

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

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

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

PART I

Item 1. Business.

General

Portfolio Recovery Associates, Inc., together with its subsidiaries (collectively, the "Company"), is a full-service provider of outsourced receivables management. The Company purchases, collects and manages portfolios of defaulted consumer receivables. Defaulted consumer receivables are the unpaid obligations of individuals to credit originators, including banks, credit unions, consumer and auto finance companies, retail merchants and other providers of goods and services. The defaulted consumer receivables the Company collects are generally either purchased from sellers of defaulted consumer debt ("Debt Sellers") or are collected on behalf of debt owners on a commission fee basis.

The Company uses the following terminology throughout its reports. "Cash Receipts" refers to all collections of cash, regardless of the source. "Cash Collections" refers to collections on the Company's owned portfolios only, exclusive of commission income and sales of finance receivables. "Cash Sales of Finance Receivables" refers to the sales of the Company's owned portfolios. "Commissions" refers to fee income generated from the Company's wholly-owned contingent fee subsidiary. Prior to the Company's initial public offering on November 8, 2002, the Company was organized as a limited liability company with all income taxes charged to the partners of the partnership. Pro forma adjustments have been made to show the impact of corporate taxes for all periods prior to the Company's conversion to a corporation.

The Company specializes in receivables that have been charged-off by the credit originator. Since the Debt Seller has unsuccessfully attempted to collect these receivables, the Company is able to purchase them at a substantial discount to their face value. From its 1996 inception through December 31, 2003, the Company acquired 417 portfolios with a face value of \$7.78 billion for \$204.6 million, or 2.63% of face value, representing more than 4.1 million customer accounts. The success of the Company depends on its ability to purchase

portfolios of defaulted consumer receivables at appropriate valuations and to collect on those receivables effectively and efficiently. To date, the Company has consistently been able to collect at a rate of 2.5 to 3.0 times its purchase price for defaulted consumer receivables portfolios, as measured over a five to seven year period, which has enabled the Company to generate increasing profits and positive cash flow.

The Company has achieved strong financial results since its formation, with cash collections growing from \$10.9 million in 1998 to \$117.1 million in 2003. Total revenue has grown from \$6.8 million in 1998 to \$84.9 million in 2003, a compound annual growth rate of 66%. Similarly, pro forma net income has grown from \$402,000 in 1998 to net income of \$20.7 million in 2003. Excluding the impact of proceeds from occasional portfolio sales, cash collections have increased every quarter since the Company's formation.

The Company was initially formed as Portfolio Recovery Associates, L.L.C., a Delaware limited liability company, on March 20, 1996. Prior to the formation of the Company, founding members of the management team played key roles in the development of a defaulted consumer receivables acquisition and divestiture operation for Household Recovery Services, a subsidiary of Household International. In connection with an initial public offering, which commenced on November 8, 2002 (the "IPO"), all of the membership units of Portfolio Recovery Associates, L.L.C. were exchanged, simultaneously with the effectiveness of the Company's registration statement, for a single class of the common stock of Portfolio Recovery Associates, Inc., a new Delaware corporation formed on August 7, 2002. Accordingly, the members of Portfolio Recovery Associates, L.L.C. became the common stockholders of Portfolio Recovery Associates, Inc., which became the parent company of Portfolio Recovery Associates, L.L.C. and its subsidiaries.

Shares of common stock that were received in exchange for the membership interests of Portfolio Recovery Associates, L.L.C. as a result of this reorganization, which were not registered by the Company's initial public offering were deemed to have a new "holding period" for purposes of Rule 144 under the Securities Act of 1933, as amended, and therefore could not be sold before November 6, 2003 unless registered under the Securities Act of 1933, as amended, or sold under an available exemption from registration, as in an organized stock offering. The "holding period" with respect to these shares has expired; therefore, these shares may now be traded pursuant to Rule 144, which imposes certain limitations on the manner of sale, notice requirements and the availability of the Company's current public information.

A secondary offering of shares of common stock of the Company was completed on May 21, 2003, in which 4,025,000 shares were sold. After this transaction, the holders of 6,865,261 shares of the Company's common stock which were not sold in the secondary offering agreed to a 180-day "lock-up" with respect to these shares. This generally means that holders of these shares were unable sell these shares during the 180 days following the date of the prospectus, or until November 21, 2003. These shares may now be sold in accordance with the provisions of the federal securities laws, including Rule 144.

Competitive Strengths

Complete Outsourced Solution for Debt Owners

The Company offers debt owners a complete outsourced solution to address their defaulted consumer receivables. Depending on a debt owner's timing and needs, the Company can either purchase from the debt owner their defaulted consumer receivables, providing immediate cash, or service those receivables on their behalf for a commission fee based on a percentage of its collections. Furthermore, the Company can purchase or service receivables throughout the entire delinquency cycle, from receivables that have only been processed for collection internally by the debt owner to receivables that have been subject to multiple external collection efforts. This flexibility helps the Company meet the needs of debt owners and allows it to become a trusted resource. Furthermore, the Company's strength across multiple transaction and asset types provides the opportunity to cross-sell its services to debt owners, building on successful engagements.

Disciplined and Proprietary Underwriting Process

One of the key components of the Company's growth has been its ability to price portfolio acquisitions at levels that have generated profitable returns on investment. To date, the Company has consistently been able to collect at a rate of 2.5 to 3.0 times its purchase price for defaulted consumer receivables portfolios, as measured

over a five to seven year period, which has enabled the Company to generate increasing profits and cash flow. In order to price portfolios and forecast the targeted collection results for a portfolio, the Company uses two separate statistical models developed internally that are often supplemented with on-site due diligence of the Debt Seller's collection process and loan files. One model analyzes the portfolio as one unit based on demographic comparisons while the second model analyzes each account in a portfolio using variables in a regression analysis. As the Company collects on its portfolios, the results are input back into the models in an ongoing process which the Company believes increases their accuracy. Through December 31, 2003 the Company has acquired 417 portfolios with a face value of \$7.78 billion.

Ability to Hire, Develop and Retain Productive Collectors

In an industry characterized by high turnover, the Company's ability to hire, develop and retain effective collectors is a key to its continued growth and profitability. The Company has found that tenure is a primary driver of its collector effectiveness. The Company offers its collectors a competitive wage with the opportunity to receive unlimited incentive compensation based on performance, as well as an attractive benefits package, a comfortable working environment and the ability to work on a flexible schedule. Stock options were awarded to many of the Company's collectors at the time of the IPO in 2002. The Company has a comprehensive six week training program for new collectors and provides continuing advanced training classes which are conducted in its four training centers. Recognizing the demands of the job, the Company's management has endeavored to create a professional and supportive environment for collectors. Furthermore, several large military bases and numerous telemarketing, customer service and reservation phone centers are located near the Company's headquarters and regional offices in Virginia, providing access to a large pool of trained personnel. The Company has also found the Hutchinson, Kansas area to provide a sufficient potential workforce of trained personnel.

Established Systems and Infrastructure

The Company has devoted significant effort to developing its systems, including statistical models, databases and reporting packages, to optimize its portfolio purchases and collection efforts. In addition, the Company's technology infrastructure is flexible, secure, reliable and redundant to ensure the protection of its sensitive data and to ensure minimal exposure to systems failure or unauthorized access. The Company believes that its systems and infrastructure give it meaningful advantages over its competitors. The Company has developed financial models and systems for pricing portfolio acquisitions, managing the collections process and monitoring operating results. The Company performs a static pool analysis monthly on each of its portfolios, inputting actual results back into its acquisition models, to enhance their accuracy. The Company monitors collection results continuously, seeking to identify and resolve negative trends immediately. The Company's comprehensive management reporting package is designed to fully inform the Company's management team so that it may make timely operating decisions. This combination of hardware, software and proprietary modeling and systems has been developed by the Company's management team through years of experience in this industry and the Company believes provides it with an important competitive advantage from the acquisition process all the way through collection operations.

Strong Relationships with Major Credit Originators

The Company has done business with most of the top consumer lenders in the United States. The Company maintains an extensive marketing effort and its senior management team is in contact with known and prospective credit originators. The Company believes that it has earned a reputation as a reliable purchaser of defaulted consumer receivables portfolios and as responsible collectors. Furthermore, from the perspective of the selling credit originator, the failure to close on a negotiated sale of a portfolio consumes valuable time and expense and can have an adverse effect on pricing when the portfolio is re-marketed. The Company has never failed to close on a transaction. Similarly, if a credit originator sells a portfolio to a group that violates industry standard collecting practices, it can taint the reputation of the credit originator. The Company goes to great lengths to collect from consumers in a responsible, professional and compliant manner. The Company believes its strong relationships with major credit originators provide it with access to quality opportunities for portfolio purchases and contingent fee collection placements.

Experienced Management Team

The Company has an experienced management team with considerable expertise in the accounts receivable management industry. Prior to the Company's formation, the firm's founders played key roles in the development and management of a consumer receivables acquisition and divestiture operation of Household Recovery Services, a subsidiary of Household International. As the Company has grown, the management team has been expanded with a group of successful, seasoned executives.

Risks Related to the Company's Business

To the extent not described elsewhere in this Annual Report, the following are risks related to the Company's business.

The Company may not be able to collect sufficient amounts on its defaulted consumer receivables to fund its operations

The Company's business consists of acquiring and servicing receivables that consumers have failed to pay and that the Debt Sellers have deemed uncollectible. The Debt Sellers generally make numerous attempts to recover on their defaulted consumer receivables, often using a combination of in-house recovery efforts and third-party collection agencies. These defaulted consumer receivables are difficult to collect and the Company may not collect a sufficient amount to cover its investment associated with purchasing the defaulted consumer receivables and the costs of running its business.

The Company's contingent fee collections operations have a limited operating history

The Company's contingent fee collections operations commenced in March 2001. These operations are in the early stages of development. Accordingly, these operations have a limited operating history and their prospects must be considered in light of the risks and uncertainties facing early-stage companies. As of December 31, 2003, the Company has entered into contingent fee collection arrangements with 9 clients. Although the Company is currently generating positive operating income from its contingent fee collections operations, the Company's limited operating history makes prediction of future results difficult.

The Company may not be able to purchase defaulted consumer receivables at appropriate prices, and a decrease in its ability to purchase portfolios of receivables could adversely affect its ability to generate revenue

If one or more Debt Sellers stops selling defaulted receivables to the Company and it is otherwise unable to purchase defaulted receivables at appropriate prices, the Company could lose a potential source of income and its business may be harmed.

The availability of receivables portfolios at prices which generate an appropriate return on the Company's investment depends on a number of factors both within and outside of its control, including the following:

- the continuation of current growth trends in the levels of consumer obligations;
- sales of receivables portfolios by Debt Sellers; and
- competitive factors affecting potential purchasers and Debt Sellers of receivables.

Because of the length of time involved in collecting defaulted consumer receivables on acquired portfolios and the volatility in the timing of the Company's collections, the Company may not be able to identify trends and make changes in its purchasing strategies in a timely manner.

The Company experiences high employee turnover rates and it may not be able to hire and retain enough sufficiently trained employees to support its operations

The accounts receivable management industry is very labor intensive and, similar to other companies in the Company's industry, the Company typically experiences a high rate of employee turnover. The Company's

annual turnover rate, excluding those employees that do not complete its six week training program, was 37% in 2003. The Company competes for qualified personnel with companies in its industry and in other industries. The Company's growth requires that it continually hire and train new collectors. A higher turnover rate among its collectors will increase the Company's recruiting and training costs and limit the number of experienced collection personnel available to service its defaulted consumer receivables. If this were to occur, the Company would not be able to service its defaulted consumer receivables effectively and this would reduce its ability to continue its growth and operate profitability.

The Company serves markets that are highly competitive, and it may be unable to compete with businesses that may have greater resources than it has

The Company faces competition in both of the markets it serves — owned portfolio and contingent fee accounts receivable management — from new and existing providers of outsourced receivables management services, including other purchasers of defaulted consumer receivables portfolios, third-party contingent fee collection agencies and debt sellers that manage their own defaulted consumer receivables rather than outsourcing them. The accounts receivable management industry is highly fragmented and competitive, consisting of approximately 6,000 consumer and commercial agencies, most of which compete in the contingent fee business.

The Company faces bidding competition in its acquisition of defaulted consumer receivables and in its placement of contingent fee receivables, and the Company also competes on the basis of reputation, industry experience and performance. Some of the Company's current competitors and possible new competitors may have substantially greater financial, personnel and other resources, greater adaptability to changing market needs, longer operating histories and more established relationships in its industry than it currently has. In the future, the Company may not have the resources or ability to compete successfully. As there are few significant barriers for entry to new providers of contingent fee receivables management services, there can be no assurance that additional competitors with greater resources than the Company's will not enter its market. Moreover, there can be no assurance that the Company's existing or potential clients will continue to outsource their defaulted consumer receivables at recent levels or at all, or that it may continue to offer competitive bids for defaulted consumer receivables portfolios. If the Company is unable to develop and expand its business or adapt to changing market needs as well as its current or future competitors are able to do, the Company may experience reduced access to defaulted consumer receivables portfolios at appropriate prices and reduced profitability.

The Company may not be successful at acquiring receivables of new asset types or in implementing a new pricing structure

The Company may pursue the acquisition of receivables portfolios of asset types in which it has little current experience. The Company may not be successful in completing any acquisitions of receivables of these asset types and its limited experience in these asset types may impair its ability to collect on these receivables. This may cause the Company to pay too much for these receivables and consequently it may not generate a profit from these receivables portfolio acquisitions.

In addition, the Company may in the future provide a service to debt owners in which debt owners will place consumer receivables with it for a specific period of time for a flat fee. This fee may be based on the number of collectors assigned to the collection of these receivables, the amount of receivables placed or other bases. The Company may not be successful in determining and implementing the appropriate pricing for this pricing structure, which may cause it to be unable to generate a profit from this business.

The Company's collections may decrease if bankruptcy filings increase

During times of economic recession, the amount of defaulted consumer receivables generally increases, which contributes to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings a debtor's assets may be sold to repay creditors, but since the defaulted consumer receivables the Company services are generally unsecured it often would not be able to collect on those receivables. The Company cannot ensure that its collection experience would not decline with an increase in bankruptcy filings. If the Company's actual collection experience with respect to a defaulted consumer receivables portfolio is significantly lower than it

projected when it purchased the portfolio, the Company's financial condition and results of operations could deteriorate.

The Company may make acquisitions that prove unsuccessful or strain or divert its resources

The Company intends to consider acquisitions of other companies in its industry that could complement its business, including the acquisition of entities offering greater access and expertise in other asset types and markets that the Company does not currently serve. The Company has little experience in completing acquisitions of other businesses, and it may not be able to successfully complete an acquisition. If the Company does acquire other businesses, it may not be able to successfully integrate these businesses with its own and the Company may be unable to maintain its standards, controls and policies. Further, acquisitions may place additional constraints on the Company's resources by diverting the attention of its management from other business concerns. Through acquisitions, the Company may enter markets in which it has no or limited experience. Moreover, any acquisition may result in a potentially dilutive issuance of equity securities, the incurrence of additional debt and amortization expenses of related intangible assets, all of which could reduce the Company's profitability and harm its business.

The Company may not be able to continually replace its defaulted consumer receivables with additional receivables portfolios sufficient to operate efficiently and profitably

To operate profitably, the Company must continually acquire and service a sufficient amount of defaulted consumer receivables to generate revenue that exceeds its expenses. Fixed costs such as salaries and lease or other facility costs constitute a significant portion of the Company's overhead and, if it does not continually replace the defaulted consumer receivables portfolios the Company services with additional portfolios, it may have to reduce the number of its collection personnel. The Company would then have to rehire collection staff as it obtains additional defaulted consumer receivables portfolios. These practices could lead to:

- low employee morale;
- fewer experienced employees;
- higher training costs;
- disruptions in the Company's operations;
- loss of efficiency; and
- excess costs associated with unused space in the Company's facilities.

Furthermore, heightened regulation of the credit card and consumer lending industry may result in decreased availability of credit to consumers, potentially leading to a future reduction in defaulted consumer receivables available for purchase from Debt Sellers. The Company cannot predict how its ability to identify and purchase receivables and the quality of those receivables would be affected if there is a shift in consumer lending practices, whether caused by changes in the regulations or accounting practices applicable to debt owners, a sustained economic downturn or otherwise.

The Company may not be able to manage its growth effectively

The Company has expanded significantly since its formation and intends to maintain its growth focus. However, the Company's growth will place additional demands on its resources and the Company cannot ensure that it will be able to manage its growth effectively. In order to successfully manage its growth, the Company may need to:

- expand and enhance its administrative infrastructure;
- continue to improve its management, financial and information systems and controls; and

- recruit, train, manage and retain its employees effectively.

Continued growth could place a strain on the Company's management, operations and financial resources. The Company cannot ensure that its infrastructure, facilities and personnel will be adequate to support its future operations or to effectively adapt to future growth. If the Company cannot manage its growth effectively, its results of operations may be adversely affected.

The Company's operations could suffer from telecommunications or technology downtime or increased costs

The Company's success depends in large part on sophisticated telecommunications and computer systems. The temporary or permanent loss of its computer and telecommunications equipment and software systems, through casualty or operating malfunction, could disrupt the Company's operations. In the normal course of its business, the Company must record and process significant amounts of data quickly and accurately to access, maintain and expand the databases it uses for its collection activities. Any failure of the Company's information systems or software and its backup systems would interrupt its business operations and harm its business. The Company's headquarters is located in a region that is susceptible to hurricane damage, which may increase the risk of disruption of information systems and telephone service for sustained periods.

Further, the Company's business depends heavily on services provided by various local and long distance telephone companies. A significant increase in telephone service costs or any significant interruption in telephone services could reduce its profitability or disrupt its operations and harm the Company's business.

The Company may not be able to successfully anticipate, manage or adopt technological advances within its industry

The Company's business relies on computer and telecommunications technologies and its ability to integrate these technologies into its business is essential to the Company's competitive position and its success. Computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. The Company may not be successful in anticipating, managing or adopting technological changes on a timely basis.

While the Company believes that its existing information systems are sufficient to meet its current demands and continued expansion, the Company's future growth may require additional investment in these systems. The Company depends on having the capital resources necessary to invest in new technologies to acquire and service defaulted consumer receivables. The Company cannot ensure that adequate capital resources will be available to it at the appropriate time.

The Company's senior management team is important to its continued success and the loss of one or more members of senior management could negatively affect the Company's operations

The loss of the services of one or more of the Company's key executive officers or key employees could disrupt its operations. The Company has employment agreements with Steve Fredrickson, its president, chief executive officer and chairman of its board of directors, Kevin Stevenson, the Company's executive vice president and chief financial officer, and most of its other senior executives. The current agreements contain non-compete provisions that survive termination of employment. However, these agreements do not and will not assure the continued services of these officers and the Company cannot ensure that the non-compete provisions will be enforceable. The Company's success depends on the continued service and performance of its key executive officers, and it cannot guarantee that it will be able to retain those individuals. The loss of the services of Mr. Fredrickson, Mr. Stevenson or one or more of the Company's other key executive officers could seriously impair its ability to continue to acquire or collect on defaulted consumer receivables and to manage and expand its business. The Company maintains key man life insurance on Steve Fredrickson.

