Borrower's Tangible net Worth as of the date when made, and (iv) would not have resulted in a breach of Borrower's Debt to Tangible Net Worth ratio had the dividend been declared and paid on the last day of the most recent month.

"Permitted Indebtedness" means: (i) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document; (ii) Indebtedness existing on the Closing Date which is disclosed in the Schedule; (iii) indebtedness not to exceed in the aggregate in any fiscal year 2% of Borrower's Tangible Net Worth secured by a lien described in clause (iii) of the defined term "Permitted Liens", provided such Indebtedness does not exceed the lesser of the cost or fair market value of the Equipment financed with such Indebtedness and provided Borrower gives Bank right of first refusal to provide such financing; and (iv) Subordinated Debt.

"Permitted Investment" means: (i) Investments existing on the Closing Date disclosed in the Certificate of Borrower; (ii) (A) Marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one year from the date of acquisition thereof, (B) commercial paper maturing no more than one year from the date of creation thereof and currently having a rating of at least A-2 or P-2 from either Standard & Poor's Corporation or Moody's investors Service, (C) certificates of deposit maturing no more than one year from the date of investment therein issued by Bank, and (D) Bank's money market accounts; (iii) Investments accepted in connection with Permitted Transfers; (iv) Investments consisting of (A) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (B) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plan agreements approved by Borrower's board of directors; (v) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of Borrower's business; (vi) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; and (vii) repurchase of stock of the Borrower, except that a repurchase shall only be permitted if, at the time of the repurchase, such repurchase amount, when combined with other repurchases in the prior twelve (12) month period does not exceed the lesser of (a) \$5,000,000, or (b) 2.5% of the lesser of (x) Borrower's market capitalization on the date of the buyback or (y) Borrower's average market capitalization over the twelve (12) months prior to the repurchase, and if, at the time of the repurchase, no Event of Default has occurred, is continuing or would exist after giving effect to the repurchase.

"Permitted Liens" means the following: (i) any Liens existing on the Closing Date and disclosed in the Schedule or arising wider this Agreement or the other Loan Documents; (ii) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and for which Borrower maintains adequate reserves, provided the same have no priority over any of Bank's security interests; (iii) Liens securing the Indebtedness not to exceed the amount described in (iii) of the definition of Permitted Indebtedness (A) upon or in any Equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition of such Equipment, or (B) existing on such Equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such Equipment, provided that, to the extent not specifically prohibited by the terms of such financings, Borrower shall grant and pledge to Bank a valid, perfected security interest which is second in priority to any lien granted under this provision; and (iv) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (i) through (iii) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

"Permitted Transfer" means the conveyance, sale, lease, transfer or disposition by Borrower or any Subsidiary of: (i) Assets, Accounts or Inventory in the ordinary course of business; (ii) non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; (iii) surplus, worn-out or obsolete Equipment, or (iv) the capital stock of Borrower for fair market value.

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Loan No.

“Postponed Debt” means the total Indebtedness that is fully postponed and subordinated, on terms satisfactory to the Bank, to the obligations owing to the Bank.

“Purchase Price” shall mean the actual purchase price paid by Borrower or a Guarantor for an Asset Pool, pursuant to the terms of a Purchase Agreement.

“Promissory Note” means any promissory note or other instrument of Borrower in favor of Bank evidencing any indebtedness of Borrower to Bank under this Agreement or evidencing any of the other Obligations, together with any amendments, modifications, extensions, renewals, substitutions or replacements thereto or therefor.

“Purchase Agreement” means the agreement between Borrower or any Guarantor and any Asset Pool Seller for the purchase of an Asset Pool.

“Requirement of Law” means as to any person, the certificate of incorporation and by-laws or other organizational or governing documents of such person, and any law, treaty, rule, or regulation, or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such person or any of its properties or to which such person or any of its properties is subject, either individually, or jointly or collectively with another person or persons.

“Responsible Officer” means each of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Controller of Borrower.

“Revolving Facility” means the facility under which Borrower may request Bank to issue Advances, as specified in Section 2 under subsection entitled “Revolving Facility”.

“Revolving Maturity Date” means the day before the second anniversary of the Closing Date, or any extension thereof.

