UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

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

For the transition period from _____to _____

Commission File Number: 000-50058

Portfolio Recovery Associates, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Common Stock $0.01 par value per share
(Title of Class)

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

YES _X_ NO _____

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 10, 2003 was **$93,734,200**.

The number of shares of the registrant's Common Stock outstanding as of March 10, 2002 was 13,550,000.

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

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

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 in substantially all cases either purchased from the credit originator or are collected on behalf of clients 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 credit originator has unsuccessfully attempted to collect these receivables, the Company is able to purchase them at a substantial discount to their face value. Through December 31, 2002, the Company acquired 335 portfolios with a face value of $5.55 billion for $142.8 million, or 2.57% of face value, represented in more than 2.6 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-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 $5.0 million in 1997 to $79.3 million in 2002. Total revenue has grown from $2.8 million in 1997 to $55.8 million in 2002, a compound annual growth rate of 82%. Similarly, pro forma net income has grown from $130,000 in 1997 to $11.4 million in 2002. 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, by four members of senior management that continue to lead it. Prior to the formation of the Company, 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, 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.

Due to this reorganization, all shares of common stock received in exchange for the membership interests of Portfolio Recovery Associates, L.L.C. and not registered in the Company's initial public offering are deemed to have a new "holding period" for purposes of Rule 144 under the Securities Act of 1933, as amended, and therefore may 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.

Competitive Strengths

Complete Outsourced Solution for Credit Originators

The Company offers credit originators a complete outsourced solution to address their defaulted consumer receivables. Depending on a credit originator's timing and needs, the Company can either purchase from the credit originator their defaulted consumer receivables, providing immediate cash to the credit originator, 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 credit originator to receivables that have been subject to multiple external collection efforts. This flexibility helps the Company meet the needs of credit originators 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 credit originators, 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-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 credit originator's collection process and loan files. 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, 2002 the Company's management team has acquired 335 portfolios with a face value of more than $5.55 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. The Company has a comprehensive six week training program for most new employees and provides continuing advanced classes 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 several 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 25 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. Further, 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 lawful 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. The Company was formed in March 1996 by four members of senior management that continue to lead it. Prior to the Company's formation, the 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, its founders have expanded the management team 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 credit originator has deemed uncollectible and has charged-off. The credit originators 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 very limited operating history and their prospects must be considered in light of the risks and uncertainties facing early-stage companies. As of December 31, 2002, the Company has entered into contingent fee collection arrangements with 9 credit originators. Although the Company is currently generating positive operating income for 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 credit originators stops selling defaulted receivables to the Company and it is otherwise unable to purchase defaulted receivables from credit originators 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 credit originators; and
- competitive factors affecting potential purchasers and credit originators 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 is currently party to one "forward flow contract." A forward flow contract is an arrangement in which the Company agrees to purchase defaulted consumer receivables based on specific parameters from a third-party supplier on a periodic basis at a set price over a specified time period. To the extent that the Company

is unable to renew or replace the purchased volume represented by its forward flow contract once it expires, it could lose a potential source of income and its business may be harmed.

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 receivables 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 34%. 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 credit originators 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 clients in which clients will place defaulted 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 are sold to repay credit originators, 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 insure 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 of expenses 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 credit originators. 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 credit originators, 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 insure

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 insure 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 insure 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 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 senior 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 insure that the non-compete provisions will be enforceable. The Company's success depends on the continued service and performance of its 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 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 card issuers may preclude the Company from collecting on defaulted consumer receivables it purchases if the credit card issuer previously failed to comply with applicable law 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 card 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 outstanding balance 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 credit originators. These credit originators include major banks, credit unions, consumer finance companies, telecommunication providers, retailers 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 owned portfolios as of December 31, 2002 into the major asset types represented.