The Company's ability to recover and enforce its defaulted consumer receivables may be limited under federal and state laws

Federal and state laws may limit the Company's ability to recover and enforce its defaulted consumer receivables regardless of any act or omission on its part. Some laws and regulations applicable to credit issuers may preclude the Company from collecting on defaulted consumer receivables it purchases if the credit

issuer previously failed to comply with applicable laws in generating or servicing those receivables. Collection laws and regulations also directly apply to the Company's business. Additional consumer protection and privacy protection laws may be enacted that would impose additional requirements on the enforcement of and collection on consumer credit receivables. Any new laws, rules or regulations that may be adopted, as well as existing consumer protection and privacy protection laws, may adversely affect the Company's ability to collect on its defaulted consumer receivables and may harm its business. In addition, federal and state governmental bodies are considering, and may consider in the future, other legislative proposals that would regulate the collection of the Company's defaulted consumer receivables. Although the Company cannot predict if or how any future legislation would impact its business, its failure to comply with any current or future laws or regulations applicable to it could limit its ability to collect on its defaulted consumer receivables, which could reduce its profitability and harm the Company's business.

The Company utilizes the interest method of revenue recognition for determining its income recognized on finance receivables, which is based on an analysis of projected cash flows that may prove to be less than anticipated and could lead to reductions in future revenues or impairment charges

The Company utilizes the interest method to determine income recognized on finance receivables. Under this method, each static pool of receivables it acquires is modeled upon its projected cash flows. A yield is then established which, when applied to the unamortized purchase price of the receivables, results in the recognition of income at a constant yield relative to the remaining balance in the pool of defaulted consumer receivables. Each static pool is analyzed monthly to assess the actual performance compared to that expected by the model. If differences are noted, the yield is adjusted prospectively to reflect the revised estimate of cash flows. If the accuracy of the modeling process deteriorates or there is a decline in anticipated cash flows, the Company would suffer reductions in future revenues or a decline in the carrying value of its receivables portfolios, which in either case would result in lower earnings in future periods and could negatively impact the Company's stock price.

Portfolio Acquisitions

The Company's portfolio of defaulted consumer receivables includes a diverse set of accounts that can be segmented by asset type, age and size of account, level of previous collection efforts and geography. To identify attractive buying opportunities, the Company maintains an extensive marketing effort with its senior officers contacting known and prospective sellers of defaulted consumer receivables. The Company acquires receivables of Visa®, MasterCard® and Discover® credit cards, private label credit cards, installment loans, lines of credit, deficiency balances of various types and legal judgments, all from a variety of Debt Sellers. These Debt Sellers include major banks, credit unions, consumer finance companies, telecommunication providers, retailers, other debt buyers and auto finance companies. In addition, the Company exhibits at trade shows, advertises in a variety of trade publications and attends industry events in an effort to develop account purchase opportunities. The Company also maintains active relationships with brokers of defaulted consumer receivables. The following chart categorizes the Company's life to date owned portfolios as of December 31, 2003 into the major asset types represented.

Asset Type	No. of Accounts	%	Life to Date Purchased Face Value of Defaulted Consumer Receivables		Finance Receivables, net as of December 31, 2003	
			\$	%	\$	%
Visa/MasterCard/Discover	1,229,349	29.9%	\$ 4,070,113,821	52.3%	\$ 47,660,466	51.5%
Consumer Finance	1,757,462	42.8%	1,666,699,152	21.4%	10,000,312	10.8%
Private Label Credit Cards	1,073,756	26.1%	1,746,593,273	22.5%	32,658,695	35.3%
Auto Deficiency	46,639	1.2%	294,980,546	3.8%	2,249,084	2.4%
Total:	4,107,206	100.0%	\$ 7,778,386,792	100.0%	\$ 92,568,557	100.0%

The Company has acquired portfolios at various price levels, depending on the age of the portfolio, its geographic distribution, its historical experience with a certain asset type or Debt Seller and similar factors. A typical defaulted consumer receivables portfolio ranges from \$5 to \$75 million in face value and contains defaulted consumer receivables from diverse geographic locations with average initial individual account balances of \$1,000 to \$7,000.

The age of a defaulted consumer receivables portfolio (i.e., the time since an account has been charged-off) is an important factor in determining the maximum price at which the Company will purchase a receivables portfolio. Generally, there is an inverse relationship between the age of a portfolio and the price that the Company will purchase the portfolio. This relationship is due to the fact that older receivables typically are more difficult to collect. The accounts receivables management industry places receivables into categories depending on the number of collection agencies that have previously attempted to collect on the receivables. Fresh accounts are typically past due 120 to 270 days and charged-off by the credit originator, that are either being sold prior to any post-charge-off collection activity or are placed with a third-party for the first time. These accounts typically sell for the highest purchase price. Primary accounts are typically 270 to 360 days past charge-off, have been previously placed with one contingent fee servicer and receive a lower purchase price. Secondary and tertiary accounts are typically more than 360 days past charge-off, have been placed with two or three contingent fee servicers and receive even lower purchase prices. As shown in the following chart, as of December 31, 2003, a majority of the Company's portfolios are secondary and tertiary accounts but it purchases or services accounts at any point in the delinquency cycle.

Account Type	No. of Accounts	%	Life to Date Purchased Face Value of Defaulted Consumer Receivables		Finance Receivables, net as of December 31, 2003	
				%		%
Fresh	150,181	3.7%	\$ 527,043,932	6.8%	\$ 6,672,515	7.2%
Primary	493,779	12.0%	1,810,169,993	23.2%	26,801,294	29.0%
Secondary	1,320,477	32.2%	2,838,382,673	36.5%	46,308,802	50.0%
Tertiary	1,927,410	46.9%	1,742,524,082	22.4%	10,186,908	11.0%
Other	215,359	5.2%	860,266,112	11.1%	2,599,038	2.8%
Total:	4,107,206	100.0%	\$ 7,778,386,792	100.0%	\$ 92,568,557	100.0%

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

As the following chart illustrates, as of December 31, 2003 the Company's overall life to date portfolio of defaulted consumer receivables is generally balanced geographically.

Geographic Distribution	No. of Accounts	%	Life to Date Purchased Face Value of Defaulted Consumer Receivables	%
Texas	1,232,971	30.00%	\$ 1,172,678,667	15%
California	340,759	9.00%	864,734,270	11%
Florida	247,210	6.00%	698,218,172	9%
New York	201,506	5.00%	626,331,533	8%
Pennsylvania	113,490	3.00%	298,085,983	4%
New Jersey	79,605	2.00%	241,965,371	3%
North Carolina	92,135	2.00%	240,237,212	3%
Illinois	93,038	3.00%	217,062,496	3%
Ohio	90,127	2.00%	212,717,950	3%
Georgia	79,781	2.00%	205,372,104	2%
Massachusetts	79,257	2.00%	202,126,143	2%
Michigan	75,430	2.00%	179,104,358	2%
Missouri	179,587	4.00%	163,950,494	2%
South Carolina	46,090	1.00%	141,260,687	2%
Arizona	49,794	1.00%	133,243,860	2%
Tennessee	56,071	1.00%	131,632,798	2%
Virginia	54,025	1.00%	129,127,204	2%
Maryland	45,896	1.00%	124,432,497	2%
Other	950,434	23.00%	1,796,104,993	23%(1)
Total:	4,107,206	100%	\$ 7,778,386,792	100%

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

Purchasing Process

The Company acquires portfolios from Debt Sellers through both an auction and a negotiated sale process. In an auction process, the Debt Seller will assemble a portfolio of receivables and seek purchase prices from specifically invited potential purchasers. In a privately negotiated sale process, the Debt Seller will contact known, reputable purchasers directly and negotiate the terms of sale. On a limited basis, the Company also acquires accounts in forward flow contracts. Under a forward flow contract, the Company agrees to purchase defaulted consumer receivables from a Debt Seller on a periodic basis, at a set percentage of face value of the receivables over a specified time period. These agreements typically have a provision requiring that the attributes of the receivables to be sold will not significantly change each month and that the Debt Seller's efforts to collect these receivables will not change. If this provision is not provided for, the contract will allow for the early termination of the forward flow contract by the purchaser. Forward flow contracts are a consistent source of defaulted consumer receivables for accounts receivables management providers and provide the Debt Sellers with a reliable source of revenue and a professional resolution of defaulted consumer receivables.

In a typical sale transaction, a Debt Seller distributes a computer disk or data tape containing 10 to 15 basic data fields on each receivables account in the portfolio offered for sale. Such fields typically include the consumer's name, address, outstanding balance, date of charge-off, date of last payment and the date the account was opened. The Company performs its initial due diligence on the portfolio by electronically cross-checking the data fields on the computer disk or data tape against the accounts in its owned portfolios and against national demographic and credit databases. The Company compiles a variety of portfolio level reports examining all demographic data available.

In order to determine a maximum purchase price for a portfolio, the Company uses two separate computer models developed internally that often are supplemented with on-site due diligence of the seller's collection operation and/or a review of their loan origination files, collection notes and work processes. The Company analyzes the portfolio using its proprietary multiple regression model, which analyzes each account of the portfolio using variables in the regression model. In addition, the Company analyzes the portfolio using an

adjustment model, which uses an appropriate cash flow model depending upon whether it is a purchase of fresh, primary, secondary or tertiary accounts. Then, adjustments can be made to the cash flow model to compensate for demographic attributes supported by a detailed analysis of demographic data. This process yields the Company's quantitative purchasing analysis used to help price transactions. The multiple regression model is also used to prioritize collection work efforts subsequent to purchase. With respect to prospective forward flow contracts and other long-term relationships, in addition to the procedures outlined above, the Company may obtain a representative test portfolio to evaluate and compare the performance of the portfolio to the projections the Company developed in its purchasing analysis.

The Company's due diligence and portfolio review results in a comprehensive analysis of the proposed portfolio. This analysis compares defaulted consumer receivables in the prospective portfolio with the Company's collection history in similar portfolios. The Company then uses its multiple regression model to value each account. Using the two valuation approaches, the Company determines cash collections over the life of the portfolio. The Company then summarizes all anticipated cash collections and associated direct expenses and projects a collectibility value expressed both in dollars and liquidation percentage and a detailed expense projection over the portfolio's estimated five to seven year economic life. The Company uses the total projected collectibility value to determine an appropriate purchase price.

The Company maintains detailed static pool analysis on each portfolio that it has acquired, capturing all demographic data and revenue and expense items for further analysis. The Company uses the static pool analysis to refine the underwriting models that it uses to price future portfolio purchases. The results of the static pool analysis are input back into the Company's models, increasing the accuracy of the models as the data set increases with every portfolio purchase and each day's collection efforts.

The quantitative and qualitative data derived in the Company's due diligence is evaluated together with its knowledge of the current defaulted consumer receivables market and any subjective factors that management may know about the portfolio or the Debt Seller. A portfolio acquisition approval memorandum is prepared for each prospective portfolio before a purchase price is submitted to the seller. This approval memorandum, which outlines the portfolio's anticipated collectibility and purchase structure, is distributed to members of the Company's investment committee. The approval by the committee sets a maximum purchase price for the portfolio. The investment committee is currently comprised of Steve Fredrickson, CEO and President, Kevin Stevenson, CFO and Craig Grube, EVP — Acquisitions.

Once a portfolio purchase has been approved by the Company's investment committee and the terms of the sale have been agreed to with the seller, the acquisition is documented in an agreement that contains customary terms and conditions. Provisions are incorporated for bankrupt, disputed, fraudulent or deceased accounts and typically, the seller either agrees to repurchase these accounts or replace them with acceptable replacement accounts within certain time frames.

Collection Operations

The Company's work flow management system places, recalls and prioritizes accounts in collectors' work queues, based on the Company's analyses of its accounts and other demographic, credit and prior work collection attributes. The Company uses this process to focus its work effort on those consumers most likely to pay on their accounts and to rotate to other collectors the non-paying accounts from which other collectors have been unsuccessful in receiving payment. The majority of the Company's collections occur as a result of telephone contact with consumers.

The collectibility forecast for a newly acquired portfolio will determine collection strategy. Accounts which are determined to have the highest predicted collectibility probability may be sent immediately to collectors' work queues. Less collectible accounts may be set aside as house accounts to be collected using a predictive dialer or other passive, low cost method. All newly purchased accounts are campaign dialed for a period of time for maximum penetration prior to distribution to collector queues. At such time, only those accounts with acceptable minimum scores are distributed to collection queues. The Company may obtain credit reports for the most collectible accounts after the collection process begins.

When a collector establishes contact with a consumer, the account information is placed automatically in the collector's work queue. The Company's computer system allows each collector to view all the scanned documents relating to the consumer's account, which can include the original account application and payment checks. A typical collector work queue may include 650 to 1,000 accounts or more, depending on the skill level of the collector. The work queue is depleted and replenished automatically by the Company's computerized work flow system.

On the initial contact call, the consumer is given a standardized presentation regarding the benefits of resolving his or her account with the Company. Emphasis is placed on determining the reason for the consumer's default in order to better assess the consumer's situation and create a plan for repayment. The collector is incentivized to have the consumer pay the full balance of the account. If the collector cannot obtain payment of the full balance, the collector will suggest a repayment plan which includes an approximate 20% down payment with the balance to be repaid over an agreed upon period. At times, when determined to be appropriate, and in many cases with management approval, a reduced lump-sum settlement may be agreed upon. If the consumer elects to utilize an installment plan, the Company has developed a system to make monthly withdrawals from a consumer's bank account.

If a collector is unable to establish contact with a consumer based on information received, the collector must undertake skip tracing procedures to develop important account information. Skip tracing is the process of developing new phone, address, job or asset information on a consumer. Each collector does his or her own skip tracing using a number of computer applications available at his or her workstation, as well as a series of automated skip tracing procedures implemented by the Company on a regular basis.

Accounts for which the consumer has the likely ability, but not the willingness to resolve their obligations, are reviewed for legal action. Depending on the balance of the defaulted consumer receivable and the applicable state collection laws, the Company determines whether to commence legal action to judicially collect on the receivable. The legal process can take an extended period of time, but it also generates cash collections that likely would not have been realized otherwise.

The Company's legal recovery department oversees and coordinates an independent nationwide collections attorney network which is responsible for the preparation and filing of judicial collection proceedings in multiple jurisdictions, determining the suit criteria, coordinating sales of property and instituting wage garnishments to satisfy judgments. This network consists of approximately 70 independent law firms who work on a contingent fee basis. The Company's legal department also processes proofs of claims for recovery on receivables which are included in consumer bankruptcies filed under Chapter 13 of the U.S. Bankruptcy Code, and submits claims against estates in cases involving deceased debtors having assets at the time of death. Legal cash collections currently constitute approximately 26% of the Company's total cash collections. As the Company's portfolio matures, a larger number of accounts will be directed to its legal recovery department for judicial collection; consequently, the Company anticipates that legal cash collections will grow commensurately and comprise a larger percentage of its total cash collections.

Contingent Fee Collections Operations

In order to provide debt owners with alternative collection solutions and to capitalize on common competencies between a contingent fee collections operation and an acquired receivables portfolio business, the Company commenced its third-party contingent fee collections operations in March 2001. In a contingent fee arrangement, debt owners typically place defaulted receivables with an outsourced provider once they have ceased their recovery efforts. The debt owners then pay the third-party agency a commission fee based upon the amount actually collected from the consumer. A contingent fee placement of defaulted consumer receivables is usually for a fixed time frame, typically four to six months, or as long as nine months or more if there have been previous collection efforts. At the end of this fixed period, the third-party agency will return the uncollected defaulted consumer receivables to the debt owner, which may then place the defaulted consumer receivables with another collection agency or sell the portfolio receivables.

The determination of the commission fee to be paid for third-party collections is generally based upon the potential collectibility of the defaulted consumer receivables being assigned for placement. For example, if there has been no prior third-party collection activity with respect to the defaulted consumer receivables, the

commission fee would be lower than if there had been one or more previous collection agencies attempting to collect on the receivables. The earlier the placement of defaulted consumer receivables in the collection process, the higher the probability of receiving a cash collection and, therefore, the lower the cost to collect and the lower the commission fee. Other factors, such as the location of the consumers, the size of the defaulted consumer receivables and the clients' collection procedures and work standards also contribute to establishing a commission fee.

Once a defaulted consumer receivable has been placed with the Company, the collection process operates in a slightly different manner than with its portfolio acquisition business. Servicing time limitations imposed by the debt owner requires a greater emphasis on immediate settlements and larger down payments, compared to much longer term repayment plans common with the Company's owned portfolios of defaulted consumer receivables. In addition, work standards are often dictated by the debt owner. While the Company's contingent fee collections operations utilize their own collectors and collection system, the Company has been able to leverage the portfolio acquisition business' infrastructure, existing facilities and skill set of its management team to provide support for this business operation. The leveraged competencies of the portfolio acquisition business include its sophisticated technology systems, account and portfolio scoring abilities, and training techniques.

Competition

The Company faces competition in both of the markets it serves — owned portfolio and contingent fee accounts receivable management — from new and existing providers of outsourced receivables management services, including other purchasers of defaulted consumer receivables portfolios, third-party contingent fee collection agencies and debt owners that manage their own defaulted consumer receivables rather than outsourcing them. The accounts receivable management industry (owned portfolio and contingent fee) is highly fragmented and competitive, consisting of approximately 6,000 consumer and commercial agencies. The Company estimates that more than 90% of these agencies compete in the contingent fee market. There are few significant barriers for entry to new providers of contingent fee receivables management services and, consequently, the number of agencies serving the contingent fee market may continue to grow. Greater capital needs and the need for portfolio evaluation expertise sufficient to price portfolios effectively constitute significant barriers for entry to new providers of owned portfolio receivables management services.

The Company faces bidding competition in its acquisition of defaulted consumer receivables and in obtaining placement of contingent fee receivables. The Company also competes on the basis of reputation, industry experience and performance. Among the positive factors which the Company believes influence its ability to compete effectively in this market are its ability to bid on portfolios at appropriate prices, its reputation from previous transactions regarding its ability to close transactions in a timely fashion, its relationships with originators of defaulted consumer receivables, its team of well-trained collectors who provide quality customer service and compliance with applicable collections laws, its ability to collect on various asset types and its ability to provide both purchased and contingent fee solutions to debt owners. Among the negative factors which the Company believes could influence its ability to compete effectively in this market are that some of its current competitors and possible new competitors may have substantially greater financial, personnel and other resources, greater adaptability to changing market needs, longer operating histories and more established relationships in its industry than the Company currently has.

Information Technology

Technology Operating Systems and Server Platform

The scalability of the Company's systems provides it with a technology system that is flexible, secure, reliable and redundant to ensure the protection of its sensitive data. The Company utilizes Intel-based servers running industry standard open systems coupled with Microsoft Windows 2000/2003 and NT Server operating systems. In addition, the Company utilizes a blend of purchased and proprietary software systems tailored to the needs of its business. These systems are designed to eliminate inefficiencies in the Company's collections, continue to meet business objectives in a changing environment and meet compliance obligations with regulatory entities. The Company believes that its combination of purchased and proprietary software packages provide collections automation that is superior to its competitors.

Network Technology

To provide delivery of the Company's applications, it utilizes Intel-based workstations across its entire business operations. The environment is configured to provide speeds of 100 megabytes to the desktops of its collections and administration staff. The Company's one gigabyte server network architecture supports high-speed data transport. The Company's network system is designed to be scalable and meet expansion and inter-building bandwidth and quality of service demands.

Database Systems

The ability to access and utilize data is essential to the Company being able to operate nationwide in a cost-effective manner. The Company's centralized computer-based information systems support the core processing functions of its business under a set of integrated databases and are designed to be both replicable and scalable to accommodate its internal growth. This integrated approach helps to assure that consistent sources are processed efficiently. The Company uses these systems for portfolio and client management, skip tracing, check taking, financial and management accounting, reporting, and planning and analysis. The systems also support the Company's consumers, including on-line access to account information, account status and payment entry. The Company uses a combination of Microsoft, Oracle and Cache database software to manage its portfolios, financial, customer and sales data, and the Company believes these systems will be sufficient for its needs for the foreseeable future. The Company's contingent fee collections operations database incorporates an integrated and proprietary predictive dialing platform used with its predictive dialer discussed below.