“Schedule” means the schedule of exceptions attached hereto, if any.

“Shareholders' Equity” means the total of (i) share capital (excluding redeemable preferred shares and treasury stock), (ii) contributed surplus, (iii) retained earnings and (iv) Postponed Debt; and for non-corporate organizations such as partnerships or limited liability companies, equity accounts similar to those described herein for corporations.

“Software Products” and “Software” are interchangeable and mean software, computer source codes and other computer programs.

“Subordinated Debt” means any debt incurred by Borrower that is subordinated to the indebtedness owing by Borrower to Bank on terms reasonably acceptable to Bank (and identified as being such by Borrower and Bank).

“Subsidiary” means any registered organization or other organization (1) the majority (by number of votes) of the outstanding voting interests of which is at the time owned or controlled by Borrower, or by one or more Subsidiaries of Borrower, or Borrower and one or more Subsidiaries of Borrower, or (2)

Customer No.

Loan No.

otherwise controlled by or within the control of Borrower or any Subsidiary.

“Tangible Net Worth” means the total of Shareholders’ Equity less (i) intangibles, (ii) deferred charges, (iii) leasehold improvements and (iv) loans receivable from related parties.

“Total Liabilities” or “Total Debt” means all liabilities, including Contingent Liabilities, exclusive of deferred tax liabilities and Postponed Debt.

“Trademarks” means any trademark and service mark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“Unused Revolving Facility” means an amount equal to the Committed Revolving Line then in effect less the aggregate amount of Advances outstanding under the Revolving Facility and any other deductions from the Committed Revolving Line as provided in the Agreement.

EXHIBIT B

LOAN PAYMENT/ADVANCE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS 10:00 A.M., E.T.

TO: _____ DATE: _____

FAX #: _____ TIME: _____

CLIENT NAME (BORROWER) _____

REQUESTED BY: _____

AUTHORIZED SIGNATURE: _____

PHONE NUMBER: _____

FROM ACCOUNT # _____

REQUESTED TRANSACTION TYPE _____ REQUEST DOLLAR AMOUNT _____

REQUESTED TRANSACTION TYPE REQUEST DOLLAR AMOUNT
PRINCIPAL, INCREASE (ADVANCE) \$ _____

PRINCIPAL PAYMENT (ONLY) \$ _____

INTEREST PAYMENT (ONLY) \$ _____

PRINCIPAL AND INTEREST (PAYMENT) \$ _____

OTHER INSTRUCTIONS: _____

All representations and warranties of Borrower stated in the Loan and Security Agreement are true, correct and complete in all respects as of the date of this Loan Payment/Advance Request; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete as of such date.

BANK USE ONLY – TELEPHONE REQUEST:

The following person is authorized to request the loan payment transfer/loan advance on the advance designated account and is known to me.

_____ Authorized Requester _____ Phone #

_____ Received By (Bank) _____ Phone #

_____ Authorized Signature (Bank)

EXHIBIT C

PORTFOLIO RECOVERY ASSOCIATES, INC.

RBC CENTURA BANK

COLLATERAL DESCRIPTION ATTACHMENT TO LOAN AND SECURITY AGREEMENT

All personal property owned by Borrower and all personal property in which Borrower has a property interest, both presently existing and hereafter created, written, produced, developed, acquired and arising, of every nature, kind and description, wherever located and notwithstanding in whose custody and possession any of the foregoing may be at any time or times, including, but not limited to:

- (i) all accounts (as such term is defined in Article 9 of the Uniform Commercial Code in effect from time to time in the Commonwealth of Virginia owned by the Borrower and all accounts in which the Borrower has any rights (including, without limitation, rights to grant a security interest in accounts owned by other persons), both now existing and hereafter owned, acquired and arising and, to the extent not included in the term accounts as so defined after ascribing a broad meaning thereto, all accounts receivable, health-care-insurance receivables, credit and charge card receivables, bills, acceptances, documents, choses in action, chattel paper (both tangible and electronic), promissory notes and other instruments, deposit accounts, license fees payable for use of software, commercial tort claims, letter of credit rights and letters of credit, rights to payment for money or funds advanced or sold other than through use of a credit card, lottery winnings, rights to payment with respect to investment property, general intangibles and other forms of obligations and rights to payment of any nature, now owing to the Borrower and hereafter arising and owing to the Borrower, together with (1) the proceeds of all of the accounts and other property and property rights described hereinabove, including all of the proceeds of Borrower's rights with respect to any of its goods and services represented thereby, whether delivered or returned by customers, and all rights as an unpaid vendor and lienor, including rights of stoppage in transit and of recovering possession by any proceedings, including replevin and reclamation, and (2) all customer lists, books and records, ledgers, account cards, and other records including those stored on computer or electronic media, whether now in existence or hereafter created, relating to any of the foregoing; including, without limitation, any account established for a bank credit card, retail credit card, consumer installment loan, defaulted auto loans or lines of credit in the name of an Account Debtor, as set forth and described in a Purchase Agreement, and all unpaid balances due from such Account Debtor, together with all available documents evidencing such Account Debtor's agreement to make payment of such unpaid balances, including without limitation each available credit card application or agreement, and each available promissory note, receivable, obligation, chattel paper, payment agreement, contract, installment sale agreement or other obligation or promise to pay of an Account Debtor, all as described and referred to in a Purchase Agreement, together with any property or other right obtained by Borrower in connection with collection of any account or in substitution therefor, all of which constitutes a part of the Asset Pool into which such Account was initially delivered;
 - (i) all now existing and hereafter acquired Asset Pools and Asset Pool Proceeds, as defined in this Agreement;
 - (ii) all rights in and to each Purchase Agreement, as defined in this Agreement;
 - (ii) all now existing and hereafter acquired software, computer source codes, computer programs embedded in goods that consist solely of the medium in which the program is embedded and other computer programs and supporting information (collectively, the "Software Products"), and all common law and statutory copyrights and copyright registrations, applications for registration, now existing and hereafter arising, United States of America and foreign, obtained and to be obtained on or in connection with the Software Products, and any parts thereof and any underlying and component elements of the Software Products, together with the right to copyright and all rights to renew and extend such copyrights and the right (but not the obligation) of Bank to sue in its own name and in the name of the Borrower for past, present and future infringements of copyright;
-

- (v) all now existing and hereafter acquired goods, including, without limitation, fixtures, equipment and inventory;
- (vi) all now existing and hereafter arising rights in oil, gas or other minerals before extraction;
- (vii) all now existing and hereafter arising guarantees and other supporting obligations, together with the security therefor;
- (viii) all now existing and hereafter arising copyrights, trade secrets, trademarks, service marks, trade names and service names and the goodwill associated therewith;

(ix) all now existing and hereafter arising (a) patents and patent applications filed in the United States Patent and Trademark Office or any similar office of any foreign jurisdiction, and interests under patent license agreements, including, without limitation, the inventions and improvements described and claimed therein, (b) licenses pertaining to any patent whether Borrower is licensor or licensee, (c) income, royalties, damages, payments, accounts and accounts receivable now due and those hereafter arising and due under and with respect thereto, including, without limitation, damages and payments for past, present and future infringements thereof, (d) the right (but not the obligation) to sue for past, present and future infringements thereof, (e) rights corresponding thereto throughout the world in all jurisdictions in which such patents have been issued or applied for, and (f) the reissues, divisions, continuations, renewals, extensions and continuations-in-part with any of the foregoing (all of the foregoing patents and applications and interests under patent license agreements, together with the items described in clauses (a) through (f) in this paragraph are sometimes herein individually and collectively referred to as the "Patents"); and

(x) all now existing and hereafter arising accessions, products and proceeds, including, without limitation, insurance proceeds and condemnation proceeds, of any and all of the foregoing property and property rights.

EXHIBIT D

Customer No.
Loan No.

RBC Centura

**BORROWING BASE CERTIFICATE
(Estimated Remaining Collections of All Eligible
Asset Pools)**

Borrower: Portfolio Recovery Associates, Inc.