Asset Type	No. of Accounts	%	Face Value of Defaulted Consumer Receivables	%	Finance Receivables, net as of December 31, 2002	%
Visa/MasterCard/Discover	868,959	32.6%	$ 3,140,122,704	56.6%	$ 32,911,594	50.2%
Consumer Finance	1,076,659	40.4%	1,186,944,601	21.4%	9,154,398	14.0%
Private Label Credit Cards	702,381	26.3%	1,122,659,206	20.2%	22,681,763	34.6%
Auto Deficiency	18,287	0.7%	98,866,285	1.8%	778,479	1.2%
Total:	**2,666,286**	**100.0%**	**$ 5,548,592,794**	**100.0%**	**$ 65,526,235**	**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 credit originator and similar factors. A typical defaulted consumer receivables portfolio ranges from $5.0 to $75.0 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 180 to 270 days post 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 post 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, 2002 a majority of the Company's portfolios are secondary and tertiary accounts but it purchases or services accounts at any point in the delinquency cycle.

Account Type	No. of Accounts	%	Face Value of Defaulted Consumer Receivables	%	Finance Receivables, net as of December 31, 2002	%
Fresh	125,334	4.7%	$ 482,372,393	8.7%	$ 8,505,604	13.0%
Primary	362,305	13.6%	1,228,555,774	22.2%	13,868,505	21.2%
Secondary	868,600	32.6%	1,949,463,232	35.1%	31,928,808	48.7%
Tertiary	1,135,607	42.6%	1,344,470,937	24.2%	9,442,092	14.4%
Other	174,440	6.5%	543,730,458	9.8%	1,781,226	2.7%
Total:	**2,666,286**	**100.0%**	**$ 5,548,592,794**	**100.0%**	**$ 65,526,235**	**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, 2002 the Company's overall portfolio of defaulted consumer receivables is generally balanced geographically.

Geographic Distribution	No. of Accounts	%	Face Value of Defaulted Consumer Receivables	%
Texas	746,268	28%	$ 817,252,771	15%
California	249,829	9%	639,184,340	12%
Florida	173,812	7%	509,814,038	9%
New York	138,594	5%	423,135,068	8%
Pennsylvania	79,442	3%	218,309,123	4%
North Carolina	61,110	2%	170,641,356	3%
New Jersey	55,549	2%	166,061,713	3%
Ohio	63,540	2%	155,754,996	3%
Illinois	62,075	2%	154,816,464	3%
Massachusetts	57,390	2%	154,409,991	3%
Georgia	52,576	2%	144,716,634	3%
Michigan	52,185	2%	132,209,937	2%
Missouri	97,919	4%	110,170,292	2%
South Carolina	30,770	1%	107,342,003	2%
Maryland	32,719	1%	94,795,337	2%
Tennessee	37,700	1%	93,426,154	2%
Virginia	35,692	1%	92,996,056	2%
Arizona	32,423	1%	87,799,793	2%
Other	606,693	23%	1,275,756,729	23%(1)
Total:	2,666,286	100%	$ 5,548,592,794	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 credit originators through both an auction and a negotiated sale process. In an auction process, the credit originator will assemble a portfolio of receivables and seek purchase prices from specifically invited potential purchasers. In a privately negotiated sale process, the credit originator 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. The Company currently has one such contract. Under a forward flow contract, the Company agrees to purchase defaulted consumer receivables from a credit originator 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 credit originator’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 credit originators with a reliable source of revenue and a professional resolution of defaulted consumer receivables.

In a typical sale transaction, a credit originator 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 computer models developed internally that often are supplemented with on-site due diligence of the credit originator’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 the broad characteristics of the portfolio by comparing it to portfolios the Company has previously acquired to determine collectibility at fixed periods in the future. 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 detailed analysis of demographic data. This process yields the Company's quantitative purchasing analysis used to help price transactions and 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 characteristics of the portfolio to the assumptions 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 summarizes all anticipated cash collections and associated direct expenses and project a collectibility value expressed both in dollars and liquidation percentage and a detailed expense projection over the portfolio's estimated five-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 credit originator. A portfolio acquisition approval memorandum is prepared for each prospective portfolio before a purchase price is submitted to a credit originator. 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.

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 credit originator, 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 credit originator 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. For example, the Company will obtain credit reports for the most collectible accounts and those accounts will be sent immediately to collectors' work queues. Less collectible accounts will be set aside as house accounts to be collected using a predictive dialer or other passive, low cost methods.

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 typically includes the original account application and payment checks. A typical collector work queue may include 650 to 1,000 accounts, 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 three to four month payment plan or a reduced lump-sum settlement. 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. Furthermore, the Company will settle the consumer's obligations for less than the full balance, and each collector is authorized to make settlements above a threshold percentage or with the authorization of senior management.