Redundancy, System Backup, Security and Disaster Recovery

The Company's data centers provide the infrastructure for innovative collection services and uninterrupted support of hardware and server management, server co-location and an all-inclusive server administration for its business. The Company believes its facilities and operations include sufficient redundancy, file back-up and security to ensure minimal exposure to systems failure or unauthorized access. The preparations in this area include the use of call centers in Virginia and in Kansas in order to help provide redundancy for data and processes should one site be completely disabled. The Company has a comprehensive disaster recovery plan covering its business that is tested on a periodic basis. The combination of the Company's locally distributed call control systems provides enterprise-wide call and data distribution between its call centers for efficient portfolio collection and business operations. In addition to real-time replication of data between the sites, incremental backups of both software and databases are performed on a daily basis and a full system backup is performed weekly. Backup data tapes are stored at an offsite location along with copies of schedules and production control procedures, procedures for recovery using an off-site data center, documentation and other critical information necessary for recovery and continued operation. The Company's Virginia headquarters has two separate power and telecommunications feeds, uninterruptible power supply and a diesel-generator power plant, that provide a level of redundancy should a power outage or interruption occur. The Company also employs rigorous physical and electronic security to protect its data. The Company's call centers have restricted card key access and appropriate additional physical security measures. Electronic protections include data encryption, firewalls and multi-level access controls.

Plasma Displays for Real Time Data Utilization

The Company utilizes plasma displays at its Virginia facilities to aid in recovery of portfolios. The displays provide real-time business-critical information to the Company's collection personnel for efficient collection efforts such as telephone, production, employee status, goal trending, training and corporate information.

Dialer Technology

The Noble Systems Predictive Dialer ensures that the Company's collection staff focuses on certain defaulted consumer receivables according to the Company's specifications. The Company's predictive dialer takes account of all campaign and dialing parameters and is able to constantly adjust its dialing pace to match changes in campaign conditions and provide the lowest possible wait times.

Employees

The Company employed 798 persons on a full-time basis, including 590 collectors on its owned portfolios and an additional 57 collectors working in its contingent fee collections operations, as of December 31, 2003. None of the Company's employees are represented by a union or covered by a collective bargaining agreement. The Company believes that its relations with its employees are good.

Hiring

The Company recognizes that its collectors are critical to the success of its business as a majority of the Company's collection efforts occur as a result of telephone contact with consumers. The Company has found that the tenure and productivity of its collectors are directly related. Therefore, attracting, hiring, training, retaining and motivating its collection personnel is a major focus for the Company. The Company pays its collectors competitive wages and offers employees a full benefits program which includes comprehensive medical coverage, short and long term disability, life insurance, dental and vision coverage, an employee assistance program, supplemental indemnity, cancer, hospitalization, accident insurance, a flexible spending account for child care, and a matching 401(k) program. In addition to a base wage, the Company provides collectors with the opportunity to receive unlimited compensation through an incentive compensation program that pays bonuses above a set monthly base, based upon each collector's collection results. This program is designed to ensure that employees are paid based not only on performance, but also on consistency. The Company has awarded stock options to many of the Company's tenured collectors. The Company believes that these practices have enabled it to achieve an annual post-training turnover rate of 37% in 2003.

A large number of telemarketing, customer-service and reservation phone centers are located near the Company's Virginia headquarters. The Company believes that it offers a higher base wage than many local employers and therefore has access to a large number of trained personnel. In addition, there are approximately 100,000 active-duty military personnel in the area. The Company employs numerous military spouses and retirees and finds them to be an excellent source of employees. The Company has also found the Hutchinson, Kansas area to provide a large potential workforce of trained personnel.

Training

The Company provides a comprehensive six-week training program for all new owned portfolio collectors. The first three weeks of the training program is comprised of lectures to learn collection techniques, state and federal collection laws, systems, negotiation skills, skip tracing and telephone use. These sessions are then followed by an additional three weeks of practical experience conducting live calls with additional managerial supervision in order to provide employees with confidence and guidance while still contributing to the Company's profitability. Each trainee must successfully pass a comprehensive examination before being assigned to the collection floor. In addition, the Company conducts continuing advanced classes in its four training centers. The Company's technology and systems allow it to monitor individual employees and then offer additional training in areas of deficiency to increase productivity.

Legal

Legal Recovery Department

An important component of the Company's collections effort involves its legal recovery department and the judicial collection of accounts of customers who have the ability, but not the willingness, to resolve their obligations. The Company's legal recovery department oversees and coordinates an independent nationwide attorney network which is responsible for the preparation and filing of judicial collection proceedings in multiple jurisdictions, determining the suit criteria, coordinating sales of property and instituting wage garnishments to satisfy judgments. This nationwide collections attorney network consists of approximately 70 independent law firms. The Company's legal recovery department also submits claims against estates in cases involving deceased debtors having assets at the time of death, and processes proofs of claims for recovery on accounts which are included in consumer bankruptcies filed under Chapter 13 of the U.S. Bankruptcy Code. Recent proposed amendments to federal bankruptcy laws, if passed, will very likely have an impact upon the Company's operations. The amendments, which, among other things, establish income criteria for the filing of a Chapter 7

bankruptcy petition, are expected to cause more debtors to file bankruptcy petitions under Chapter 13, rather than Chapter 7 of the U.S. Bankruptcy Code. Consequently, the Company expects that fewer debtors will be able to have their obligations completely discharged in Chapter 7 bankruptcy actions, and will instead enter into the payment plans required by Chapter 13. The Company expects that this will enable it to generate recoveries from a larger number of bankrupt debtors through the filing of proofs of claims with bankruptcy trustees.

Corporate Legal Department

The Company's corporate legal department manages general corporate legal matters, including litigation management, contract and document preparation and review, regulatory and statutory compliance, obtaining and maintaining multi-state licensing, bonding and insurance, and dispute and complaint resolution. As a part of its compliance functions, the Company's corporate legal department also assists with training the Company's staff. The Company provides employees with extensive training on the Fair Debt Collection Practices Act and other relevant laws and regulations. The Company's corporate legal department distributes guidelines and procedures for collection personnel to follow when communicating with a customer, customer's agents, attorneys and other parties during its recovery efforts. In addition, the Company's corporate legal department regularly researches, and provides collection personnel and the training department with summaries and updates of changes in federal and state statutes and relevant case law, so that they are aware of new laws and judicial interpretations of applicable requirements and laws when tracing or collecting an account.

Regulation

Federal and state statutes establish specific guidelines and procedures which debt collectors must follow when collecting consumer accounts. It is the Company's policy to comply with the provisions of all applicable federal laws and comparable state statutes in all of its recovery activities, even in circumstances in which it may not be specifically subject to these laws. The Company's failure to comply with these laws could have a material adverse effect on it in the event and to the extent that they apply to some or all of the Company's recovery activities. Federal and state consumer protection, privacy and related laws and regulations extensively regulate the relationship between debt collectors and debtors, and the relationship between customers and credit card issuers. Significant federal laws and regulations applicable to the Company's business as a debt collector include the following:

- *Fair Debt Collection Practices Act.* This act imposes certain obligations and restrictions on the practices of debt collectors, including specific restrictions regarding communications with consumer customers, including the time, place and manner of the communications. This act also gives consumers certain rights, including the right to dispute the validity of their obligations.

- *Fair Credit Reporting Act.* This act places certain requirements on credit information providers regarding verification of the accuracy of information provided to credit reporting agencies and investigating consumer disputes concerning the accuracy of such information. The Company provides information concerning its accounts to the three major credit reporting agencies, and it is the Company's practice to correctly report this information and to investigate credit reporting disputes.

- *Gramm-Leach-Bliley Act.* This act requires that certain financial institutions, including collection agencies, develop policies to protect the privacy of consumers' private financial information and provide notices to consumers advising them of their privacy policies. This act also requires that if private personal information concerning a consumer is shared with another unrelated institution, the consumer must be given an opportunity to opt out of having such information shared. Since the Company does not share consumer information with non-related entities, except as required by law, or except as needed to collect on the receivables, its consumers are not entitled to any opt-out rights under this act. This act is enforced by the Federal Trade Commission, which has retained exclusive jurisdiction over its enforcement, and does not afford a private cause of action to consumers who may wish to pursue legal action against a financial institution for violations of this act.

- *Electronic Funds Transfer Act.* This act regulates the use of the Automated Clearing House ("ACH") system to make electronic funds transfers. All ACH transactions must comply with the rules of the National Automated Check Clearing House Association ("NACHA") and Uniform Commercial Code § 3-402. This act, the NACHA regulations and the Uniform Commercial Code give the consumer, among other things, certain

privacy rights with respect to the transactions, the right to stop payments on a pre-approved fund transfer, and the right to receive certain documentation of the transaction. This act also gives consumers a right to sue institutions which cause financial damages as a result of their failure to comply with its provisions.

- *Telephone Consumer Protection Act.* In the process of collecting accounts, the Company uses automated predictive dialers to place calls to consumers. This act and similar state laws place certain restrictions on telemarketers and users of automated dialing equipment who place telephone calls to consumers.

- *U.S. Bankruptcy Code.* In order to prevent any collection activity with bankrupt debtors by creditors and collection agencies, the U.S. Bankruptcy Code provides for an automatic stay, which prohibits certain contacts with consumers after the filing of bankruptcy petitions.

Additionally, there are in some states statutes and regulations comparable to and in some cases more stringent than the above federal laws, and specific licensing requirements which affect the Company's operations. State laws may also limit credit account interest rates and the fees, as well as limit the time frame in which judicial actions may be initiated to enforce the collection of consumer accounts.

Although the Company is not a credit originator, some of these laws directed toward credit originators may occasionally affect its operations because its receivables were originated through credit transactions, such as the following laws, which apply principally to credit originators:

- Truth in Lending Act;
- Fair Credit Billing Act; and
- Equal Credit Opportunity Act.

Federal laws which regulate credit originators require, among other things, that credit issuers disclose to consumers the interest rates, fees, grace periods, and balance calculation methods associated with their credit accounts. Consumers are entitled under current laws to have payments and credits applied to their accounts promptly, to receive prescribed notices, and to require billing errors to be resolved promptly. Some laws prohibit discriminatory practices in connection with the extension of credit. Federal statutes further provide that, in some cases, consumers cannot be held liable for, or their liability is limited with respect to, charges to the credit account that were a result of an unauthorized use of credit. These laws, among others, may give consumers a legal cause of action against the Company, or may limit the Company's ability to recover amounts owing with respect to the receivables, whether or not it committed any wrongful act or omission in connection with the account. If the credit originator fails to comply with applicable statutes, rules and regulations, it could create claims and rights for consumers that could reduce or eliminate their obligations to repay the account, and have a possible material adverse effect on the Company. Accordingly, when the Company acquires defaulted consumer receivables, it contractually requires credit originators to indemnify it against any losses caused by their failure to comply with applicable statutes, rules and regulations relating to the receivables before they are sold to the Company.

The U.S. Congress and several states are currently in the process of enacting and amending legislation concerning identity theft. Additional consumer protection and privacy protection laws may be enacted that would impose additional requirements on the enforcement of and recovery on consumer credit card or installment accounts. Any new laws, rules or regulations that may be adopted or amended, as well as existing consumer protection and privacy protection laws, may adversely affect the Company's ability to recover the receivables. In addition, the Company's failure to comply with these requirements could adversely affect its ability to enforce the receivables.

The Company cannot ensure that some of the receivables were not established as a result of identity theft or unauthorized use of credit and, accordingly, the Company could not recover the amount of the defaulted consumer receivables. As a purchaser of defaulted consumer receivables, the Company may acquire receivables subject to legitimate defenses on the part of the consumer. The Company's account purchase contracts allow it to return to the Debt Seller certain defaulted consumer receivables that may not be collectible, due to these and other

circumstances. Upon return, the Debt Sellers are required to replace the receivables with similar receivables or repurchase the receivables. These provisions limit to some extent the Company's losses on such accounts.

Item 2. Properties.

The Company's principal executive offices and primary operations facility are located in approximately 40,000 square feet of leased space in Norfolk, Virginia and the Company rents one administrative facility in Virginia Beach, Virginia that is approximately 2,500 square feet and one storage facility. This space was vacated during January 2004. The Company owns a two-acre parcel of land across from its headquarters which it developed into a parking lot for use by its employees. In addition, the Company owns an approximately 15,000 square foot facility in Hutchinson, Kansas that can currently accommodate approximately 100 employees. The Company also leases a facility located in approximately 21,000 square feet of space in Hampton, Virginia to accommodate approximately 285 additional employees. This new facility opened in March 2003. The Company also entered into a new lease for additional space adjacent to its Norfolk, Virginia office. This space became occupied in January 2004 and consists of 25,000 square feet. This space now accommodates all Anchor employees, accounting, outsourced collections and other administrative support personnel. The Company does not consider any specific leased or owned facility to be material to its operations. The Company believes that equally suitable alternative facilities are available in all areas where it currently does business.

Item 3. Legal Proceedings.

From time to time, the Company is involved in various legal proceedings which are incidental to the ordinary course of its business. The Company regularly initiates lawsuits against consumers and is occasionally countersued by them in such actions. Also, consumers occasionally initiate litigation against the Company, in which they allege that it has violated a state or federal law in the process of collecting on their account. The Company does not believe that these routine matters represent a substantial volume of its accounts or that, individually or in the aggregate, they are material to its business or financial condition.

The Company is not a party to any material legal proceedings and it is unaware of any contemplated material actions against it.

Item 4. Submission of Matters to a Vote of Securityholders.

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Price Range of Common Stock

The Company's common stock ("Common Stock") began trading on the Nasdaq National Market under the symbol "PRAA" on November 8, 2002. Prior to that time there was no public trading market for the Company's common stock. The following table sets forth the high and low sales price for the Common Stock, as reported by the Nasdaq National Market, for the periods indicated.

	High	Low
2002		
Quarter ended December 31, 2002	\$20.50	\$14.75
2003		
Quarter ended March 31, 2003	\$25.00	\$17.76
Quarter ended June 30, 2003	\$33.95	\$20.40
Quarter ended September 30, 2003	\$32.50	\$24.30
Quarter ended December 31, 2003	\$30.61	\$22.55

As of February 12, 2004, there were 30 holders of record of the Common Stock. Based on information provided by the Company's transfer agent and registrar, the Company believes that there are 9,623 beneficial owners of the Common Stock.

Shares Registered After Initial Public Offering

A secondary offering of shares of common stock of the Company was completed on May 21, 2003, in which 4,025,000 shares were sold. After this transaction, holders of 6,865,261 shares of the Common Stock which were not sold in the secondary offering agreed to a 180-day "lock-up" with respect to these shares, which restricted their ability to sell these shares during the 180 days following the date of the prospectus, or until November 21, 2003. These shares may now be sold in accordance with the provisions of the federal securities laws, including Rule 144.

On November 7, 2003, the Company filed two Registration Statements with the Securities and Exchange Commission, both of which were filed on Form S-8, to register (a) the 2,000,000 shares of the Common Stock underlying the Company's 2002 Employee Stock Option Plan and (b) 142,500 shares of the Common Stock underlying Warrants held by certain key employees of the Company.

Dividend Policy

The Company's board of directors sets its dividend policy. The Company does not pay dividends on the Common Stock; however, the Company's board of directors may determine in the future to declare or pay cash dividends on the Common Stock. Any future determination as to the declaration and payment of dividends will be at the discretion of the Company's board of directors and will depend on then existing conditions, including the Company's financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that the Company's board of directors may consider relevant.

Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with the audited financial statements.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
<i>(Dollars in thousands, except per share data)</i>					
STATEMENT OF OPERATIONS DATA:					
Revenue:					
Income recognized on finance receivables	\$ 81,796	\$ 53,803	\$ 31,221	\$ 18,991	\$ 11,746
Commissions	3,131	1,944	214	—	—
Net gain on cash sales of defaulted consumer receivables	—	100	901	343	322
Total revenue	84,927	55,847	32,336	19,334	12,068
Operating expenses:					
Compensation and employee services	28,987	21,701	15,644	9,883	6,119
Outside legal and other fees and services	14,147	8,093	3,627	2,583	1,493
Communications	2,772	1,915	1,645	871	553
Rent and occupancy	1,189	799	712	603	335
Other operating expenses	1,932	1,436	1,265	652	498
Depreciation	1,445	940	677	437	369
Total operating expenses	50,472	34,884	23,570	15,029	9,367
Income from operations	34,455	20,963	8,766	4,305	2,701
Loss on extinguishment of debt	—	—	(424)	—	—
Net interest expenses	542	2,425	2,716	1,765	876
Income before income taxes	33,913	18,538	5,626	2,540	1,825
Provision for income taxes	13,199	1,473	—	—	—
Net income ⁽¹⁾	\$ 20,714	17,065	5,626	2,540	1,825
Pro forma income taxes		5,694	2,100	901	697
Pro forma net income ⁽²⁾		\$ 11,371	\$ 3,526	\$ 1,639	\$ 1,128
Pro forma net income per share ⁽³⁾					
Basic	\$ 1.42	\$ 1.08	\$ 0.35	\$ 0.16	\$ 0.11
Diluted	\$ 1.32	\$ 0.94	\$ 0.31	\$ 0.14	\$ 0.11
Pro forma weighted average shares ⁽³⁾					
Basic	14,546	10,529	10,000	10,000	10,000
Diluted	15,712	12,066	11,458	11,366	10,000
OPERATING AND OTHER FINANCIAL DATA:					
Cash collections and commission ⁽⁴⁾	\$ 120,183	\$ 81,198	\$ 53,362	\$ 30,733	\$ 17,362
Operating expenses to cash collections and commissions	42%	43%	44%	49%	54%
Acquisitions of finance receivables, at cost	\$ 61,815	\$ 42,382	\$ 33,381	\$ 24,663	\$ 19,417
Acquisitions of finance receivables, at face value	\$2,229,682	\$1,966,296	\$1,592,353	\$1,004,114	\$479,778
Percentage increase of acquisitions of finance receivables, at cost	46%	27%	35%	27%	69%
Percentage increase in cash collections and commissions	48%	52%	74%	77%	60%
Percentage increase in pro forma net income	82%	222%	115%	45%	181%
Employees at period end:					
Total employees	798	581	501	370	246
Ratio of collection personnel to total employees ⁽⁵⁾	90%	88%	90%	89%	86%

(1) At the time of the Company's initial public offering, which commenced on November 8, 2002, the Company changed its legal structure from a limited liability company to a corporation. As a limited liability company the Company was not subject to Federal or state corporate income taxes. Therefore, net income does not give effect to taxes for all periods prior to the Company's initial public offering.

- (2) For comparison purposes, the Company has presented pro forma net income, which reflects income taxes assuming the Company had been a corporation since the time of the Company's formation and assuming tax rates equal to the rates that would have been in effect had the Company been required to report tax expense in such years. Since the time of the Company's reorganization, pro forma net income reflects its actual net income.
- (3) Pro forma net income per share and pro forma weighted average shares assumes the Company had reorganized as a corporation since the beginning of the period presented.
- (4) Includes both cash collected on finance receivables and commission fee received during the relevant period.
- (5) Includes all collectors and all first-line collection supervisors.