Lender: RBC Centura Bank

Credit Line Amount: \$25,000,000

ESTIMATED REMAINING COLLECTIONS

1. Borrower's and Portfolio Recovery Associates, LLC's Estimated Remaining Collections of all Eligible Asset Pools
2. Loan Value of #1 (20% of #1)

BALANCES

- | | |
|---|------------|
| 3. Maximum Credit Line | 25,000,000 |
| 4. Total Permissible Borrowings on Credit Line (Lesser of #2 or #3) | |
| 5. Present balance owing on Line of Credit | |
| 6. RESERVE POSITION (#4 minus #5) | |

The undersigned represents and warrants that the foregoing is true, accurate and complete as of the date indicated below, and that the information reflected in this Borrowing Base Certificate complies with the representations and warranties set forth in the Loan Agreement between the undersigned and RBC Centura Bank.

Portfolio Recovery Associates, Inc.

By: _____

EXHIBIT E

Customer No.
Loan No.

RBC Centura

COMPLIANCE CERTIFICATE

TO: RBC CENTURA BANK

FROM: PORTFOLIO RECOVERY ASSOCIATES, INC.

The undersigned authorized officer of Portfolio Recovery Associates, Inc. ("Borrower") hereby certifies that in accordance with the terms and conditions of the Loan Agreement between Borrower and Bank dated November 28, 2003 (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all covenants set forth in the Agreement, except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true, correct and accurate as of the date hereof. Attached herewith are the required documents supporting the above certification. The undersigned authorized officer further certifies that this Compliance Certificate and any supporting financial documents have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes — or unless otherwise permitted in the Agreement. Reference is made to the Agreement for the relevant meanings of the reporting requirements and covenants which are stated below in a "short-hand" manner.

Please indicate compliance status by circling Yes/No under "Complies" column.

<u>Reporting Covenant</u>	<u>Re required</u>	<u>Com lies</u>	
Monthly financial statements	Monthly within 15 days	Yes	No
Quarterly audits of Net Financed Balances	Quarterly within 15 days	Yes	No
Annual financial statements (Audited)	FYE within 120 days	Yes	No
10K and 10Q	As applicable	Yes	No
Borrowing Base Cert. — Estimated Remaining Collections	Monthly within 15 days	Yes	No

(Continued on Next Page)

Compliance Certificate
(Continued from Previous Page)
Required

Financial Covenant				Actual			Complies	
Debt Coverage	8.0	to	1		to	Yes	No	
Debt to Tangible Net Worth	0.40	to	1		to	Yes	No	
Minimum Net Income	\$1.00			\$		Yes	No	

(Continued on Next Page)

Compliance Certificate

Comments Regarding Exceptions: See Attached.

Authorized Signatory of Borrower

Title

Date

RANK USE ONLY

Received by: _____

Authorized Signer

Date: _____

Verified: _____

Authorized Signer

(Continued from Previous Page)

Exhibit 10.8

Customer No.
Loan No.

RBC Centura

**Commercial Promissory Note
(SD-L&S)**

\$25,000,000

Norfolk, Virginia

Master Note

November 28, 2003

FOR VALUE RECEIVED, the undersigned (whether one or more, "Borrower") promises to pay to RBC CENTURA BANK ("Bank"), or order, the sum of Twenty-five Million Dollars (\$25,000,000), or so much thereof as shall have been disbursed from time to time and remains unpaid, together with interest at the rate and payable in the manner hereinafter stated. Principal and interest shall be payable at any banking office of Bank in the city or town indicated above, or such other place as the holder of this Note may designate.

Article I. Interest Rate.

Section 1.1. Rate of Accrual. Interest will accrue on the unpaid principal balance at the rate set forth in **Section 1.2.1.** until maturity of this Note, whether such maturity occurs by acceleration or on the Maturity Date; and, at Bank's option, interest at the foregoing rate will accrue on any unpaid interest before such maturity. Interest will accrue on any unpaid balance owing under this Note, whether principal, interest, fees, premiums, charges or costs and expenses, after maturity at the rate set forth in **Section 1.2.2.** All accrual rates of interest under this Note will be contract rates of interest, whether a pre-default rate or a default rate, and references to contract rates in any loan documents executed and delivered by Borrower or others to Bank in connection with this Note shall be to such contract rates.

Section 1.2. Interest Rates.