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 is not cooperative and for which the Company can establish a garnishable job or attachable asset 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 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 20% of the Company's total 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 credit originators 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, clients typically place defaulted receivables with an outsourced provider once they have been deemed non-collectible. The clients 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 client, 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 Company's clients 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 Company's clients. 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 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 credit originators 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 credit originators. 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 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 main facility 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 581 persons on a full-time basis, including 425 collectors on its owned portfolios and an additional 47 collectors working in its contingent fee collections operations, as of December 31, 2002. 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 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 believes that these practices have enabled it to achieve an annual post-training turnover rate of 34%.

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 find them to be excellent 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. In addition to the Company's in-house training, many of its collectors have taken certification courses offered through the American Collectors Association.

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 card issuers disclose to consumers the interest rates, fees, grace periods, and balance calculation methods associated with their credit card 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 card account that were a result of an unauthorized use of the credit card. 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 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, 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 insure that some of the receivables were not established as a result of identity theft or unauthorized use of a credit card 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 credit originators certain defaulted consumer receivables that may not be collectible, due to these and other circumstances. Upon return, the credit originators 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 two administrative facilities in Virginia Beach, Virginia that are each approximately 2,500 square feet. The Company's Norfolk and Virginia Beach, Virginia facilities can currently accommodate approximately 550 employees. 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 has also leased an additional facility located in approximately 21,000 square feet of leased space in Hampton, Virginia to accommodate approximately 285 additional employees. This new office opened with approximately 65 collectors (72 employees) on March 3, 2003. About one-half of those employees transferred from the Company's Norfolk office. 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.

No matters were submitted to a vote of securityholders during the fourth quarter of the fiscal year covered by this report.

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. The following table sets forth the high and low sales price for the Common Stock for the fourth quarter of 2002 from November 8, 2002.

	High	Low
2002		
Fourth Quarter (from November 8, 2002)	$20.50	$14.75

As of March 3, 2003, there were approximately 16 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 approximately 2,300 beneficial owners of the Common Stock.

Restricted Shares and Shares Subject to Lock-up

Approximately 9,035,000 shares of common stock of the Company are "restricted," shares, which means they were not subject to a registration statement filed with the Securities and Exchange Commission. The holders of 8,985,000 of these shares agreed to a 180-day "lock-up" with respect to such shares. The "lock-up" period with respect to these shares expires on May 6, 2003; however, notwithstanding the expiration of the 180-day "lock-up" period, none of these restricted shares may be sold until they have been registered under the Securities Act or under an available exemption from registration, such as provided by Rule 144 promulgated under the Securities Act. In connection with the reorganization of the Company from a limited liability company, the one-year holding period required for Rule 144 will not expire until November 6, 2003

Dividend Policy

The Company's board of directors sets its dividend policy. The Company currently intends to retain all available funds and any future earnings for use in the operation and expansion of its business, but the Company may determine in the future to declare or pay cash dividends on its 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.

Use of Proceeds of Initial Public Offering

The effective date of the Company's registration statement (Registration No. 333- 99225) filed on Form S-1 relating to its initial public offering of Common Stock was November 6, 2002. In its initial public offering, the Company sold 3,470,000 shares of Common Stock at a price of $13.00 per share and PRA Investments, L.L.C., the selling stockholder, sold 1,015,000 shares of Common Stock at a price of $13.00 per share. The Company's initial public offering was managed on behalf of the underwriters by William Blair & Company and U.S. Bancorp Piper Jaffray. The offering commenced on November 8, 2002 and closed on November 14, 2002. Gross proceeds to the Company from its initial public offering totaled $45.1 million. Underwriting discounts of $3.2 million were charged to the Company and deducted from the net proceeds remitted to the Company. None of the expenses incurred in the Company's initial public offering were direct or indirect payments to its directors, officers, general partners or their associates, to persons owning 10% or more of any class of the Company's equity securities or to its affiliates. Of the $41.9 million raised, $29.0 million has been used for repayment of outstanding indebtedness. In addition, the Company has utilized $1.6 million for offering related expenses such as accountant fees, attorney fees and SEC and Nasdaq filing fees. A further $2.5 million of proceeds has been

used to purchase defaulted consumer receivables portfolios. The Company intends to use the remaining $8.8 million for working capital and general corporate purposes, including acquisitions of additional defaulted consumer receivables portfolios or potential possible acquisitions of complementary business, technologies or products.