Year Ended December 31, 2003

	2003	2002	2001	2000	1999
<i>(Dollars in thousands)</i>					
FINANCIAL POSITION DATA:					
Cash and cash equivalents	\$ 24,912	\$17,939	\$ 4,780	\$ 3,191	\$ 1,456
Finance receivables, net	92,569	65,526	47,987	41,124	28,139
Total assets	126,394	88,288	57,108	47,188	31,495
Long-term debt	1,657	966	568	532	—
Total debt, including capital lease obligations	2,208	1,465	26,771	23,300	10,372
Total stockholders' equity	119,148	80,608	27,752	22,705	20,313

For the Quarter Ended,

	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003	Mar. 31, 2003	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	Mar. 31, 2002
<i>(Dollars in thousands, except per share data)</i>								
STATEMENT OF OPERATIONS DATA:								
Revenue:								
Income recognized on finance receivables	\$22,172	\$ 21,389	\$ 20,618	\$ 17,618	\$ 15,081	\$ 14,704	\$ 12,837	\$11,181
Commissions	864	784	785	698	607	521	440	376
Net gain on cash sales of defaulted consumer receivables	—	—	—	—	—	—	100	—
Total revenue	23,036	22,173	21,403	18,316	15,688	15,225	13,377	11,557
Operating expenses:								
Compensation and employee services	7,545	7,370	7,679	6,393	5,981	5,508	5,144	5,068
Outside legal and other fees and services	4,168	3,886	3,276	2,817	2,655	2,197	1,951	1,290
Communications	769	702	667	634	445	540	479	451
Rent and occupancy	317	317	310	245	228	209	189	173
Other operating expenses	610	393	456	473	436	324	370	306
Depreciation	391	383	371	300	264	242	223	211
Total operating expenses	13,800	13,051	12,759	10,862	10,009	9,020	8,356	7,499
Income from operations	9,236	9,122	8,644	7,453	5,679	6,205	5,021	4,058
Net interest expenses	327	83	75	56	244	1,066	589	526
Income before income taxes	8,908	9,038	8,569	7,397	5,435	5,139	4,432	3,532
Provision for income taxes	3,467	3,509	3,324	2,899	1,473	—	—	—
Net income ⁽¹⁾	\$ 5,441	\$ 5,529	\$ 5,245	\$ 4,498	3,962	5,139	4,432	3,532
Pro forma income taxes					628	1,986	1,714	1,365
Pro forma net income ⁽²⁾					\$ 3,334	\$ 3,153	\$ 2,718	\$ 2,167
Pro forma net income per share ⁽³⁾								
Basic	\$ 0.36	\$ 0.36	\$ 0.37	\$ 0.33	\$ 0.28	\$ 0.32	\$ 0.27	\$ 0.22
Diluted	\$ 0.35	\$ 0.35	\$ 0.33	\$ 0.29	\$ 0.24	\$ 0.27	\$ 0.24	\$ 0.19
Pro forma weighted average shares ⁽³⁾								
Basic	15,249	15,149	14,241	13,545	12,063	10,000	10,000	10,000
Diluted	15,756	15,751	15,750	15,590	13,796	11,496	11,487	11,485

Quarter Ended

	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003	Mar. 31, 2003	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	Mar. 31, 2002
<i>(Dollars in thousands)</i>								
FINANCIAL POSITION DATA:								
Assets								
Cash and cash equivalents	\$ 24,912	\$ 14,810	\$ 7,979	\$ 12,072	\$ 17,939	\$ 6,038	\$ 8,323	\$ 7,497
Finance receivables, net	92,569	89,836	86,689	74,418	65,526	55,133	51,055	46,825
Property and equipment, net	5,166	5,233	5,059	4,996	3,794	3,667	3,433	3,376
Deferred tax asset	2,009	5,414	8,915	—	—	—	—	—
Income tax receivable	352	1,856	2,122	—	—	—	—	—
Other assets	1,386	1,122	1,304	1,211	1,029	651	645	935
Total assets	\$126,394	\$118,271	\$112,068	\$ 92,697	\$ 88,288	\$ 65,489	\$ 63,456	\$58,633
Liabilities and Stockholders' Equity								
Liabilities								
Accounts payable	\$ 1,291	\$ 1,132	\$ 1,314	\$ 861	\$ 1,370	\$ 697	\$ 570	\$ 540
Accrued expenses	514	599	353	333	760	660	623	681
Income taxes payable	—	—	—	2,603	937	—	—	—
Accrued payroll and bonuses	3,233	2,383	2,351	1,495	2,861	1,861	1,660	930
Deferred tax liability	—	—	—	368	287	—	—	—
Revolving lines of credit	—	—	—	—	—	25,000	25,000	25,000
Long-term debt	1,657	1,744	1,829	925	966	1,006	1,031	1,050
Obligations under capital lease	551	634	540	618	499	582	675	770
Basis — swap contract	—	—	—	—	—	—	434	273
Total liabilities	7,246	6,492	6,387	7,203	7,680	29,806	29,993	29,244
Stockholders' equity								
Common stock	153	152	151	136	135	—	—	—
Additional paid in capital	96,118	94,191	93,623	78,696	78,309	—	—	—
Members' equity ⁽⁴⁾	—	—	—	—	—	35,683	33,897	29,662
Retained earnings	22,877	17,436	11,907	6,662	2,164	—	—	—
Accumulated other comprehensive income	—	—	—	—	—	—	(434)	(273)
Total stockholders' equity	119,148	111,779	105,681	85,494	80,608	35,683	33,463	29,389
Total liabilities and stockholders' equity	\$126,394	\$118,271	\$112,068	\$ 92,697	\$ 88,288	\$ 65,489	\$ 63,456	\$58,633

- (1) At the time of the Company's initial public offering, which commenced on November 8, 2002, the Company changed its legal structure from a limited liability company to a corporation. As a limited liability company the Company was not subject to federal or state corporate income taxes. Therefore, net income does not give effect to taxes for all periods prior to the Company's initial public offering.
- (2) For comparison purposes, the Company has presented pro forma net income, which reflects income taxes assuming the Company had been a corporation since the time of the Company's formation and assuming tax rates equal to the rates that would have been in effect had the Company been required to report tax expense in such years. Since the time of the Company's reorganization, pro forma net income reflects its actual net income.
- (3) Pro forma net income per share and pro forma weighted average shares assumes the Company had reorganized as a corporation since the beginning of the period presented.
- (4) For periods prior to December 31, 2002, the Company was a limited liability company and the equity of the Company is contained in the line item "Members' equity".

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

The following table sets forth certain operating data in dollars and as a percentage of total revenue for the years ended December 31, 2003, 2002 and 2001:

	2003		2002		2001	
Revenue:						
Income recognized on finance receivables	\$81,796,209	96.3%	\$53,802,718	96.3%	\$31,220,857	96.6%
Commissions	3,131,054	3.7%	1,944,428	3.5%	214,539	0.7%
Net gain on cash sales of defaulted consumer receivables	—	0.0%	100,156	0.2%	900,916	2.8%
Total revenue	84,927,263	100.0%	55,847,302	100.0%	32,336,312	100.0%
Operating expenses:						
Compensation and employee services	28,986,795	34.1%	21,700,918	38.9%	15,644,460	48.4%
Outside legal and other fees and services	14,147,394	16.7%	8,092,460	14.5%	3,627,135	11.2%
Communications	2,772,110	3.3%	1,914,557	3.4%	1,644,557	5.1%
Rent and occupancy	1,189,379	1.4%	799,323	1.4%	712,400	2.2%
Other operating expenses	1,932,055	2.3%	1,436,438	2.6%	1,265,132	3.9%
Depreciation	1,444,825	1.7%	940,352	1.7%	676,677	2.1%
Total operating expenses	50,472,558	59.4%	34,884,048	62.5%	23,570,361	72.9%
Income from operations	34,454,705	40.6%	20,963,254	37.5%	8,765,951	27.1%
Interest income	60,173	0.1%	21,548	0.0%	65,362	0.2%
Loss on extinguishment of debt	—	0.0%	—	0.0%	(423,305)	-1.3%
Interest expenses	(602,072)	-0.7%	(2,446,620)	-4.4%	(2,781,674)	-8.6%
Income before income taxes	33,912,806	39.9%	18,538,182	33.2%	5,626,334	17.4%
Provision for income taxes	13,199,303	15.5%	1,473,073	2.6%	—	0.0%
Net income	\$20,713,503	24.4%	\$17,065,109	30.6%	\$ 5,626,334	17.4%
Pro forma income taxes			5,693,788	10.2%	2,100,609	6.5%
Pro forma net income ⁽¹⁾			\$11,371,321	20.4%	\$ 3,525,725	10.9%

(1) During 2001 and most of 2002 the Company's legal structure was a limited liability company. As a limited liability company the Company was not subject to federal or state corporate income taxes. For comparison purposes, pro forma net income is presented, which reflects income taxes assuming the Company had been a corporation since the time of its formation and assuming tax rates equal to the rates that would have been in effect had the Company been required to report tax expense in such years.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenue

Total revenue was \$84.9 million for the year ended December 31, 2003, an increase of \$29.1 million or 52.2% compared to total revenue of \$55.8 million for the year ended December 31, 2002.

Income Recognized on Finance Receivables

Income recognized on finance receivables was \$81.8 million for the year ended December 31, 2003, an increase of \$28.0 million or 52.0% compared to income recognized on finance receivables of \$53.8 million for the year ended December 31, 2002. The majority of the increase was due to an increase in the Company's cash collections on its owned defaulted consumer receivables to \$117.1 million from \$79.3 million, an increase of 47.7%. The Company's amortization rate on owned portfolios for the year ended December 31, 2003 was 30.1% while for the year ended December 31, 2002 it was 32.1%. During the year ended December 31, 2003, the Company acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$2.2 billion at an original purchase price of \$61.8 million. During the year ended December 31, 2002, the Company acquired defaulted consumer receivable portfolios with an aggregate face value of \$2.0 billion at an original purchase price of \$42.4 million. The Company's relative cost of acquiring defaulted consumer receivable portfolios increased to 2.8% of face value for the year ended December 31, 2003 from 2.2% of face value for the year ended December 31, 2002. As a percentage of total face acquired in 2003, the Company purchased 2.5% fresh, 24.6% primary,

41.3% secondary, 17.9% tertiary, and 13.7% other, while in 2002 the Company purchased 7.5% fresh, 13.2% primary, 35.1% secondary, 39.6% tertiary and 4.6% other.

Commissions

Commissions were \$3.1 million for the year ended December 31, 2003, an increase of \$1.2 million or 63.2% compared to commissions of \$1.9 million for the year ended December 31, 2002. Commissions increased as a result of a growing inventory of accounts.

Net gain on cash sales of defaulted consumer receivables

Net gain on cash sales of defaulted consumer receivables were \$0 for the year ended December 31, 2003, a decrease of \$100,000 or 100.0% compared to net gain on cash sales of defaulted consumer receivables of \$100,000 for the year ended December 31, 2002, which was derived from one sale in June 2002.

Operating Expenses

Total operating expenses were \$50.5 million for the year ended December 31, 2003, an increase of \$15.6 million or 44.7% compared to total operating expenses of \$34.9 million for the year ended December 31, 2002. Total operating expenses, including compensation expenses, were 42.0% of cash receipts excluding sales for the year ended December 31, 2003 compared with 43.0% for the same period in 2002.

Compensation and Employee Services

Compensation and employee services expenses were \$29.0 million for the year ended December 31, 2003, an increase of \$7.3 million or 33.6% compared to compensation and employee services expenses of \$21.7 million for the year ended December 31, 2002. Compensation and employee services expenses increased as total employees grew from 581 at December 31, 2002 to 798 at December 31, 2003. Additionally, existing employees received normal salary increases. Compensation and employee services expenses as a percentage of cash receipts excluding sales decreased to 24.1% for the year ended December 31, 2003 from 26.7% of cash receipts excluding sales for the same period in 2002.

Outside Legal and Other Fees and Services

Outside legal and other fees and services expenses were \$14.1 million for the year ended December 31, 2003, an increase of \$6.0 million or 74.1% compared to outside legal and other fees and services expenses of \$8.1 million for the year ended December 31, 2002. The increase was attributable to the increased cash collections resulting from the increased number of accounts referred to independent contingent fee attorneys. This increase is consistent with the growth the Company experienced in its portfolio of defaulted consumer receivables and a portfolio management strategy implemented in mid 2002. This strategy resulted in the Company referring to the legal suit process more unsuccessfully liquidated accounts that have an identified means of repayment but that are nearing their legal statute of limitations, than had been referred historically. Legal cash collections represented 26.0% of total cash collections for the year ended December 31, 2003, up from 19.5% for the year ended December 31, 2002. Total legal expenses for the year ended December 31, 2003 were 35.7% of legal cash collections compared to 38.4% for the year ended December 31, 2002.

Communications

Communications expenses were \$2.8 million for the year ended December 31, 2003, an increase of \$900,000 or 47.4% compared to communications expenses of \$1.9 million for the year ended December 31, 2002. The increase was attributable to growth in mailings and higher telephone expenses incurred to collect on a greater number of defaulted consumer receivables owned and serviced. Mailings were responsible for 52.2% of this increase, while the remaining 47.8% was attributable to higher phone charges.

Rent and Occupancy

Rent and occupancy expenses were \$1.2 million for the year ended December 31, 2003, an increase of \$401,000 or 50.2% compared to rent and occupancy expenses of \$799,000 for the year ended December 31, 2002. The increase was attributable to increased leased space due to the opening of a call center in Hampton, Virginia, a storage facility, an off-site administrative and mail handling site and contractual increases in annual rental rates. The Hampton call center accounted for \$293,000 of the increase, the new storage facility accounted for \$28,000 of the increase and the administrative/mail site accounted for \$19,000 of the increase. The remaining increase was attributable to contractual increases in annual rental rates.

Other Operating Expenses

Other operating expenses were \$1.9 million for the year ended December 31, 2003, an increase of \$500,000 or 35.7% compared to other operating expenses of \$1.4 million for the year ended December 31, 2002. The increase was due to increases in repairs and maintenance, hiring and insurance. Repairs and maintenance expenses increased by \$124,000, hiring expenses increased by \$139,000, and insurance expense increased by \$257,000, offset by decreases in other expense items of \$20,000.

Depreciation

Depreciation expenses were \$1.4 million for the year ended December 31, 2003, an increase of \$460,000 or 48.9% compared to depreciation expenses of \$940,000 for the year ended December 31, 2002. The increase was attributable to continued capital expenditures on equipment, software, and computers related to the Company's growth and systems upgrades. Of the increase in depreciation expenses, 61.7% is the result of the March 2003 opening of its new Hampton office and an associated \$2.0 million in equipment purchases. The remaining increase of 38.3% was the result of system upgrades.

Interest Income

Interest income was \$60,000 for the year ended December 31, 2003, an increase of \$38,000 or 172.7% compared to interest income of \$22,000 for the year ended December 31, 2002. This increase of investing in short-term municipal instruments during the first half of 2003 versus investments of less than two months in 2002.

Interest Expense

Interest expense was \$600,000 for the year ended December 31, 2003, a decrease of \$1.8 million or 75.0% compared to interest expense of \$2.4 million for the year ended December 31, 2002. This decreased primarily as a result of the payoff of all outstanding revolving debt with the proceeds from the Company's initial public offering, but also includes a \$284,000 charge related to the termination of the Westside Funding facility in the fourth quarter of 2003.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenue

Total revenue was \$55.8 million for the year ended December 31, 2002, an increase of \$23.5 million or 72.8% compared to total revenue of \$32.3 million for the year ended December 31, 2001.

Income Recognized on Finance Receivables

Income recognized on finance receivables was \$53.8 million for the year ended December 31, 2002, an increase of \$22.6 million or 72.4% compared to income recognized on finance receivables of \$31.2 million for the year ended December 31, 2001. The majority of the increase was due to an increase in the Company's cash collections on its owned defaulted consumer receivables to \$79.3 million from \$53.1 million, an increase of 49.3%. In the second half of 2001 and continuing throughout 2002, the Company has experienced an acceleration of the increase in its collector productivity resulting in an acceleration of its performance in cash collections

compared to projections. This performance has led to lower amortization rates as the Company's projected multiple of cash collections to purchase price has increased. The Company's amortization rate on owned portfolios for the year ended December 31, 2002 was 32.1% while for the year ended December 31, 2001 it was 41.2%. During the year ended December 31, 2002, the Company acquired defaulted consumer receivables portfolios with an aggregate face value amount of \$2.0 billion at an original purchase price of \$42.4 million. During the year ended December 31, 2001, the Company acquired defaulted consumer receivable portfolios with an aggregate face value of \$1.6 billion at an original purchase price of \$33 million (inclusive of purchases subsequently sold). The Company's relative cost of acquiring defaulted consumer receivable portfolios increased to 2.2% of face value for the year ended December 31, 2002 from 2.1% of face value for the year ended December 31, 2001.

Commissions

Commissions were \$1.9 million for the year ended December 31, 2002, an increase of \$1.7 million or 790.7% compared to commissions of \$215,000 for the year ended December 31, 2001. Commissions increased as business volume increased substantially in the Company's contingent fee collection business as a result of increased account placements.

Net gain on cash sales of defaulted consumer receivables

Net gain on cash sales of defaulted consumer receivables were \$100,000 for the year ended December 31, 2002, a decrease of \$801,000 or 88.9% compared to net gain on cash sales of defaulted consumer receivables of \$901,000 for the year ended December 31, 2001. During September 2001, the Company purchased \$4.4 million of defaulted consumer receivables that were immediately sold to a buying entity. A net gain of \$369,000 was recognized on this back to back purchase-sale transaction. The remaining change is the result of one sale in 2002 versus twelve small sales in 2001.

Operating Expenses

Total operating expenses were \$34.9 million for the year ended December 31, 2002, an increase of \$11.3 million or 47.9% compared to total operating expenses of \$23.6 million for the year ended December 31, 2001. Total operating expenses, including compensation expenses, were 43.0% of cash receipts excluding sales for the year ended December 31, 2002 compared with 44.4% for the same period in 2001.

Compensation and Employee Services

Compensation and employee services expenses were \$21.7 million for the year ended December 31, 2002, an increase of \$6.1 million or 39.1% compared to compensation and employee services expenses of \$15.6 million for the year ended December 31, 2001. Compensation and employee services expenses increased as total employees grew to 581 at December 31, 2002 from 501 at December 31, 2001. Additionally, existing employees received normal salary increases and increased bonuses. Compensation and employee services expenses as a percentage of cash collections decreased to 27.4% for the year ended December 31, 2002 from 29.3% of cash collections for the same period in 2001.

Outside Legal and Other Fees and Services

Outside legal and other fees and services expenses were \$8.1 million for the year ended December 31, 2002, an increase of \$4.5 million or 125.0% compared to outside legal and other fees and services expenses of \$3.6 million for the year ended December 31, 2001. The increase was attributable to the increased cash collections resulting from the increased number of accounts referred to independent contingent fee attorneys. This increase is consistent with the growth the Company experienced in its portfolio of defaulted consumer receivables, and a portfolio management strategy shift implemented in mid 2002. This strategy resulted in the Company referring to the legal suit process unsuccessfully liquidated accounts that have an identified means of repayment but that are nearing their legal statute of limitations.

Communications

Communications expenses were \$1.9 million for the year ended December 31, 2002, an increase of \$270,000 or 18.8% compared to communications expenses of \$1.6 million for the year ended December 31, 2001. The increase was attributable to growth in mailings and higher telephone expenses incurred to collect on a greater number of defaulted consumer receivables owned and serviced. Mailings were responsible for 69.4% of this increase, while the remaining 30.6% was attributable to a higher number of phone calls.