1.2.1. Pre-Default Rate. Subject to the provisions of **Section 1.2.2.** below, interest payable on this Note per annum will accrue at a variable rate equal to the LIBOR Base Rate plus 2.50%. The "LIBOR Base Rate" is the London Interbank Offer Rate for United States 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. The rate for the first month or part thereof will initially become effective on the date of the Note as shown on the face 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, then 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 the Bank's sole discretion. Bank's determination of such interest rate shall be conclusive, absent manifest error.

1.2.2. Default Rate. Upon the nonpayment of any payment of interest described herein, Bank, at its option and without accelerating this Note, may accrue interest on such unpaid interest at a rate per annum ("Default Rate") equal to the lesser of the maximum contract rate of interest that may be charged to and collected from Borrower on the loan evidenced by this Note under applicable law or five percent (5.0%) plus the pre-default interest rate otherwise applicable hereunder, as set forth in **Section 1.2.1.** After maturity of this Note, whether by acceleration or otherwise, interest will accrue on the unpaid principal of this Note, any accrued but unpaid interest

and all fees, premiums, charges and costs and expenses owing hereunder at the Default Rate until this Note is paid in full, whether this Note is paid in full pre-judgement or post-judgement.

1.2.3. Variable Rate; Calculation of Interest.

1.2.3.1. Variable Rate. This is a variable rate note. Any change in the rate of interest payable under this Note will equal the change in the variable rate index to which such rate is tied, but the rate at which interest accrues under this Note shall never exceed the maximum contract rate which may be charged to and collected from Borrower on the loan evidenced by this Note under applicable law. Bank shall have no obligation to notify Borrower of adjustments in the rate of interest payable under this Note. Adjustments to the rate of interest will be effective on the first day of the calendar month next following any change in the variable rate index, with the rate being adjusted to reflect the most recent change in the variable rate index.

1.2.3.2. Calculation of Interest. All interest payable under this Note shall be calculated monthly and will accrue daily on the basis of the actual number of days elapsed and a year of three hundred sixty (360) days. In computing the number of days during which interest accrues, the day on which funds are initially advanced shall be included regardless of the time of day such advance is made, and the day on which funds are repaid shall be included unless repayment is credited prior to close of business. Payments in federal funds, immediately available in the place designated for payment, received by Bank prior to 2:00 p.m. local time at said place of payment, shall be credited as if received prior to close of business on the day the funds are immediately available; while other payments, at the option of Bank, may not be credited until such payments are immediately available to Bank, in federal funds, in the place designated for payment, prior to 2:00 p.m. local time at said place of payment on a day on which Bank is open for business.

Article II. Payment Terms.

Section 2.1. Interest Payment Terms. Payments under this Note include an interest component and a principal component. The principal component is set forth in **Section 2.2** below. The interest component shall be paid as follows: interest shall be payable monthly, in arrears, beginning January 1, 2004 and continuing on the same calendar day of each consecutive month thereafter until the Maturity Date, when all accrued but unpaid interest is due and payable in full.

Section 2.2. Principal Payment Terms; Maturity Date. As stated in **Section 2.1** above, payments under this Note include an interest component and a principal component. The interest component is set forth in **Section 2.1** above. The principal component shall be paid as follows: principal shall be payable in one single payment on November 28, 2005 (herein referred to as the "Maturity Date"). The Maturity Date may be extended by the Bank as follows: Bank shall review the Maturity Date annually, and shall notify Borrower on or before each anniversary of this Note only if it intends to extend the Maturity Date to a date which is one year beyond the then current Maturity Date.

Section 2.3. Prepayment. This Note may be prepaid in whole, or in part at any time without any prepayment premium.

Section 2.4. Application of Payments. All payments made on this Note shall be applied first to payment of all late fees, charges, premiums and costs and expenses due but unpaid under this Note, then to accrued but unpaid interest and finally to principal, in the inverse order of the payment dates therefor, unless Bank determines in its sole discretion to apply payments in a different order or applicable law requires a different application of payments. The partial prepayment of this Note, if permitted, shall not result in a payment holiday or any other deferral of any regularly scheduled payments under this Note, all of which shall be made as and when the same are scheduled to be paid.