The occurrence of unforeseen events, opportunities or changed business conditions, however, could cause the Company to use the net proceeds of its initial public offering in a manner other than as described above.

Item 6. Selected Financial Data.

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

	Year Ended December 31,				
	2002	2001	2000	1999	1998
(Dollars in thousands, except per share data)					
STATEMENT OF OPERATIONS DATA:					
Revenue:					
Income recognized on finance receivables	$ 53,803	$ 31,221	$ 18,991	$ 11,746	$ 6,815
Commissions	1,944	214	—	—	—
Net gain on cash sales of defaulted consumer receivables	100	901	343	322	—
Total revenue	55,847	32,336	19,334	12,068	6,815
Operating expenses:					
Compensation	21,701	15,644	9,883	6,119	3,821
Legal, accounting and outside fees and services	8,093	3,627	2,583	1,493	839
Communications	1,915	1,645	871	553	318
Rent and occupancy	799	712	603	335	99
Other operating expenses	1,436	1,265	652	498	266
Depreciation	940	677	437	369	238
Total operating expenses	34,884	23,570	15,029	9,367	5,581
Income from operations	20,963	8,766	4,305	2,701	1,234
Loss on extinguishment of debt	—	(424)	—	—	—
Net interest expenses	2,425	2,716	1,765	876	744
Income before income taxes	18,538	6,050	2,540	1,825	490
Provision for income taxes	1,473	—	—	—	—
Net income [1]	$ 17,065	$ 5,626	$ 2,540	$ 1,825	$ 490
Pro forma income taxes	$ 5,694	$ 2,100	$ 901	$ 697	$ 88
Pro forma net income[2]	$ 11,371	$ 3,526	$ 1,639	$ 1,128	$ 402
Pro forma net income per share [3]					
Basic	$ 1.08	$ 0.35	$ 0.16		
Diluted	$ 0.94	$ 0.31	$ 0.14		
Pro forma weighted average shares [3]					
Basic	10,529	10,000	10,000		
Diluted	12,066	11,458	11,366		
OPERATING AND OTHER FINANCIAL DATA:					
Cash collections for period [4]	$ 81,199	$ 53,362	$ 30,733	$ 17,362	$ 10,881
Operating expenses to cash collections	43%	44%	49%	54%	51%
Acquisitions of finance receivables, at cost	$ 42,382	$ 33,381	$ 24,663	$ 19,417	$ 11,480
Acquisitions of finance receivables, at face value	$1,966,296	$1,592,353	$1,004,114	$479,778	$324,251
Percentage increase of acquisitions of finance receivables, at cost	27%	35%	27%	69%	40%
Percentage increase in cash collections for period	52%	74%	77%	60%	118%
Percentage increase in pro forma net income for period	222%	115%	45%	181%	209%
Employees at period end:					
Total employees	581	501	370	246	140
Ratio of collection personnel to total employees [5]	88%	89%	89%	86%	84%

(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.

(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.

(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,				
	2002	2001	2000	1999	1998
(Dollars in thousands)					
FINANCIAL POSITION DATA:					
Cash and cash equivalents	$17,939	$ 4,780	$ 3,191	$ 1,456	$ 754
Finance receivables, net	65,526	47,987	41,124	28,139	15,472
Total assets	88,267	57,049	47,188	31,495	17,121
Long-term debt	966	568	532	—	—
Total debt, including capital lease obligations	1,465	26,771	23,300	10,372	8,145
Total stockholders' equity	80,608	27,752	22,705	20,313	8,488