Rent and Occupancy

Rent and occupancy expenses were \$799,000 for the year ended December 31, 2002, an increase of \$87,000 or 12.2% compared to rent and occupancy expenses of \$712,000 for the year ended December 31, 2001. The increase was attributable to increased leased space related to a storage facility, an off-site administrative and mail handling site and contractual increases in annual rental rates. The new storage facility accounted for \$7,300 of the increase and the administrative/mail site accounted for \$19,000 of the increase. The remaining increase was attributable to contractual increases in annual rental rates.

Other Operating Expenses

Other operating expenses were \$1.4 million for the year ended December 31, 2002, an increase of \$171,000 or 13.2% compared to other operating expenses of \$1.3 million for the year ended December 31, 2001. The increase was due to increases in taxes, fees and licenses, travel and meals and miscellaneous expenses. Taxes, fees and licenses increased by \$81,000, travel and meals increased \$94,000 and miscellaneous expenses decreased by \$4,000.

Depreciation

Depreciation expenses were \$940,000 for the year ended December 31, 2002, an increase of \$263,000 or 38.8% compared to depreciation expenses of \$677,000 for the year ended December 31, 2001. The increase was attributable to continued capital expenditures on equipment, software, and computers related to our continued growth.

Interest Income

Interest income was \$22,000 for the year ended December 31, 2002, a decrease of \$42,000 or 65.6% compared to interest income of \$64,000 for the year ended December 31, 2001. This decrease occurred due to a drop in our yields during the fourth quarter of 2001. As a result of the yield decrease, the Company terminated the treasury repurchase agreement in favor of earning fee offset credit with our bank.

Interest Expense

Interest expense was \$2.4 million for the year ended December 31, 2002, a decrease of \$335,000 or 12.0% compared to interest expense of \$2.8 million for the year ended December 31, 2001. This decreased primarily as a result of the payoff of all outstanding revolving debt with the proceeds from the Company's initial public offering.

Supplemental Performance Data

Owned Portfolio Performance:

The following table shows the Company's portfolio buying activity by year, setting forth, among other things, the purchase price, actual cash collections and estimated remaining cash collections as of December 31, 2003.

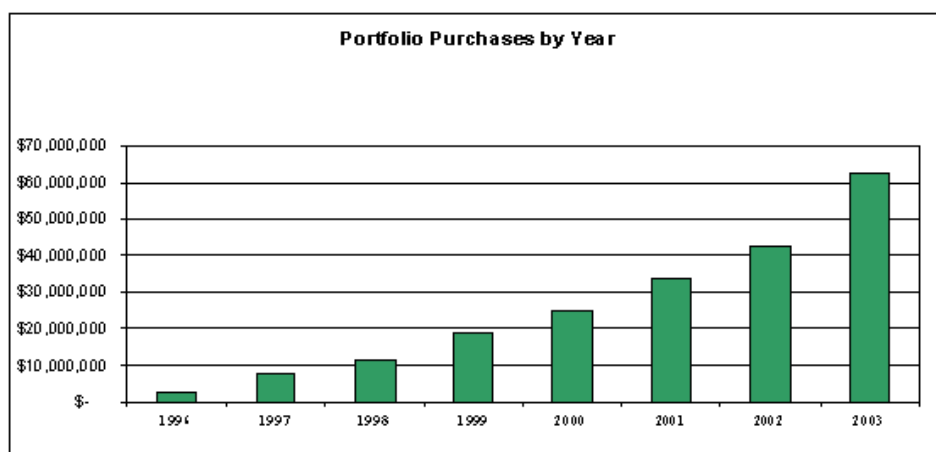
(\$ in thousands)

Purchase Period Ending December 31,	Purchase Price(1)	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections(2)	Total Estimated Collections(3)	Total Estimated Collections to Purchase Price(4)
1996	\$ 3,080	\$ 8,980	\$ 244	\$ 9,224	299%
1997	\$ 7,685	\$ 21,387	\$ 544	\$ 21,931	285%
1998	\$ 11,122	\$ 28,945	\$ 1,655	\$ 30,600	275%
1999	\$ 18,912	\$ 47,924	\$ 6,630	\$ 54,554	288%
2000	\$ 25,068	\$ 62,960	\$ 17,074	\$ 80,034	319%
2001	\$ 33,538	\$ 75,373	\$ 36,692	\$ 112,065	334%
2002	\$ 42,588	\$ 51,331	\$ 73,098	\$ 124,429	292%
2003	\$ 62,640	\$ 24,308	\$ 131,729	\$ 156,037	249%

- (1) Purchase price refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized expenses, less the purchase price refunded by the seller due to the return of non-compliant accounts (also defined as buybacks). Non-compliant refers to the contractual representations and warranties provided for in the purchase and sale contract between the seller and the Company. These representations and warranties from the sellers generally cover account holders' death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or repurchase these accounts.
- (2) Estimated remaining collections refers to the sum of all future projected cash collections on our owned portfolios.
- (3) Total estimated collections refers to the actual cash collections, including cash sales, plus estimated remaining collections.
- (4) Total estimated collections to purchase price refers to the total estimated collections divided by the purchase price.

When the Company acquires a portfolio of defaulted accounts, it generally does so with a forecast of future total collections to purchase price paid of no more than 2.4 to 2.6 times. Only after the portfolio has established probable and estimable performance in excess of that projection will estimated remaining collections be increased. If actual results are less than the original forecast, the Company moves aggressively to lower estimated remaining collections to appropriate levels.

The following graph shows the Company's purchase price in its owned portfolios by year beginning in 1996. The purchase price number represents the cash paid to the seller to acquire defaulted consumer receivables, plus certain capitalized expenses, less the purchase price refunded by the seller due to the return of non-compliant accounts.



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

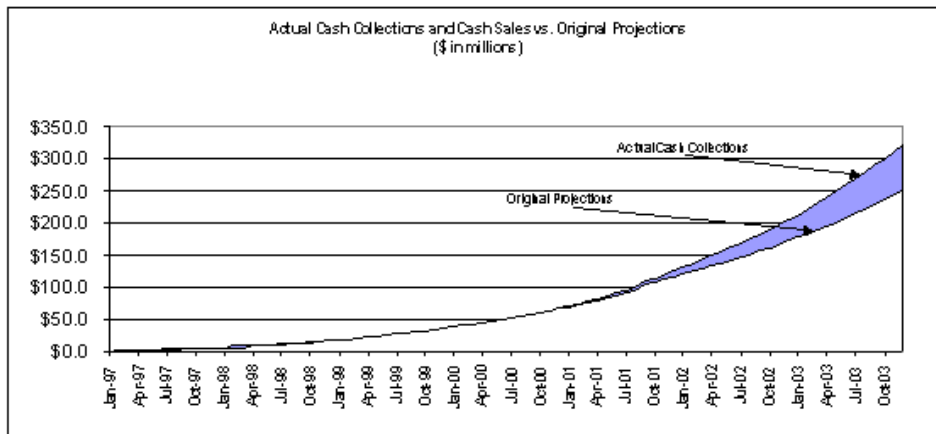
The following table, which excludes any proceeds from cash sales of finance receivables, demonstrates the Company's ability to realize significant multi-year cash collection streams on its owned pools.

Cash Collections By Year, By Year of Purchase

(\$ in thousands)

Purchase Period	Purchase Price	Cash Collection Period								
		1996	1997	1998	1999	2000	2001	2002	2003	Total
1996	\$ 3,080	\$548	\$2,484	\$ 1,890	\$ 1,348	\$ 1,025	\$ 730	\$ 496	\$ 398	\$ 8,919
1997	7,685	—	2,507	5,215	4,069	3,347	2,630	1,829	1,324	20,921
1998	11,122	—	—	3,776	6,807	6,398	5,152	3,948	2,797	28,878
1999	18,912	—	—	—	5,138	13,069	12,090	9,598	7,336	47,231
2000	25,068	—	—	—	—	6,894	19,498	19,478	16,628	62,498
2001	33,538	—	—	—	—	—	13,048	28,820	28,003	69,871
2002	42,588	—	—	—	—	—	—	15,084	36,258	51,342
2003	62,640	—	—	—	—	—	—	—	24,308	24,308
Total	\$204,633	\$548	\$4,991	\$10,881	\$17,362	\$30,733	\$53,148	\$79,253	\$117,052	\$313,968

When the Company acquires a new pool of finance receivables, a 60-72 month projection of cash collections is created. The following chart shows the Company's historical cash collections (including cash sales of finance receivables) in relation to the aggregate of the total estimated collection projections made at the time of each respective pool purchase.



Owned Portfolio Personnel Performance:

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

Collector by Tenure

Tenure at:	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
One year + ⁽¹⁾	44	109	151	210	241
Less than one year ⁽²⁾	158	180	218	223	338
Total ⁽²⁾	202	289	369	433	579

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

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

Monthly Cash Collections by Tenure⁽¹⁾

Average performance	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
One year + ⁽²⁾	\$12,906	\$14,081	\$15,205	\$16,927	\$18,158
Less than one year ⁽³⁾	7,153	7,482	7,740	8,689	8,303

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

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

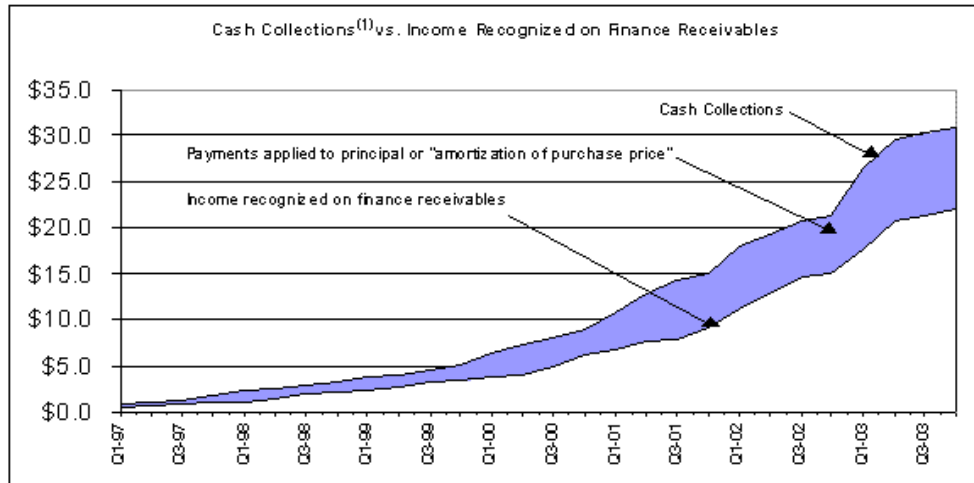
(3) Calculated using weighted average YTD monthly cash collections of all collectors with less than one year of tenure, including those in training.

Cash Collections per Hour Paid⁽¹⁾

Average performance	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
Total cash collections	\$53.41	\$64.37	\$77.20	\$96.37	\$108.27
Non-legal cash collections	\$47.81	\$53.31	\$66.87	\$77.72	\$ 80.10

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

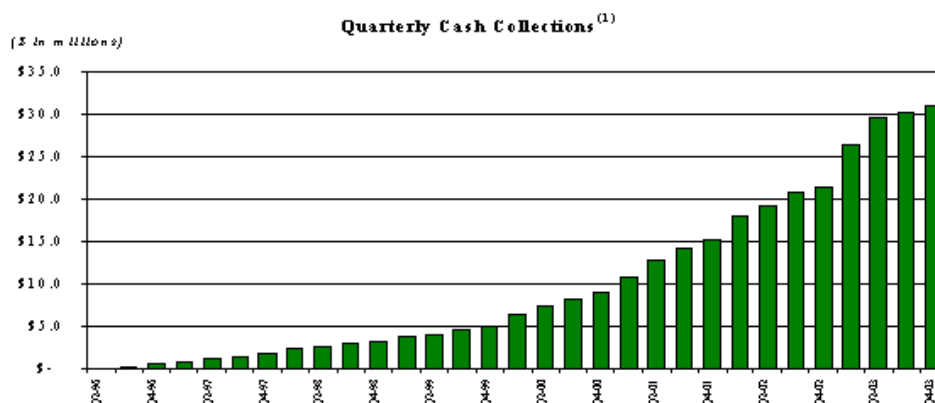
Cash collections have substantially exceeded revenue in each quarter since the Company's formation. The following chart illustrates the consistent excess of the Company's cash collections on its owned portfolios over income recognized in finance receivables on a quarterly basis. The difference between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



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

Seasonality

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



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

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

	2003	2002	2001
Balance at beginning of year	\$ 65,526,235	\$ 47,986,744	\$ 41,124,377
Acquisitions of finance receivables, net of buybacks ⁽¹⁾	62,298,316	42,990,924	33,491,211
Cash collections applied to principal on finance receivables ⁽²⁾	(35,255,994)	(25,450,833)	(21,926,815)
Cost of finance receivables sold, net of allowance for returns	—	(600)	(4,702,029)
Balance at end of year	\$ 92,568,557	\$ 65,526,235	\$ 47,986,744
Estimated Remaining Collections ("ERC")⁽³⁾	\$267,666,689	\$195,669,147	\$117,022,955

- (1) Agreements to purchase receivables typically include general representations and warranties from the sellers covering account holders' death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or repurchase these accounts. The Company refers to repurchased accounts as buybacks. The Company also capitalizes certain acquisition related expenses.
- (2) Cash collections applied to principal (also referred to as amortization) on finance receivables consists of cash collections less income recognized on finance receivables.
- (3) Estimated Remaining Collections refers to the sum of all future projected cash collections on the Company's owned portfolios. ERC is not a balance sheet item, however, it is provided here for informational purposes.

Liquidity and Capital Resources

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

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

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

The Company's operating activities provided cash of \$35.1 million, \$21.8 million and \$6.5 million for the years ended December 31, 2003, 2002 and 2001, respectively. In these periods, cash from operations was generated primarily from net income earned through cash collections, commissions received and gains on cash sales of defaulted consumer receivables for the year. Net income increased to \$20.7 million for the year ended December 31, 2003 from \$17.1 million for the year ended December 31, 2002 and \$5.6 million for the year ended December 31, 2001. In addition, the Company realized tax benefits derived from stock option and stock warrant exercises of \$16.4 million in 2003, \$0.2 million in 2002 and \$0 in 2001.

The Company's investing activities used cash of \$29.5 million, \$18.8 million and \$7.2 million for the years ended December 31, 2003, 2002 and 2001, respectively. Cash used in investing activities is primarily driven by acquisitions of defaulted consumer receivables, net of cash collections applied to the cost of the receivables.

The Company's financing activities provided cash of \$1.4 million, \$10.1 million and \$2.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. During the current year, the exercise of stock options and stock warrants generated cash from financing activities of \$1.4 million. In 2002, the IPO generated cash of \$40.4 million. Utilizing proceeds from the IPO, the Company paid off the outstanding balance of its line of credit of \$29.0 million. In 2001, a principal source of cash was \$2.8 million of proceeds from lines of credit.

Cash paid for interest expense was \$281,000, \$2.7 million and \$2.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. In 2003, the majority of interest expenses were paid on long-term debt and capital lease obligations. In addition, the Company terminated its line of credit agreement with WestLB and incurred \$284,000 of additional non-cash interest costs. In 2002 and 2001, the majority of interest expenses were paid for lines of credit used to finance acquisitions of defaulted consumer receivables portfolios.

The Company maintains a \$25.0 million revolving line of credit with RBC Centura Bank ("RBC") pursuant to an agreement entered into on November 28, 2003. The Company, as well as Portfolio Recovery Associates, LLC, PRA Receivables Management LLC (d/b/a Anchor Receivables Management) and PRA Holding I, LLC (all of which are wholly-owned subsidiaries of the Company) are guarantors to this agreement. The credit facility bears interest at a spread over LIBOR and extends through November 28, 2004. The agreement provides for:

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

- restrictions on change of control.

This facility had no amounts outstanding at December 31, 2003.

As of December 31, 2003 there are four loans outstanding. On July 20, 2000, PRA Holding I entered into a credit facility for a \$550,000 loan, for the purpose of purchasing a building in Hutchinson, Kansas. The loan bears interest at a variable rate based on LIBOR and consists of monthly principal payments for 60 months and a final installment of unpaid principal and accrued interest payable on July 21, 2005. On February 9, 2001, the Company entered into a commercial loan agreement in the amount of \$107,000 in order to purchase equipment for its Norfolk, Virginia location. This loan bears interest at a fixed rate of 7.9% and matures on February 1, 2006. On February 20, 2002, PRA Holding I entered into an additional arrangement for a \$500,000 commercial loan in order to finance construction of a parking lot at the Company's Norfolk, Virginia location. This loan bears interest at a fixed rate of 6.47% and matures on September 1, 2007. On May 1, 2003, the Company entered into a commercial loan agreement in the amount of \$975,000 to finance equipment purchases for its Hampton, Virginia location. This loan bears interest at a fixed rate of 4.25% and matures on May 1, 2008.

Contractual Obligations

Obligations of the Company that exist as of December 31, 2003 are as follows:

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	\$ 1,817,022	\$ 429,643	\$1,019,464	\$ 367,915	\$ —
Capital Lease Obligations	599,508	249,262	238,517	111,729	—
Operating Leases	14,346,186	1,391,115	2,937,750	3,064,727	6,952,595
Total	\$16,762,716	\$2,070,019	\$4,195,731	\$3,544,371	\$6,952,595

Off Balance Sheet Arrangements

The Company does not have any of these as defined by regulation S-K 303(a)(4).

Recent Accounting Pronouncements

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

In October 2003, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-03, "Accounting for Loans or Certain Securities Acquired in a Transfer." The SOP provides guidance on accounting for differences between contractual and expected cash flows from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. The SOP would limit the revenue that may be accrued to the excess of the estimate of expected future cash flows over

a portfolio's initial cost of accounts receivable acquired. The SOP would require that the excess of the contractual cash flows over expected future cash flows not be recognized as an adjustment of revenue, expense, or on the balance sheet. The SOP would freeze the internal rate of return, referred to as IRR, originally estimated when the accounts receivable are purchased for subsequent impairment testing. Rather than lower the estimated IRR if the original collection estimates are not received, the carrying value of a portfolio would be written down to maintain the original IRR. Increases in expected future cash flows would be recognized prospectively through adjustment of the IRR over a portfolio's remaining life. The SOP provides that previously issued annual financial statements would not need to be restated. Management is in the process of evaluating the application of this SOP.

Critical Accounting Policy

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

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

The Company's exposure to market risk relates to interest rate risk with its variable rate credit line. The Company terminated its only derivative financial instrument to manage or reduce market risk in September 2002. As of December 31, 2003, the Company had no variable rate debt outstanding on its revolving credit line. The Company has variable rate debt outstanding on its long-term debt collateralized by the Kansas real estate. A 10% change in future interest rates on the variable rate credit line would not lead to a material decrease in future earnings assuming all other factors remained constant.

Item 8. Financial Statements and Supplementary Data.

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Report of Independent Auditors

Board of Directors and Stockholders
Portfolio Recovery Associates, Inc.