Article III. Loan Agreement and Security.

Section 3.1. Loan Agreement. Borrower and Bank have entered into a loan and security agreement of even date herewith (“Loan and Security Agreement”). Borrower shall perform and abide by, as and when so required, each and all of the covenants, terms and conditions imposed upon or applicable to Borrower in the Loan and Security Agreement and all security documents and other agreements referenced in the Loan and Security Agreement.

Section 3.2. Security Documents. This Note is secured by (1) the Loan and Security Agreement, (2) the security documents and other supporting obligations identified in the Loan and Security Agreement, (3) the security documents and other supporting obligations which reference that they secure this Note or the Loan and Security Agreement, (4) any security documents and other supporting obligations which reference that they secure all indebtedness or other obligations owing from time to time by Borrower to Bank, and (5) any security documents and other supporting obligations which reference that they secure all indebtedness from time to time owing from Borrower to Bank other than consumer credit as defined under the Federal Reserve Board’s Regulation Z (Truth-in-Lending) (12 CFR 226 et seq.) (“security documents”).

Article IV. Default and Acceleration.

Section 4.1. Late Charges and Expenses. Borrower agrees to pay, upon demand by Bank, or if demand is not sooner made, on maturity of this Note, whether such maturity occurs by acceleration or on the Maturity Date, for each payment past due for fifteen (15) or more calendar days, a late charge in an amount equal to the lesser of (1) four percent (4%) of the amount of the payment past due or (2) the maximum percentage of the payment past due permitted by applicable law, or the maximum amount if not expressed as a percentage. If this Note is not paid in full whenever it becomes due and payable, Borrower agrees to pay all costs and expenses of collection, including reasonable attorneys’ fees. The Borrower hereby stipulates that reasonable attorneys’ fees shall be fifteen percent (15%) of the outstanding balance (principal, interest, fees, premiums, charges and costs and expenses) owing under this Note after default and, if applicable law prohibits payment of attorneys’ fees when collection is through an attorney who is a salaried employee of Bank, referral to an attorney not a salaried employee of the Bank.

Section 4.2. Default. Any one or more of the following shall constitute an event of default (“Event of Default”) under this Note: (1) the failure of Borrower to make when due any payment described herein, whether of principal, interest or otherwise; (2) the failure of Borrower to perform any of the other terms and conditions of this Note or any of the terms and conditions of the Loan and Security Agreement or the other security documents executed and delivered by Borrower to Bank, or to another person for Bank’s benefit, as and when the same are required to be so performed, or the occurrence of some other default by Borrower under this Note, the Loan and Security Agreement or any of the other security documents; (3) the failure of any other person obligated for the payment of this Note, either directly or indirectly, or obligated under the Loan and Security Agreement or any of the other security documents to perform any of the terms and conditions imposed upon such other person by any of said agreements or documents, as and when the same are required to be so performed, or the occurrence of some other default by such other person under any of said agreements or security documents; (4) the application for the appointment of a receiver for Borrower or the filing of a petition under any provisions of the United States Bankruptcy Code or other state or federal insolvency proceeding by or against Borrower or any assignment for the benefit of creditors by or against Borrower; (5) if Borrower is an individual, Borrower’s death, physical disability or mental incompetency, and if Borrower is not an individual, the dissolution, termination of existence, merger or change in control of or in Borrower; (6) the failure of Borrower to furnish from time to time, at Bank’s request, financial information with respect to Borrower; (7) the occurrence, in Bank’s opinion, of a material adverse change in Borrower’s business or financial condition, or if, in Bank’s opinion, there is an impairment of the prospect of repayment of any portion of this Note or an impairment of the value or priority of Bank’s security interests in any collateral securing repayment of this Note; (8) the failure of Borrower to perform or other default by Borrower under any other now existing or hereafter arising monetary or non-monetary obligation due, owing or otherwise required to be performed or observed by Borrower to or in favor of Bank, or if Borrower is not an individual, default by any subsidiary of Borrower under any indebtedness or other obligation now or hereafter owing by such subsidiary to Bank; or (9) the termination of any guaranty agreement or other supporting obligation (inclusive of letters of credit) which applies to this Note or any other security document which applies to this Note.