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, changes in stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Portfolio Recovery Associates, Inc. and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Harrisburg, Pennsylvania
February 6, 2004

Portfolio Recovery Associates, Inc.
Consolidated Statements of Financial Position
December 31, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	\$ 24,911,841	\$17,938,730
Finance receivables, net	92,568,557	65,526,235
Property and equipment, net	5,166,380	3,794,254
Deferred tax asset	2,009,426	—
Income tax receivable	351,861	—
Other assets	1,385,706	1,029,196
	<u> </u>	<u> </u>
Total assets	\$126,393,771	\$88,288,415
	<u> </u>	<u> </u>
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 1,290,332	\$ 1,370,404
Accrued expenses	513,687	760,211
Income taxes payable	—	937,231
Accrued payroll and bonuses	3,233,409	2,861,336
Deferred tax liability	—	286,882
Long-term debt	1,656,972	965,582
Obligations under capital lease	551,325	499,151
	<u> </u>	<u> </u>
Total liabilities	7,245,725	7,680,797
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, par value \$0.01, authorized shares, 2,000,000, issued and outstanding shares - 0	—	—
Common stock, par value \$0.01, authorized shares, 30,000,000, issued and outstanding shares - 15,294,676 at December 31, 2003, and 13,520,000 at December 31, 2002	152,947	135,200
Additional paid in capital	96,117,932	78,308,754
Retained earnings	22,877,167	2,163,664
	<u> </u>	<u> </u>
Total stockholders' equity	119,148,046	80,607,618
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$126,393,771	\$88,288,415
	<u> </u>	<u> </u>

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

Portfolio Recovery Associates, Inc.
Consolidated Statements of Operations
For the years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Revenues:			
Income recognized on finance receivables	\$81,796,209	\$53,802,718	\$31,220,857
Commissions	3,131,054	1,944,428	214,539
Net gain on cash sales of defaulted consumer receivables	—	100,156	900,916
	<u> </u>	<u> </u>	<u> </u>
Total revenue	84,927,263	55,847,302	32,336,312
Operating expenses:			
Compensation and employee services	28,986,795	21,700,918	15,644,460
Outside legal and other fees and services	14,147,394	8,092,460	3,627,135
Communications	2,772,110	1,914,557	1,644,557
Rent and occupancy	1,189,379	799,323	712,400
Other operating expenses	1,932,055	1,436,438	1,265,132
Depreciation	1,444,825	940,352	676,677
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	50,472,558	34,884,048	23,570,361
Income from operations	34,454,705	20,963,254	8,765,951
Other income and (expense):			
Interest income	60,173	21,548	65,362
Loss on extinguishment of debt	—	—	(423,305)
Interest expense	(602,072)	(2,446,620)	(2,781,674)
	<u> </u>	<u> </u>	<u> </u>
Income before income taxes	33,912,806	18,538,182	5,626,334
Provision for income taxes	13,199,303	1,473,073	—
	<u> </u>	<u> </u>	<u> </u>
Net income	\$20,713,503	\$17,065,109	\$ 5,626,334
	<u> </u>	<u> </u>	<u> </u>
Pro forma income taxes		5,693,788	2,100,609
		<u> </u>	<u> </u>
Pro forma net income		\$11,371,321	\$ 3,525,725
		<u> </u>	<u> </u>
Pro forma net income per common share			
Basic	\$ 1.42	\$ 1.08	\$ 0.35
Diluted	\$ 1.32	\$ 0.94	\$ 0.31
Pro forma weighted average number of shares outstanding			
Basic	14,545,985	10,529,452	10,000,000
Diluted	15,711,956	12,066,202	11,457,741

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

Portfolio Recovery Associates, Inc.
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2003, 2002 and 2001

	Members' Equity	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2000	\$ 22,705,406	\$ —	\$ —	\$ —	\$ —	\$ 22,705,406
Net income	5,626,334	—	—	—	—	5,626,334
Unrealized loss on interest rate swap	—	—	—	—	(377,303)	(377,303)
Total comprehensive income						5,249,031
Distributions	(202,931)	—	—	—	—	(202,931)
Balance at December 31, 2001	28,128,809	—	—	—	(377,303)	27,751,506
Net income	14,901,445	—	—	2,163,664	—	17,065,109
Reclassification adjustment on interest rate swap	—	—	—	—	377,303	377,303
Total comprehensive income						17,442,412
Proceeds from initial public offering, net of expenses	—	34,700	40,245,184	—	—	40,279,884
Exercise of warrants	—	500	209,500	—	—	210,000
Recapitalization	(37,480,724)	100,000	37,480,724	—	—	100,000
Stock-based compensation income tax benefits	—	—	373,346	—	—	373,346
Distributions	(5,549,530)	—	—	—	—	(5,549,530)
Balance at December 31, 2002	—	135,200	78,308,754	2,163,664	—	80,607,618
Net income	—	—	—	20,713,503	—	20,713,503
Exercise of stock options and warrants	—	17,747	1,377,148	—	—	1,394,895
Stock-based compensation income tax benefits, net of offering expenses	—	—	16,432,030	—	—	16,432,030
Balance at December 31, 2003	\$ —	\$152,947	\$96,117,932	\$22,877,167	\$ —	\$119,148,046

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

Portfolio Recovery Associates, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Operating activities:			
Net income	\$ 20,713,503	\$ 17,065,109	\$ 5,626,334
Adjustments to reconcile net income to cash provided by operating activities:			
Increase in equity from vested options	422,127	124,386	—
Income tax benefit related to stock option exercise	16,396,867	248,960	—
Depreciation	1,444,825	940,352	676,677
Loss on extinguishment of debt	—	—	423,305
Deferred tax (benefit) expense, net	(2,296,308)	286,882	—
Gain on sales of finance receivables, net	—	(100,156)	(900,916)
Gain on disposal of property and equipment	—	—	(1,766)
Changes in operating assets and liabilities:			
Other assets	(356,510)	(67,824)	(730,230)
Accounts payable	(80,072)	1,082,269	131,382
Income taxes	(1,289,092)	937,231	—
Accrued expenses	(246,524)	137,180	308,168
Accrued payroll and bonuses	372,073	1,186,965	963,780
Net cash provided by operating activities	35,080,889	21,841,354	6,496,734
Cash flows from investing activities:			
Purchases of property and equipment	(2,454,138)	(1,316,132)	(1,279,356)
Acquisition of finance receivables, net of buybacks	(62,298,316)	(42,990,924)	(33,571,212)
Collections applied to principal on finance receivables	35,255,994	25,450,833	21,926,815
Proceeds from sale of finance receivables, net of allowances for returns	—	100,756	5,682,946
Net cash used in investing activities	(29,496,460)	(18,755,467)	(7,240,807)
Cash flows from financing activities:			
Proceeds from initial public offering, net of offering costs	—	40,379,884	—
Proceeds from exercise of options and warrants	1,394,895	210,000	—
Public offering costs	(386,964)	—	—
Distribution of capital	—	(5,549,530)	(202,931)
Net (payments) proceeds from lines of credit	—	(25,000,000)	2,833,579
Proceeds from long-term debt	975,000	500,000	107,000
Payments on long-term debt	(283,610)	(102,850)	(70,235)
Payments on capital lease obligations	(310,639)	(365,060)	(334,420)
Net cash provided by financing activities	1,388,682	10,072,444	2,332,993
Net increase in cash and cash equivalents	6,973,111	13,158,331	1,588,920
Cash and cash equivalents, beginning of period	17,938,730	4,780,399	3,191,479
Cash and cash equivalents, end of period	\$ 24,911,841	\$ 17,938,730	\$ 4,780,399
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 281,332	\$ 2,698,782	\$ 2,821,784
Cash paid for income taxes	\$ 389,600	\$ —	\$ —
Noncash investing and financing activities:			
Capital lease obligations incurred	362,813	38,896	555,988
Basis — swap contract	—	(377,303)	377,303

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

Portfolio Recovery Associates, Inc. Notes to Consolidated Financial Statements

1. Organization and Business:

Portfolio Recovery Associates, Inc. was formed in August 2002. On November 8, 2002, Portfolio Recovery Associates, Inc. completed its initial public offering ("IPO") of common stock. As a result, all of the membership units and warrants of Portfolio Recovery Associates, LLC ("PRA") were exchanged on a one to one basis for warrants and shares of a single class of common stock of Portfolio Recovery Associates, Inc. ("PRA Inc"). Another subsidiary, PRA II, was dissolved immediately prior to the IPO. PRA Inc, a Delaware corporation, and its subsidiaries (collectively, the "Company") purchase, collect and manage portfolios of defaulted consumer receivables. The defaulted consumer receivables the Company collects are either purchased from the Debt Sellers or are collected on behalf of clients on a commission fee basis. This is primarily accomplished by maintaining a staff of collectors whose purpose is to contact the customers and arrange payment of the debt. Secondly, PRA has contracted with independent attorneys, with which the Company can undertake legal action in order to satisfy the outstanding debt.

On December 22, 1999, PRA formed a wholly owned subsidiary, PRA AG Funding, LLC, whose name was changed to PRA Funding, LLC in 2003, and is the sole initial member. The Company was organized for the sole purpose of facilitating the purchase of portfolios of delinquent or charged off consumer credit accounts.

On December 28, 1999, PRA formed a wholly owned subsidiary, PRA Holding I, LLC ("PRA Holding I"), and is the sole initial member. PRA Holding I is organized for the sole purpose of holding the real property in Hutchinson, Kansas (see Note 11) and Norfolk, Virginia.

On June 1, 2000, PRA formed a wholly owned subsidiary, PRA Receivables Management, LLC (d/b/a Anchor Receivables Management, LLC) ("Anchor") and was the sole initial member. Anchor is organized as a contingent collection agency and contracts with holders of finance receivables to attempt collection efforts on a contingent basis for a stated period of time. Anchor became fully operational during April 2001. PRA, Inc purchased the equity interest in Anchor from PRA immediately after the IPO.

On June 12, 2001, PRA formed a wholly owned subsidiary, PRA III, LLC ("PRA III") and is the sole initial member. PRA III is organized for the sole purpose of facilitating the purchase of portfolios of delinquent or charged off consumer credit accounts, which purchases are financed by loans from an institutional lender. PRA III was a named borrower under a \$25 million loan facility (see Note 7). PRA III was formed under the laws of the Commonwealth of Virginia and will exist in perpetual existence under those laws.

PRA Funding, LLC and PRA III were dissolved into PRA on November 24, 2003.

2. Summary of Significant Accounting Policies:

Principles of accounting and consolidation: The consolidated financial statements of the Company are prepared in accordance with accounting standards generally accepted in the United States of America and include the accounts of PRA, PRA Holding I, PRA Funding, PRA III, and Anchor. All significant intercompany accounts and transactions have been eliminated.

Cash and cash equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Finance receivables and income recognition: The Company accounts for its investment in finance receivables using the interest method under the guidance of Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans." Static pools of relatively homogenous accounts are established. Once a static pool is established, the receivable accounts in the pool are not changed. Each static pool is recorded at cost, and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Income on finance receivables is accrued monthly based on each static pool's effective interest rate. This interest rate is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using the Company's proprietary collection model. Monthly cash flows greater than the interest accrual will reduce the carrying value of the static pool.

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Likewise, monthly cash flows that are less than the monthly accrual will accrete the carrying balance. Each pool is reviewed monthly and compared to the Company's models to ensure complete amortization of the carrying balance at the end of each pool's life.

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

The agreements to purchase the aforementioned receivables include general representations and warranties from the sellers covering account holder death or bankruptcy and accounts settled or disputed prior to sale. The representation and warranty period permitting the return of these accounts from the Company to the seller is typically 90 to 180 days.

Commissions: The Company also receives commission revenue for collections made on behalf of clients, which may be credit originators or other owners of defaulted consumer receivables. These portfolios are owned by the clients; however, the collection effort is outsourced to the Company under a commission fee arrangement based upon the amount the Company collects. Revenue is recognized at the time customer funds are collected. A loss reserve or allowance amount will be created if there is doubt that fees billed to the client for services rendered will not be paid.

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

The Company applies a financial components approach that focuses on control when accounting and reporting for transfers and servicing of financial assets and extinguishments of liabilities. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, eliminates financial assets when control has been surrendered, and eliminates liabilities when extinguished. This approach provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

Property and equipment: Property and equipment, including improvements that significantly add to the productive capacity or extend useful life, are recorded at cost, while maintenance and repairs are expensed currently. Property and equipment are depreciated over their useful lives using the straight-line method of depreciation. Software and computer equipment are depreciated over three to five years. Furniture and fixtures are depreciated over five years. Equipment is depreciated over five to seven years. Leasehold improvements are depreciated over the remaining life of the leased property, which ranges from three to seven years. Building improvements are depreciated over ten to thirty-nine years.

Income taxes: Taxes are provided on substantially all income and expense items included in earnings, regardless of the period in which such items are recognized for tax purposes. The Company uses an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the estimated future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax laws or rates. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. For periods presented prior to the IPO, including the ten months ended October 31, 2002, the tax accounts are pro forma disclosures only and not recorded on the books of the Company.

Advertising costs: Advertising costs are expensed when incurred.

Operating leases: General abatements or prepaid leasing costs are recognized on a straight-line basis over the life of the lease.

Capital leases: Leases are analyzed to determine if they meet the definition of a capital lease as defined in SFAS No. 13, "Accounting for Leases". Those lease arrangements that meet one of the four criteria are considered capital leases. As such, the leased asset is capitalized and depreciated per Company policy. The lease is recorded as a liability with each payment amortizing the principal balance and a portion classified as interest expense.

Portfolio Recovery Associates, Inc. Notes to Consolidated Financial Statements

Stock-based compensation: The Company applied the intrinsic value method provided for under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," for all warrants issued to employees prior to January 1, 2002. For warrants and options issued to non-employees, the Company followed the fair value method of accounting as prescribed under SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"). On January 1, 2002 the Company adopted SFAS 123 on a prospective basis for all warrants and options granted and reported the change in accounting principle using the retroactive restatement method as prescribed in SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure." For warrants issued to employees prior to January 1, 2002, pro forma net income assuming the warrants were accounted for as prescribed by SFAS 123, has been disclosed in Note 12 to the financial statements.

Pro forma earnings per share: Basic earnings per share reflect net income adjusted for the pro forma income tax provision divided by the weighted average number of shares outstanding. Diluted earnings per share include the effect of dilutive stock options during the period. As of December 31, 2003, 55,000 stock options issued under the 2002 Stock Option Plan were antidilutive. These options may become dilutive in future years.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates have been made by management with respect to the collectibility of future cash flows of portfolios. Actual results could differ from these estimates making it reasonably possible that a change in these estimates could occur within one year. On a monthly basis, management reviews the estimate of future collections, and it is reasonably possible that its assessment of collectibility may change based on actual results and other factors.

Fair value of financial instruments: The company's financial instruments consist of cash and cash equivalents, finance receivables, net, long-term debt, and obligations under capital leases. The fair value of cash and cash equivalents, long-term debt and obligations under capital leases approximates their respective carrying values. The Company considers it not practicable to perform a fair value calculation of the finance receivables due to the excessive cost that would be incurred.

Reclassifications: Certain 2002 and 2001 amounts have been reclassified to conform to the 2003 presentation.

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

In October 2003, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-03, "Accounting for Loans or Certain Securities Acquired in a Transfer." This SOP provides guidance on accounting for differences between contractual and expected cash flows from an investors initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in

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part, to credit quality. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. The SOP would limit the revenue that may be accrued to the excess of the estimate of expected future cash flows over a portfolio's initial cost of accounts receivable acquired. The SOP would require that the excess of the contractual cash flows over expected future cash flows not be recognized as an adjustment of revenue, expense, or on the balance sheet. The SOP would freeze the internal rate of return, referred to as IRR, originally estimated when the accounts receivable are purchased for subsequent impairment testing. Rather than lower the estimated IRR if the original collection estimates are not received, the carrying value of a portfolio would be written down to maintain the original IRR. Increases in expected future cash flows would be recognized prospectively through adjustment of the IRR over a portfolio's remaining life. The SOP provides that previously issued annual financial statements would not need to be restated. Management is in the process of evaluating the application of this SOP.

3. Finance Receivables:

As of December 31, 2003 and 2002, the Company had \$92,568,557 and \$65,526,235, respectively, remaining of finance receivables. These amounts represent 412 and 330 pools of accounts as of December 31, 2003 and 2002, respectively.

Changes in finance receivables at December 31, 2003 and 2002, were as follows:

	2003	2002
Balance at beginning of year	\$ 65,526,235	\$ 47,986,744
Acquisitions of finance receivables, net of buybacks	62,298,316	42,990,924
Cash collections	(117,052,203)	(79,253,551)
Income recognized on finance receivables	81,796,209	53,802,718
Cash collections applied to principal	(35,255,994)	(25,450,833)
Cost of finance receivables sold, net of allowance for returns	—	(600)
Balance at end of year	<u>\$ 92,568,557</u>	<u>\$ 65,526,235</u>

At the time of acquisition, the life of each pool is generally set at between 60 and 72 months based upon the proprietary models of the Company. As of December 31, 2003 the Company had \$92,568,557 in finance receivables included in the Statement of Financial Position. Based upon current projections, cash collections applied to principal will be as follows for the twelve months in the years ending:

December 31, 2004	\$32,707,264
December 31, 2005	27,244,198
December 31, 2006	18,245,994
December 31, 2007	10,590,660
December 31, 2008	3,120,910
December 31, 2009	659,531
	<u>\$92,568,557</u>

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4. Operating Leases:

The Company rents office space and equipment under operating leases. Rental expense was \$1,028,530, \$668,795, and \$602,783 for the years ended December 31, 2003, 2002 and 2001, respectively.

Future minimum lease payments at December 31, 2003, are as follows:

2004	\$ 1,391,115
2005	1,467,992
2006	1,469,758
2007	1,510,940
2008	1,553,787
Thereafter	6,952,595
	<hr/>
	\$14,346,186
	<hr/>

5. Capital Leases:

Leased assets included in property and equipment consist of the following:

	2003	2002
Software	\$ 270,008	\$ 270,008
Computer equipment	61,086	178,893
Furniture and fixtures	963,377	600,564
Equipment	27,249	27,249
Less accumulated depreciation	(607,591)	(461,326)
	<hr/>	<hr/>
	\$ 714,129	\$ 615,388
	<hr/>	<hr/>

Depreciation expense recognized on capital leases for the years ended December 31, 2003, 2002 and 2001 was \$210,101, \$213,016, and \$238,719, respectively.

Commitments for minimum annual rental payments for these leases as of December 31, 2003 are as follows:

2004	\$249,262
2005	150,993
2006	87,524
2007	80,160
2008	31,569
	<hr/>
	599,508
Less amount representing interest and taxes	48,183
	<hr/>
Present value of net minimum lease payments	\$551,325
	<hr/>

6. 401(k) Retirement Plan:

Effective October 1, 1998, the Company sponsors a defined contribution plan. Under the Plan, all employees over twenty-one years of age are eligible to make voluntary contributions to the Plan up to 15% of their compensation, subject to Internal Revenue Service limitations after completing six months of service, as defined in the Plan. On January 1, 2004, the Company amended the Plan to allow employees to make voluntary contributions up to 100% of their compensation, subject to Internal Revenue Service limitations. The Company makes matching contributions of

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up to 4% of an employee's salary. Total compensation expense related to these contributions was \$284,017, \$265,510, and \$198,691 for the years ended December 31, 2003, 2002 and 2001, respectively.

7. Revolving Lines of Credit:

On September 18, 2001, PRA III arranged with a commercial lender to provide financing under a revolving line of credit of up to \$40 million. The initial draw of \$20 million was utilized to facilitate the purchase of all finance receivable portfolios from PRA and PRA II. PRA then used those funds to terminate an existing line of credit agreement. An additional \$5 million was drawn in the initial funding to purchase additional portfolios from third parties in the normal course of business. Interest is based on LIBOR and was 6.17% at December 31, 2002. Restrictive covenants under this agreement include:

- Restrictions on monthly borrowings in excess of \$4 million per month and quarterly borrowings in excess of \$10 million;
- A maximum leverage ratio of not greater than 4 to 1 and net income of at least \$0.01, calculated on a consolidated basis;
- Restrictions on distributions in excess of 75% of annual net income;
- Compliance with certain special purpose vehicle and corporate separateness covenants; and
- Restrictions on change of control.

As of December 31, 2002 the Company was in compliance with all of the covenants of this agreement. Upon consummation of the reorganization discussed in Note 1, a waiver would have been required in order to remain in compliance with the terms of the agreement. On October 18, 2002 Westside Funding ("Westside") acknowledged our notification letter and provided several options that would be acceptable for Westside. On November 19, 2002 Westside provided their letter of intent to amend the Loan and Security agreement dated September 18, 2001 and they began drafting that amendment. On December 18, 2002 the Loan and Security amendment was finalized. The balance on this facility was paid off on November 14, 2002 with proceeds obtained from the IPO. The Loan and Security agreement dated December 18, 2002 modified certain terms of the loan agreement in keeping with the Company's reduced borrowing needs following the IPO. Modifications include a reduction in the facility size from \$40 million to \$25 million, a \$75,000 modification fee, a reduction in the borrowing spread, a reduction in certain monthly fees, and an increase in the facility's non-use fee when the amount outstanding is less than \$10 million.

On November 28, 2003 this facility was terminated, in favor of the RBC Centura Bank ("RBC") line.

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

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

This facility had no amounts outstanding at December 31, 2003.

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In addition, PRA Funding, LLC maintained a \$2.5 million revolving line of credit, with a commercial lender which extended through September 2003. This \$2.5 million facility had no amounts outstanding as of December 31, 2002 and was terminated in 2003.

8. Property and equipment:

Property and equipment, at cost, consist of the following as of December 31, 2003 and 2002:

	2003	2002
Software	\$ 2,030,403	1,431,938
Computer equipment	2,193,386	1,435,795
Furniture and fixtures	1,283,748	942,178
Equipment	1,602,547	1,037,372
Leasehold improvements	801,516	343,329
Building and improvements	1,138,924	1,136,762
Land	100,515	100,515
Less accumulated depreciation	(3,984,659)	(2,633,635)
Net property and equipment	<u>\$ 5,166,380</u>	<u>\$ 3,794,254</u>

9. Loss on Extinguishment of Debt:

During 2001 PRA restructured its debt position which gave rise to a loss on extinguishment of debt. The first item resulted from the termination of the line of credit dated May 2000. The company paid off \$20 million in outstanding debt and expensed \$231,564 of remaining unamortized acquisition costs. The second item resulted from the termination of the credit facility from the affiliated lender dated December 1999. PRA paid off all existing loans under this facility (\$1,941,119) and incurred a loss on the extinguishment of the contingent interest provision of \$191,741.

10. Hedging Activity:

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

The only expenses incurred related to the swap agreement were interest expenses of \$0, \$792,047 and \$118,924 for the years ended December 31, 2003, 2002 and 2001, respectively. The interest paid in 2002 represents monthly interest plus the final extinguishment amount of \$541,762. The net interest payments are a component of "Interest Expense."

11. Long-Term Debt:

In July 2000, the Company purchased a building in Hutchinson, Kansas. The building was financed with a commercial loan for \$550,000 with a variable interest rate based on LIBOR. This commercial loan is collateralized by the real estate in Kansas. Interest rates varied between 3.35% and 3.79% during 2003 and 3.74% and 4.47% during 2002. Monthly principal payments on the loan are \$4,583 for an amortized term of 10 years. A balloon payment of \$275,000 is due July 21, 2005, which results in a five-year principal payout. The loan matures July 21, 2005.

On February 9, 2001, the Company purchased a generator for its Norfolk location. The generator was financed with a commercial loan for \$107,000 with a fixed rate of 7.9%. This commercial loan is

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collateralized by the generator. Monthly payments on the loan are \$2,170 and the loan matures on February 1, 2006.

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

On May 1, 2003, the Company secured financing for its computer equipment purchases related to the Hampton, Virginia office opening. The computer equipment was financed with a commercial loan for \$975,000 with a fixed rate of 4.25%. This loan is collateralized by computer equipment. Monthly payments are \$18,096 and the loan matures on May 1, 2008.

Annual payments on all loans outstanding as of December 31, 2003 are as follows:

2004	\$ 429,643
2005	680,405
2006	339,059
2007	295,530
2008	72,385
Thereafter	—
	1,817,022
Less amount representing interest	(160,050)
	\$1,656,972

These four loans are collateralized by property and buildings that have a book value of \$2,031,553 and \$1,104,012 as of December 31, 2003 and 2002, respectively.

12. Stock-Based Compensation

The Company has a stock warrant plan and a stock option plan. Prior to 2002, the Company accounted for stock compensation issued under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Effective January 1, 2002, the Company adopted the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," prospectively to all employee awards granted, modified, or settled after January 1, 2002. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2001 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS 123.

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The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001
Net income/Pro forma net income:			
As reported	\$20,713,503	\$11,371,321	\$3,525,725
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	272,828	29,733	—
Less: Total stock based compensation expense determined under intrinsic value method for all awards, net of related tax effects	(272,828)	(29,733)	(8,054)
Pro forma net income	<u>\$20,713,503</u>	<u>\$11,371,321</u>	<u>\$3,517,671</u>
Earnings per share:			
Basic — as reported	\$ 1.42	\$ 1.08	\$ 0.35
Basic — pro forma	\$ 1.42	\$ 1.08	\$ 0.35
Diluted — as reported	\$ 1.32	\$ 0.94	\$ 0.31
Diluted — pro forma	\$ 1.32	\$ 0.94	\$ 0.31

Stock Warrants

The PRA management committee was authorized to issue warrants to partners, employees or vendors to purchase membership units. Generally, warrants granted had a term between 5 and 7 years and vested within 3 years. Warrants had been issued at or above the fair market value on the date of grant. Warrants vest and expire according to terms established at the grant date.

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The following summarizes all warrant related transactions from December 31, 2000 through December 31, 2003:

	Warrants Outstanding	Weighted Average Exercise Price
December 31, 2000	2,160,000	\$ 4.17
Granted	155,000	4.20
Cancelled	(120,000)	4.20
December 31, 2001	2,195,000	4.17
Granted	50,000	10.00
Exercised	(50,000)	4.20
Cancelled	(10,000)	4.20
December 31, 2002	2,185,000	4.30
Exercised	(2,026,000)	4.17
Cancelled	(51,500)	9.72
December 31, 2003	107,500	\$ 4.20

The following information is as of December 31, 2003:

Exercise Prices	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$4.20	107,500	2.28	\$ 4.20	107,500	\$ 4.20
Total at December 31, 2003	107,500	2.28	\$ 4.20	107,500	\$ 4.20

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

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

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

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Effective December 30, 1999, the Company issued warrants to acquire 125,000 membership units to an affiliate of Angelo, Gordon & Co. The warrants immediately vested and were exercisable at \$3.60 per unit. As these warrants were not issued as compensation to an employee or operating member of the Company, an expense of \$0, \$17,069, and \$17,069 was recognized in the years ended December 31, 2003, 2002, and 2001, respectively. The value of the warrants was calculated using the fair value approach as designated by SFAS 123 which utilizes a comparison of the discounted value of the underlying units discounted using a risk-free interest rate at the date of grant. All warrants issued to AG 1999 were exercised in 2003 and none remain outstanding as of December 31, 2003.

Effective August 18, 1999, the Company issued warrants to acquire 200,000 membership units of PRA to SMR Research Corporation. The warrants were to vest over a 60 month period and were exercisable at \$4.20 per unit. The warrants vested as to 80,000 membership units and the remaining 120,000 membership units were cancelled upon the termination of an agreement between the Company and SMR Research Corporation. The value of the warrants was calculated using the intrinsic method and no expense was recognized on these warrants. The fair value approach was then applied, as designated by SFAS 123, which utilizes a comparison of the discounted value of the underlying units discounted using a risk-free interest rate at the date of grant. As a result, these warrants were shown to have a negative present value, and as such no expense has been recorded. All warrants issued to SMR Research Corporation have been exercised or cancelled and none remain outstanding as of December 31, 2003.

Stock Options

The Company created the 2002 Stock Option Plan (the "Plan") on November 7, 2002. Up to 2,000,000 shares of common stock may be issued under this program. The Plan expires November 7, 2012. All options issued under the Plan vest ratably over 5 years. Granted options expire seven years from grant date. Expiration dates range between November 7, 2009 and July 31, 2010. No grant of options to a single person can exceed 200,000 in a single year. As of December 31, 2003, 875,000 options have been granted under the Plan of which 26,175 have been cancelled. These options are accounted for under SFAS 123 and all expenses for 2003 and 2002 are included in earnings as a component of compensation.

The following summarizes all option related transactions from December 31, 2001 through December 31, 2003:

	Options Outstanding	Weighted Average Exercise Price
December 31, 2001	—	\$ —
Granted	820,000	13.06
Cancelled	(12,150)	13.00
	<hr/>	<hr/>
December 31, 2002	807,850	13.06
Granted	55,000	27.88
Exercised	(50,915)	13.00
Cancelled	(14,025)	13.00
	<hr/>	<hr/>
December 31, 2003	797,910	\$14.09

All of the stock options were issued to employees of the Company except for 20,000 that were issued to the board of directors.

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The following information is as of December 31, 2003:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	
\$13.00	727,910	5.86	\$ 13.00	104,930	\$ 13.00	
\$16.16	15,000	5.89	\$ 16.16	3,000	\$ 16.16	
\$27.77	50,000	6.59	\$ 27.88	—	\$ 27.77	
\$28.98	5,000	6.54	\$ 28.98	—	\$ 28.98	
Total at December 31, 2003	797,910	5.91	\$ 14.09	107,930	\$ 13.09	

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

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

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

Restricted Stock

Restricted stock shares are permitted to be issued as an incentive to attract new employees when the stock has traded for less than one year, as is the case for the Company. During the year ended December 31, 2003, the Company issued 13,045 shares of restricted stock. The terms are similar to the stock option plan where the shares are issued at or above market values and vest ratably over 5 years. Restricted stock is expensed over its vesting period.

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13. Stockholders' Equity:

Shares of common stock outstanding were as follows:

December 31, 2001	—
Initial public offering	13,470,000
Exercise of warrants	50,000
	<hr/>
December 31, 2002	13,520,000
Exercise of warrants and options	1,774,676
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December 31, 2003	15,294,676
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14. Income Taxes:

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

The income tax expense recognized for the years ended December 31, 2003 and 2002 is composed of the following:

For the year ended December 31, 2003	Federal	State	Total
Current tax expense	\$ (116,809)	(21,303)	\$ (138,112)
Deferred tax expense	11,279,283	2,058,132	13,337,415
	<hr/>		
Total income tax expense	\$11,162,474	\$2,036,829	\$13,199,303
	<hr/>		
For the year ended December 31, 2002	Federal	State	Total
Current tax expense	\$1,005,368	180,823	\$1,186,191
Deferred tax expense	242,633	44,249	286,882
	<hr/>		
Total income tax expense	\$1,248,001	\$225,072	\$1,473,073
	<hr/>		

The Company also recognized a net deferred tax asset of \$2,009,426 as of December 31, 2003 and a net deferred tax liability of \$286,882 as of December 31, 2002. The components of this net asset and liability are:

Portfolio Recovery Associates, Inc.
Notes to Consolidated Financial Statements

	2003	2002
Deferred tax assets:		
Net operating loss — tax	\$21,002,183	\$ —
Employee compensation	181,668	47,997
Other	6,895	14,872
	21,190,746	62,869
Deferred tax liabilities:		
Depreciation expense	516,895	260,125
Prepaid expenses	268,712	89,626
Cost recovery	18,395,713	—
	19,181,320	349,751
	\$ 2,009,426	\$(286,882)

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

During 2003, the Company recognized a deferred tax asset relating to the net operating loss for tax purposes. This resulted from the adoption of the cost recovery method of income recognition for tax purposes and recognizing a tax deduction of approximately \$16.4 million relating to stock option and warrant exercises, net of public offering related expenses. Cost recovery is an acceptable method for companies in the collection industry and results in the reduction of current taxable income as, for tax purposes, collections on finance receivables are applied to reduce the finance receivables to zero before any income is recognized. The timing difference from the adoption of cost recovery resulted in a deferred tax liability at December 31, 2003. The tax benefit generated by the stock option and warrant exercises reduced the Company's current tax liability with a corresponding increase in additional paid in capital.

The Company presented pro forma tax information assuming it has been a taxable corporation since inception and assuming tax rates equal to the rates that would have been in effect had it been required to report income tax expense in such years. A reconciliation of the Company's expected tax expense at statutory tax rates to actual tax expense for the year ended December 31, 2003 and the pro forma income tax expense for the years ended December 31, 2002 and 2001, consists of the following components:

	2003	2002	2001
Federal tax at statutory rates	\$11,869,482	\$6,488,364	\$1,912,953
State tax expense, net of federal benefit	1,323,939	725,246	226,975
Other	5,882	(46,749)	(39,319)
	\$13,199,303	\$7,166,861	\$2,100,609

15. Contingencies and Commitments:

Employment Agreements:

The Company has employment agreements with all of its executive officers and with several members of its senior management group, the terms of which expire on March 31, 2004 or December 31, 2005. Such agreements provide for base salary payments as well as bonuses which are based on the attainment of specific management goals. Estimated remaining compensation under these agreements is approximately \$3.3 million. The agreements also contain confidentiality and non-compete provisions.

Portfolio Recovery Associates, Inc.
Notes to Consolidated Financial Statements

Litigation:

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9a. Disclosure Controls and Procedures.

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

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

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

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth certain information as of February 12, 2004 about the Company's directors and executive officers.

Name	Position	Age
Steven D. Fredrickson	President, Chief Executive Officer and Chairman of the Board	44
Kevin P. Stevenson	Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary	39
Craig A. Grube	Executive Vice President — Acquisitions	43
James L. Keown	Senior Vice President — Strategic Initiatives	46
Judith S. Scott	Executive Vice President, General Counsel and Secretary	58
William P. Brophy	Director*	66
Peter A. Cohen	Director*	57
David N. Roberts	Director	41
James M. Voss	Director*	61

* Member of the Company's audit committee (the "Audit Committee"), which has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Board of Directors of the Company has determined that Mr. Voss is an independent director (as that term is used in Schedule 14A of the Exchange Act) and is the "audit committee financial expert" for the Company who serves on the Audit Committee.

Steven D. Fredrickson, President, Chief Executive Officer and Chairman of the Board. Prior to co-founding Portfolio Recovery Associates in 1996, Mr. Fredrickson was Vice President, Director of Household Recovery Services' ("HRSC") Portfolio Services Group from late 1993 until February 1996. At HRSC Mr. Fredrickson was ultimately responsible for HRSC's portfolio sale and purchase programs, finance and accounting, as well as other functional areas. Prior to joining HRSC, he spent five years with Household Commercial Financial Services managing a national commercial real estate workout team and five years with Continental Bank of Chicago as a member of the FDIC workout department, specializing in corporate and real estate workouts. He received a B.S. degree from the University of Denver and a M.B.A. degree from the University of Illinois. He is a past board member of the American Asset Buyers Association.

Kevin P. Stevenson, Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary. Prior to co-founding Portfolio Recovery Associates in 1996, Mr. Stevenson served as Controller and Department Manager of Financial Control and Operations Support at HRSC from June 1994 to March 1996, supervising a department of approximately 30 employees. Prior to joining HRSC, he served as Controller of Household Bank's Regional Processing Center in Worthington, Ohio where he also managed the collections, technology, research and ATM departments. While at Household Bank, Mr. Stevenson participated in eight bank acquisitions and numerous branch acquisitions or divestitures. He is a certified public accountant and received his B.S.B.A. with a major in accounting from the Ohio State University.

Craig A. Grube, Executive Vice President — Acquisitions. Prior to joining Portfolio Recovery Associates in March 1998, Mr. Grube was a senior officer and director of Anchor Fence, Inc., a manufacturing and distribution business from 1989 to March 1997, when the company was sold. Between the time of the sale and March 1998, Mr. Grube continued to work for Anchor Fence. Prior to joining Anchor Fence, he managed distressed corporate debt for the FDIC at Continental Illinois National Bank for five years. He received his B.A. degree from Boston College and his M.B.A. degree from the University of Illinois.

James L. Keown, Senior Vice President — Strategic Initiatives. Prior to co-founding Portfolio Recovery Associates in 1996, Mr. Keown had been with HRSC for 14 years and had sales and finance experience prior to joining HRSC. Mr. Keown's final position at HRSC was Department Manager, Technology Service where he was directly responsible for a 275 node local area network, all phone and data communications, as well as performance engineering and applications programming. Mr. Keown will retire from the Company effective March 31, 2004.

Judith S. Scott, Executive Vice President, General Counsel and Secretary. Prior to joining Portfolio Recovery Associates in March 1998, Ms. Scott held senior positions, from 1991 to March 1998, with Old Dominion University as Director of its Virginia Peninsula campus, from 1985 to 1991, as General Counsel of a computer manufacturing firm; as Senior Counsel in the Office of the Governor of Virginia from 1982 to 1985; as Senior Counsel for the Virginia Housing Development Authority from 1976 to 1982, and as Assistant Attorney General for the Commonwealth of Virginia from 1975 to 1976. Ms. Scott received her B.S. in business administration from Virginia State University, a post baccalaureate degree in economics from Swarthmore College, and a J.D. from the Catholic University School of Law.

William P. Brophrey, Director. Mr. Brophrey was elected as a director of Portfolio Recovery Associates in 2002. Currently retired, Mr. Brophrey has more than 35 years of experience as president and chief executive officer of Brad Ragan, Inc., a (formerly) publicly traded automotive product and service retailer and as a senior executive at The Goodyear Tire and Rubber Company. Throughout his career, he held numerous field and corporate positions at Goodyear in the areas of wholesale, retail, credit, and sales and marketing, including general marketing manager, commercial tire products. He served as president and chief executive officer and a member of the board of directors of Brad Ragan, Inc. (a 75% owned public subsidiary of Goodyear) from 1988 to 1996, and vice chairman of the board of directors from 1994 to 1996, when he was named vice president, original equipment tire sales world wide at Goodyear. From 1998 until his retirement in 2000, he was again elected president and chief executive officer and vice chairman of the board of directors of Brad Ragan, Inc. Mr. Brophrey has a business degree from Ohio Valley College and attended advanced management programs at Kent State University, Northwestern University, Morehouse College and Columbia University.

Peter A. Cohen, Director. Mr. Cohen was elected as a director of Portfolio Recovery Associates in 2002. Mr. Cohen began his career on Wall Street at Reynolds & Co. in 1969. In 1970, he joined the firm which would later become Shearson Lehman Brothers. In 1981, when Shearson merged with American Express, he was appointed president and chief operating officer. From 1983 to 1990, he served as chairman and chief executive officer of Shearson. From 1991 to 1994, Mr. Cohen served as an advisor and vice chairman of the board of Republic New York Corporation. In 1994, he started what is today Ramius Capital Group, an investment management business, which currently has \$3 billion of assets under management. Mr. Cohen has served on numerous boards of directors, including the New York Stock Exchange, the American Express Company, Olivetti SpA, and Telecom SpA. Currently, he sits on the boards of Presidential Life Corporation, The Mount-Sinai-NYU Medical Center & Health System, Kroll Inc., and Titan Corporation. Mr. Cohen has an MBA from Columbia University and a Bachelor's Degree from Ohio State University.

David N. Roberts, Director. Mr. Roberts has been a director of Portfolio Recovery Associates since its formation in 1996. Mr. Roberts joined Angelo Gordon in 1993. He manages the firm's private equity and special situations area and was the founder of the firm's opportunistic real estate area. Mr. Roberts has invested in a wide variety of real estate, corporate and special situations transactions. Prior to joining Angelo, Gordon Mr. Roberts was a principal at Gordon Investment Corporation, a Canadian merchant bank from 1989 to 1993, where he participated in a wide variety of principal transactions including investments in the real estate, mortgage banking and food industries. Prior to joining Gordon Investment Corporation, he worked in the Corporate Finance Department of L.F. Rothschild where he specialized in mergers and acquisitions. He has a B.S. degree in economics from the Wharton School of the University of Pennsylvania.