Section 4.3. Acceleration. Upon the occurrence of an Event of Default, or the occurrence of an event which, with the giving of notice or a lapse of time, or both, would become an Event of Default under this Note, (1) the entire unpaid principal balance of this Note, together with all other amounts owing and all other amounts to be owing under this Note, shall, at the option of Bank, become immediately due and payable, without notice or demand, and (2) the Bank may, both before and after acceleration, exercise any of and all of its other rights and remedies under this Note and the other loan documents, as well as any additional rights and remedies it may have at law and it may have in equity, to recover full payment of the balance (principal, interest, fees, premiums, charges and costs and expenses) owing under this Note. The failure by Bank to exercise any of its options shall not constitute a waiver of the right to exercise same in the event of any subsequent default.

Article V. Miscellaneous.

Section 5.1. Use and Application of Terms. To the end of achieving the full realization by Bank of its rights and remedies under this Note, including payment in full of the loan evidenced hereby, in using and applying the various terms, provisions and conditions in this Note, the following shall apply: (1) words in the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular numbered meaning include the plural number, and vice versa; (2) words importing persons include firms, companies, associations, general partnerships, limited partnerships, limited liability partnerships, limited liability limited partnerships, limited liability companies, trusts, business trusts, corporations and legal entities, including public and quasi-public bodies, as well as individuals; (3) the term "Note" refers to this Commercial Promissory Note, the term "loan document" refers to this Note, the Loan and Security Agreement and any security documents and other documents and agreements executed and delivered to Bank or others on Bank's behalf in connection with this Note, and the term "Borrower" refers to all signatories of this Note collectively and severally, as the context of this Note requires, and all signatories of this Note shall be and the same are jointly and severally liable hereunder; (4) as the context requires, the word "and" may have a joint meaning or a several meaning and the word "or" may have an inclusive meaning or an exclusive meaning; (5) the term "subsidiary" means any registered organization or other organization (i) the majority (by number of votes) of the outstanding voting interests of which is at the time owned or controlled by Borrower, or by one or more subsidiaries of Borrower, or Borrower and one or more subsidiaries of Borrower, or (ii) otherwise controlled by or within the control of Borrower or any subsidiary; (6) the Commitment Letter and the other loan documents shall be applied and construed in harmony with each other to the end that Bank is ensured repayment of the loan evidenced by this Note in accordance with the terms of this Note and such other loan documents, and this Note and the other loan documents shall not be applied, interpreted and construed more strictly against a person because that person or that person's attorney drafted this Note or any of the other loan documents; (7) Bank does not intend to and shall not reserve, charge or collect interest, fees or charges hereunder in excess of the maximum rates or amounts permitted by applicable law and if any interest, fees or charges are reserved, charged or collected in excess of the maximum rates or amounts, it shall be construed as a mutual mistake, appropriate adjustments shall be made by Bank and to the extent paid, the excess shall be returned to the person making such a payment; and (8) wherever possible each provision of this Note shall be interpreted and applied in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited or invalid under such law, or the application thereof shall be prohibited or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Note, or the application thereof shall be in a manner and to an extent permissible under applicable law.

Section 5.2. Documentary and Intangibles Taxes. To the extent not prohibited by law and notwithstanding who is liable for payment of the taxes and fees, Borrower shall pay, on Bank's demand, all intangible personal property taxes, documentary stamp taxes, excise taxes and other similar taxes assessed, charged or required to be paid in connection with the loan evidenced by this Note, or any extension, renewal or modification of such loan, or assessed, charged or required to be paid in connection with any of the loan documents.

Section 5.3. Maintenance of Records by Bank. Bank is authorized to maintain, store and otherwise retain the loan documents in their original, inscribed tangible forms or records thereof in an electronic medium or other non-tangible medium which permits such records to be retrieved in perceivable forms.

Section 5.4. Right of Set-off, Recoupment. Upon the occurrence of an Event of Default, or the occurrence of an event which, with the giving of notice or a lapse of time, or both, would become an Event of Default under this Note, or upon demand by Bank for payment of this Note, Bank is authorized and empowered to apply to the payment hereof, any and all money deposited in Bank in the name of or to the credit of Borrower, without advance notice, and is authorized to offset any obligation of Bank to Borrower to the payment hereof and is authorized to exercise its rights of recoupment relative to Borrower.