James M. Voss, Director. Mr. Voss was elected as a director of Portfolio Recovery Associates in 2002. Mr. Voss has more than 35 years experience as a senior finance executive. He currently heads Voss Consulting, Inc., serving as a consultant to community banks regarding policy, organization, credit risk management and strategic planning. From 1992 through 1998, he was with First Midwest Bank as executive vice president and chief credit officer. He served in a variety of senior executive roles during a 24 year career (1965-1989) with Continental Bank of Chicago, and was chief financial officer at Allied Products Corporation (1990-1991), a publicly traded (NYSE) diversified manufacturer. Currently, he serves on the board of Elgin State Bank. Mr. Voss has both an MBA and Bachelor's Degree from Northwestern University.

Corporate Code of Ethics

The Company has adopted a Code of Ethics which is applicable to all directors, officers, and employees and which complies with the definition of a "code of ethics" set out in Section 406(c) of the Sarbanes-Oxley Act of 2002, and the requirement of a "Code of Conduct" prescribed by Section 4350(n) of the Marketplace Rules of the NASDAQ Stock Market, Inc. The Code of Ethics is available to the public, and will be provided by the Company at no charge to any requesting party. Interested parties may obtain a copy of the Code of Ethics by submitting a written request to Investor Relations, Portfolio Recovery Associates, Inc., 120 Corporate Boulevard, Suite 100, Norfolk, Virginia, 23502, or by email at investorrelations@portfoliorecovery.com. The Code of Ethics will also be posted on the Company website at www.portfoliorecovery.com and will be available online on or about March 10, 2004.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated herein by reference to the section labeled "Executive Compensation" in the Company's definitive Proxy Statement in connection with the Company's 2004 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 is incorporated herein by reference to the section labeled "Security Ownership of Certain Beneficial Owners and Management" in the Company's definitive Proxy Statement in connection with the Company's 2004 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 is incorporated herein by reference to the section labeled "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement in connection with the Company's 2004 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services.

The aggregate fees billed or expected to be billed by PricewaterhouseCoopers, LLP for the years ended December 31, 2003 and 2002 are presented in the table below:

	2003	2002
Audit Fees		
Annual audit	\$130,575	\$124,151
Registration statements	118,739	340,321
	<u>249,314</u>	<u>464,472</u>
Audit Related Fees		
WestLB attest service	4,700	2,000
Tax Fees		
Compliance	10,000	29,625
Advice	125,507	21,425
	<u>135,507</u>	<u>51,050</u>
All Other Fees	<u>—</u>	<u>—</u>
Total Accountant Fees	<u>\$389,521</u>	<u>\$517,522</u>

The Audit Committee's charter provides that they will:

1. Approve the fees and other significant compensation to be paid to auditors.
2. Review the non-audit services to determine whether they are permissible under current law.

3. Pre-approve the provision of any permissible non-audit services by the independent auditors and the related fees of the independent auditors therefor.

4. Consider whether the provision of these other services is compatible with maintaining the auditors' independence.

All the fees paid to PricewaterhouseCoopers were pre-approved by the Audit Committee.

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 this Annual Report on Form 10-K:

	Page
Report of Independent Auditors	39
Consolidated Statements of Financial Position at December 31, 2003 and 2002	40
Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001	41
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001	42
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	43
Notes to Consolidated Financial Statements	44-58

(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.

- 10.1 Loan Agreement, dated July 20, 2000, by and between PRA Holding I, LLC, Bank of America, N.A. and Portfolio Recovery Associates, LLC. (Incorporated by reference to Exhibit 10.2 of the Registration Statement on Form S-1.)
- 10.2 Business Loan Agreement, dated September 24, 2001, by and between PRA Holding I, LLC, Bank of America, N.A. and Portfolio Recovery Associates, L.L.C. (Incorporated by reference to Exhibit 10.5 of the Registration Statement on Form S-1.)
- 10.3 Amendment to Business Loan Agreement, dated February 20, 2002, by and between PRA Holding I, LLC, Bank of America, N.A. and Portfolio Recovery Associates, L.L.C. (Incorporated by reference to Exhibit 10.6 of the Registration Statement on Form S-1.)
- 10.4 Employment Agreement, dated December 8, 2002, by and between Steven D. Fredrickson and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 10.8 of the Annual Report on Form 10-K for the year ended December 31, 2002.)
- 10.5 Employment Agreement, dated December 8, 2002, by and between Kevin P. Stevenson and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 10.9 of the Annual Report on Form 10-K for the year ended December 31, 2002.)
- 10.6 Employment Agreement, dated December 8, 2002, by and between Craig A. Grube and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 10.10 of the Annual Report on Form 10-K for the year ended December 31, 2002.)
- 10.7 Employment Agreement, dated December 27, 2002, by and between James L. Keown and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 10.12 of the Annual Report on Form 10-K for the year ended December 31, 2002.)
- 10.8 Employment Agreement, dated December 8, 2002, by and between Judith S. Scott and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 10.13 of the Annual Report on Form 10-K for the year ended December 31, 2002.)
- 10.9 Portfolio Recovery Associates, Inc. 2002 Stock Option Plan. (Incorporated by reference to Exhibit 10.12 of the Registration Statement on Form S-1.)
- 10.10 Riverside Commerce Center Office Lease, dated February 12, 1999, by and between Riverside Investors, L.C. and Portfolio Recovery Associates, L.L.C. (Incorporated by reference to Exhibit 10.13 of the Registration Statement on Form S-1.)

- 10.11 First Amendment to Riverside Commerce Center Office Lease, dated April 27, 1999, by and between Riverside Investors, L.C. and Portfolio Recovery Associates, L.L.C. (Incorporated by reference to Exhibit 10.14 of the Registration Statement on Form S-1.)
- 10.12 Second Amendment to Riverside Commerce Center Office Lease, dated September 29, 2000, by and between Riverside Investors, L.C. and Portfolio Recovery Associates, L.L.C. (Incorporated by reference to Exhibit 10.15 of the Registration Statement on Form S-1.)
- 10.13 Office Lease, dated November 13, 2002, by and between NetCenter Partners, LLC and Portfolio Recovery Associates, L.L.C. (Incorporated by reference to Exhibit 10.16 of the Form 10-Q for the period ended September 30, 2002.)
- 10.14 Riverside Commerce Center II Office Lease, dated June 27, 2003, by and between Riverside Investors, L.C. and Portfolio Recovery Associates, LLC. (Incorporated by reference to Exhibit 10.20 of the Form 10-Q for the period ended June 30, 2003).
- 10.15 Third Amendment to Riverside Commerce Center Office Lease, dated June 27, 2003, by and between Riverside Investors, L.C. and Portfolio Recovery Associates, LLC. (Incorporated by reference to Exhibit 10.21 of the Form 10-Q for the period ended June 30, 2003).
- 10.16 First Lease Amendment to Riverside Commerce Office Lease, dated June 27, 2003, by and between Riverside Crossing L.C. and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 10.23 of the Form 10-Q for the period ended September 30, 2003).
- 10.17 Fourth Lease Amendment to Riverside Commerce Center Office Lease, dated February 12, 1999, by and between Riverside Crossing, L.C. and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 10.24 of the Form 10-Q for the period ended September 30, 2003).
- 10.18 Loan and Security Agreement, dated November 28, 2003, by and between Portfolio Recovery Associates, Inc. and RBC Centura Bank.
- 10.19 Commercial Promissory Note, dated November 28, 2003, by and between Portfolio Recovery Associates, Inc. and RBC Centura Bank.
- 10.20 Business Loan Agreement, dated January 8, 2004, by and between Portfolio Recovery Associates, Inc. and RBC Centura Bank.
- 10.21 Promissory Note, dated January 8, 2004, 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
- 24.1 Powers of Attorney (included on signature page).
- 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

SIGNATURES

Pursuant to the requirements of 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.

Dated: February 18, 2004

Portfolio Recovery Associates, Inc.
(Registrant)

By: /s/ Steven D. Fredrickson

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

Dated: February 18, 2004

By: /s/ Kevin P. Stevenson

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

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned whose signature appears below constitutes and appoints Steven D. Fredrickson and Kevin P. Stevenson, his true and lawful attorneys-in-fact, with full power of substitution and resubstitution for him and on his behalf, and in his name, place and stead, in any and all capacities to execute and sign any and all amendments or post-effective amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof and the registrant hereby confers like authority on its behalf.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: February 18, 2004

By: /s/ Steven D. Fredrickson

Steven D. Fredrickson
President and Chief Executive Officer

Dated: February 18, 2004

By: /s/ Kevin P. Stevenson

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

Dated: February 18, 2004

By: /s/ William P. Brophey

William P. Brophey
Director

Dated: February 18, 2004

By: /s/ Peter A. Cohen

Peter A. Cohen
Director

Dated: February 18, 2004

By: /s/ David N. Roberts

David Roberts
Director

Dated: February 18, 2004

By: /s/ James M. Voss

James M. Voss
Director

Exhibit 10.18

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 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 "TM" 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]

In witness whereof, the parties have caused this agreement to be executed with authority duly obtained, as of the date first written above.

Portfolio Recovery Associates, Inc

Witness:

By:

Print Name:

Title:

Print Name:

RBC CENTURA BANK

By:

Name: Alfred W. Craft, III
Title: Commercial Banking Officer
5700 Lake Wright Drive, Suite 400
Norfolk, Virginia 23502

Exhibit 10.19

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)

The undersigned has executed this Note as of the day and year first above stated.

PORTFOLIO RECOVERY ASSOCIATES, INC

By: _____

Print Name: _____

Title: _____

Witness: _____

Print Name: _____

#864519 v2 — Promissory Note/RBC Centura/Portfolio Recovery Associates

BUSINESS LOAN AGREEMENT

Borrower: Portfolio Recovery Associates, Inc.
120 Corporate Boulevard, Suite 100
Norfolk, VA 23502

Lender: RBC CENTURA BANK
Twin Oaks
Lending Service Center
5700 Lake Wright Dr., Ste#400
Norfolk, VA 23502

THIS BUSINESS LOAN AGREEMENT dated January 8, 2004, is made and executed between Portfolio Recovery Associates, Inc. ("Borrower") and RBC CENTURA BANK ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement ("Loan"). Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of January 8, 2004, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) guaranties; (6) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a corporation for profit which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Delaware. Borrower is duly authorized to transact business in the Commonwealth of Virginia and all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign corporation in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 120 Corporate Boulevard, Suite 100, Norfolk, VA 23502. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of incorporation or organization, or bylaws, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that (1) During the period of Borrower's ownership of Borrower's Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants or any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the

event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

**BUSINESS LOAN AGREEMENT
(Continued)**

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with the following:

Annual Statements. As soon as available, but in no event later than one-hundred-twenty (120) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, compiled by a certified public accountant satisfactory to Lender.

Interim Statements. As soon as available, but in no event later than 15 days after the end of each month, Borrower's balance sheet and profit and loss statement for the period ended, prepared by Borrower in form satisfactory to Lender.

Additional Requirements.

Annual Statements of Guarantors. As soon as available, but in no event later than one-hundred-twenty (120) days after the end of each fiscal year, Guarantors' balance sheet and income statement for the year ended, compiled by a certified public accountant satisfactory to Lender.

Interim Statements of Guarantors. As soon as available, but in no event later than 15 days after the end of each month, Guarantors' balance sheet and profit and loss statement for the period ended, prepared by Guarantors in a form satisfactory to Lender.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Financial Covenants and Ratios. Comply with the following covenants and ratios:

Minimum Income and Cash flow Requirements. Other Cash Flow requirements are as follow:

Debt Coverage Ratio. Borrower must maintain a Debt Coverage Ratio greater than 8.0:1.0. Debt Coverage Ratio is defined as Earnings before Interest, Taxes, Depreciation, Amortization Expense and payments applied to principal of the purchase price of Asset Pools divided by Current Portion Long-Term Debt plus Current Portion Capital Leases on a rolling 12-month plus Interest Expense.

Tangible Net Worth Requirements. Other Net Worth requirements are as follows:

Net Income. Borrower must maintain a net income of \$1.00 or greater per quarter. Net Income is defined as total revenues less total expense.

Debt /Tangible Net Worth Ratio. Borrower must maintain a Debt /Tangible Net Worth not in excess of 0.400 to 1.000. The ratio "Debt / Tangible Net Worth" means Borrower's Total Liabilities divided by Borrower's Tangible Net Worth. This leverage ratio will be evaluated as of month-end.

Other Requirements.

Borrower must obtain prior bank approval for any acquisitions using funded debt, as further defined in the Loan and Security Agreement dated November 28, 2003.

Except as provided above, all computations made to determine compliance with the requirements contained in this paragraph shall be made in accordance with generally accepted accounting principles, applied on a consistent basis, as being true and correct.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (8) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Guaranties. Prior to disbursement of any Loan proceeds, furnish executed guaranties of the Loans in favor of Lender, executed by the guarantors named below, on Lender's forms, and in the amounts and under the conditions set forth in those guaranties.

<u>Names of Guarantors</u>	<u>Amounts</u>
Portfolio Recovery Associates, LLC PRA Holding I. LLC	Unlimited
PRA Receivables Management, LLC	Unlimited

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance,

**BUSINESS LOAN AGREEMENT
(Continued)**

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or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Compliance Certificates. Unless waived in writing by Lender, provide Lender at least annually, with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially effect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) pay any dividends on Borrower's stock (other than dividends payable in its stock), provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as Shareholders of a Subchapter S Corporation because of their ownership of shares of Borrower's stock, or purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Borrower will not enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

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

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

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

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

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

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

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

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

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

BUSINESS LOAN AGREEMENT
(Continued)

reserve or bond for the dispute.

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

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

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

Insecurity. Lender in good faith believes itself insecure.

Right to Cure. If any default, other than a default on Indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured (and no Event of Default will have occurred) if Borrower or Grantor, as the case may be, after receiving written notice from Lender demanding cure of such default: (1) cure the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiate steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continue and complete all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all sums owing in connection with the Loans, including all principal, interest, and all other fees, costs and charges, if any, will become immediately due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Borrower agrees that if Lender hires an attorney to help enforce this Agreement, Borrower will pay, subject to any limits under applicable law, Lender's attorneys' fees and all of Lender's other collection expenses, whether or not there is a lawsuit and including without limitation additional legal expenses for bankruptcy proceedings.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

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

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

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, if hand delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the

foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

**BUSINESS LOAN AGREEMENT
(Continued)**

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Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means Portfolio Recovery Associates, Inc. and includes all co-signers and co-makers signing the Note.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, and their personal representatives, successors and assigns.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means RBC CENTURA BANK, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the Note executed by Portfolio Recovery Associates, Inc. in the principal amount of \$750,000.00 dated January 8, 2004, together with all modifications of and renewals, replacements, and substitutions for the note or credit agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED JANUARY 8, 2004.

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

BORROWER:

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____

(Seal)

Kevin P. Stevenson, Executive Vice Pres./CFO of
Portfolio Recovery Associates, Inc.

LENDER:

RBC CENTURA BANK

By: _____ (Seal)
Authorized Signer

PROMISSORY NOTE

Borrower: Portfolio Recovery Associates, Inc.
120 Corporate Boulevard, Suite 100
Norfolk, VA 23502

Lender: RBC CENTURA BANK
Twin Oaks
Lending Service Center
5700 Lake Wright Dr. Ste#400
Norfolk, VA 23502

Principal Amount: \$750,000.00

Interest Rate: 4.450%

Date of Note: January 8, 2004

PROMISE TO PAY. Portfolio Recovery Associates, Inc. ("Borrower") promises to pay to RBC CENTURA BANK ("Lender"), or order, in lawful money of the United States of America, the principal amount of Seven Hundred Fifty Thousand & 00/100 Dollars (\$750,000.00), together with interest at the rate of 4.450% per annum on the unpaid principal balance from January 8, 2004, until paid in full.

PAYMENT. Borrower will pay this loan in 59 regular payments of \$13,974.84 each and one irregular last payment estimated at \$13,974.92. Borrower's first payment is due February 1, 2004, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on January 1, 2009, and will be for all principal, accrued interest, and all other applicable fees, costs and charges, if any, not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any unpaid collection costs; and then to any late charges. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

PREPAYMENT PENALTY. Upon prepayment of this Note, Lender is entitled to the following prepayment penalty: Prepayment Yield Maintenance Fee: Cost of Funds

If, during the term of the Loan, the Borrower prepays the Loan in whole or in part, the Borrower shall pay to Bank, at the time of prepayment, a yield maintenance fee. The yield maintenance fee shall be equal to the aggregate daily lost cash flow to Bank as a result of the prepayment. The aggregate daily lost cash flow to Bank shall be the difference between (i) the present value, as of the date of prepayment of the Loan, of the remaining scheduled payments of principal and interest from the prepayment date to the scheduled maturity date of the Loan (including any final balloon payment on such date) at the contract rate of interest on the Loan, assuming all payments are made as and when required, and (ii) the present value, as of the date of prepayment of the Loan, of payments of principal and interest (including any final balloon payment) that the Bank would receive from the prepayment date to the scheduled maturity date of the Loan, assuming all payments are made as and when required, from a new loan of a similar amount as the principal balance outstanding on the Loan as of the date of prepayment, with the same remaining maturity, to a similar borrower, at the contract rate of interest being offered by Bank as of the prepayment date on new loans of similar amount with the same remaining maturity to similar borrowers. The discount rate for calculating the present value of the daily lost cash flow to Bank shall be the contract rate of interest being offered by Bank as of the date of prepayment of the Loan for a new loan of a similar amount with the same remaining maturity to a similar borrower, all of which shall be determined by Bank in its reasonable discretion, which discretion shall be conclusive absent a showing of bad faith or manifest error. Notwithstanding the foregoing, any prepayment of the Loan, whether in whole or in part, shall be subject to a minimum prepayment fee of one-half percent (.5%) of the amount being prepaid, which minimum prepayment fee shall be paid by Borrower to Bank at the time of prepayment of the Loan. Except for the foregoing, Borrower may pay all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: RBC CENTURA BANK, Twin Oaks, Lending Service Center, 5700 Lake Wright Dr, Ste#400, Norfolk, VA 23502.

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

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

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

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

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

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

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

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

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

Change In Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

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

Insecurity. Lender in good faith believes itself insecure.

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

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

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

GOVERNING LAW. This Note will be governed by, construed and enforced in accordance with federal law and the laws of the Commonwealth

**PROMISSORY NOTE
(Continued)**

of Virginia. This Note has been accepted by Lender in the Commonwealth of Virginia.

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

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

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

COLLATERAL. Borrower acknowledges this Note is secured by Commercial Security Agreement dated of even date.

ADDITIONAL DEFAULT PROVISION. Loan shall be in default upon the death, dissolution, merger, consolidation or termination of existence of any party.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

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

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

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

BORROWER:

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____ (Seal)
Kevin P. Stevenson, Executive Vice Pres./CFO of
Portfolio Recovery Associates, Inc.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-110330 and No. 333-110331) of Portfolio Recovery Associates, Inc. of our report dated February 6, 2004 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Harrisburg, Pennsylvania
February 6, 2004

Exhibit 31.1

I, Steven D. Fredrickson, 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
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: February 18, 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
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: February 18, 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 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: February 18, 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 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: February 18, 2004

By: /s/ Kevin P. Stevenson

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