Section 5.5. Waiver. Borrower waives presentment, demand, protest and notice of dishonor, waives any rights which it may have to require Bank to proceed against any other person or property, agrees that without notice to any person and without affecting any person's liability under this Note, Bank, at any time or times, may grant extensions of the time for payment or other indulgences to any person or permit the renewal, amendment or modification of this Note or any other agreement executed and delivered by any person in connection with this Note, or permit the substitution, exchange or release of any security for this Note and may add or release any person primarily or secondarily liable, and agrees that Bank may apply all moneys made available to it from any part of the proceeds from the disposition of any security for this Note either to this Note or to any other obligation of Borrower to Bank, as Bank may elect from time to time. No act or inaction of Bank under this Note shall be deemed to constitute or establish a "course of performance or dealing" that would require Bank to so act or refrain from acting in any particular manner at a later time under similar or dissimilar circumstances.

Section 5.6. Jury and Jurisdiction. This Note shall be deemed to have been executed and delivered in the Commonwealth of Virginia regardless of where the signatories may be located at the time of execution and shall be governed by and construed in accordance with the substantive laws of the Commonwealth of Virginia, excluding, however, the conflict of law and choice of law provisions thereof. **Borrower, to the extent permitted by law, waives any right to a trial by jury in any action arising from or related to this Note.**

Section 5.7. Successors and Assigns. This Note shall apply to and bind Borrower's and Bank's heirs, personal representatives, successors and assigns. All references in this Note to Bank shall include the holder hereof and this Note shall inure to the benefit of any holder, its successors and assigns; and, Borrower waives and will not assert against any transferee or assignee of this Note any claims, defenses, set-offs or rights of recoupment which Borrower could assert against Bank, except defenses which Borrower cannot waive. Borrower acknowledges that Customer Numbers and Loan Numbers may be added to this Note after execution and delivery of this Note by Borrower and if there is a section denoted "BANK USE ONLY", the information under such section may also be completed by Bank after execution and delivery of this Note. In addition, in the event the date of this Note is omitted, Borrower consents to Bank inserting the date.

Section 5.8. Master Note. If this Note is designated herein as a MASTER NOTE or is denoted on Bank's records as a MASTER NOTE, then this Note evidences a line of credit and Borrower shall be liable for only so much of the principal amount as shall be equal to the total of the amounts advanced to or for Borrower by Bank from time to time, less all payments made by or for Borrower and applied by Bank to principal, and for interest on each such advance, fees, premiums, charges and costs and expenses incurred or due hereunder, all as shown on Bank's books and records which shall be conclusive evidence of the amount owed by Borrower under this Note, absent a clear and convincing showing of bad faith or manifest error. If this is a MASTER NOTE, on demand for payment of this Note, in whole or in part or upon the occurrence of an Event of Default or the occurrence of an event which, with the giving of notice or a lapse of time, or both, would become an Event of Default under this Note, in addition to its other rights and remedies, Bank may terminate or suspend Borrower's right to receive any future or additional advances under this Note and the other loan documents.

(Signatures Begin on the Next Page)

Exhibit 31.1

I, Steven D. Fredrickson, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 1) of PORTFOLIO RECOVERY ASSOCIATES, INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Reserved;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2004

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

I, Kevin P. Stevenson, certify that:

1. I have reviewed this annual report on Form 10-K of PORTFOLIO RECOVERY ASSOCIATES, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Reserved;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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: March 29, 2004

By: /s/ Kevin P. Stevenson _____
Kevin P. Stevenson
Chief Financial Officer, Executive Vice President,
Treasurer and Assistant Secretary
(Principal Financial and Accounting 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 Annual Report of Portfolio Recovery Associates, Inc. (the "Company") on Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 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: March 29, 2004

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

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

In connection with the Annual Report of Portfolio Recovery Associates, Inc. (the "Company") on Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin P. Stevenson, Chief Financial Officer, Executive Vice President, Treasurer and Assistant Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 29, 2004

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