	For the Quarter Ended											
	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	Mar. 31, 2002	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001	Dec. 31, 2000	Sept. 30, 2000	June 30, 2000	Mar. 31, 2000
(Dollars in thousands, except per share data)												
STATEMENT OF OPERATIONS DATA:												
Revenue:												
Income recognized on finance receivables	$15,081	$14,704	$12,837	$11,181	$ 9,074	$ 7,739	$ 7,685	$ 6,723	$ 6,195	$ 4,984	$ 4,002	$ 3,810
Commissions	607	521	440	376	159	55	—	—	—	—	—	—
Net gain on cash sales of defaulted consumer receivables	—	—	100	—	146	459	159	137	32	223	88	—
Total revenue	15,688	15,225	13,377	11,557	9,379	8,253	7,844	6,860	6,227	5,207	4,090	3,810
Operating expenses:												
Compensation	5,981	5,508	5,144	5,068	4,824	4,108	3,425	3,287	3,062	2,689	2,168	1,964
Legal, accounting and outside fees and services	2,655	2,197	1,951	1,290	1,126	940	815	746	705	638	665	575
Communications	445	540	479	451	493	486	352	314	289	197	194	191
Rent and occupancy	228	209	189	173	207	191	157	157	161	148	151	143
Other operating expenses	436	324	370	306	418	332	274	241	209	160	130	153
Depreciation	264	242	223	211	192	175	168	142	123	105	98	111
Total operating expenses	10,009	9,020	8,356	7,499	7,260	6,232	5,191	4,887	4,549	3,937	3,406	3,137
Income from operations	5,679	6,205	5,021	4,058	2,119	2,021	2,653	1,973	1,678	1,270	684	673
Loss on extinguishment of debt	—	—	—	—	192	232	—	—	—	—	—	0
Net interest expenses	244	1,066	589	526	642	664	721	689	639	447	392	287
Income before income taxes	5,435	5,139	4,432	3,532	1,285	1,125	1,932	1,284	1,039	823	292	386
Provision for income taxes	1,473	—	—	—	—	—	—	—	—	—	—	—
Net income [1]	$ 3,962	$ 5,139	$ 4,432	$ 3,532	$ 1,285	$ 1,125	$ 1,932	$ 1,284	$ 1,039	$ 823	$ 292	$ 386
Pro forma income taxes	$ 2,101	$ 1,986	$ 1,714	$ 1,365	$ 480	$ 420	$ 721	$ 479	$ 368	$ 292	$ 104	$ 137
Pro forma net income [2]	$ 3,334	$ 3,153	$ 2,718	$ 2,167	$ 805	$ 705	$ 1,211	$ 805	$ 671	$ 531	$ 188	$ 249
Pro forma net income per share [3]												
Basic	$ 0.28	$ 0.32	$ 0.27	$ 0.22	$ 0.08	$ 0.07	$ 0.12	$ 0.08				
Diluted	$ 0.24	$ 0.27	$ 0.24	$ 0.19	$ 0.07	$ 0.06	$ 0.11	$ 0.07				
Pro forma weighted average shares [3]												
Basic	12,063	10,000	10,000	10,000	10,000	10,000	10,000	10,000				
Diluted	13,796	11,496	11,487	11,485	11,485	11,485	11,473	11,388				

	Quarter Ended											
	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	Mar. 31, 2002	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001	Dec. 31, 2000	Sept. 30, 2000	June 30, 2000	Mar. 31, 2000
(Dollars in thousands)												
FINANCIAL POSITION DATA:												
Assets												
Cash and cash equivalents	$17,939	$ 6,038	$ 8,323	$ 7,497	$ 4,780	$ 4,712	$ 4,223	$ 3,498	$ 3,191	$ 2,684	$ 4,341	$ 1,017
Finance Receivables, net	65,526	55,133	51,055	46,825	47,987	48,191	43,919	43,376	41,124	38,139	29,722	28,393
Property and equipment, net	3,794	3,667	3,433	3,376	3,380	2,924	2,827	2,524	2,217	1,703	1,090	1,176
Other assets	1,008	617	610	908	902	1,136	1,130	1,224	654	773	873	483
Total assets	$88,267	$65,455	$63,421	$58,606	$57,049	$56,962	$52,100	$50,621	$47,188	$43,299	$36,025	$31,070
Liabilities and Stockholders' Equity												
Liabilities												
Accounts payable	$ 1,364	$ 677	$ 550	$ 522	$ 237	$ 374	$ 433	$ 655	$ 157	$ 225	$ 317	$ 352
Accrued expenses	746	646	608	673	615	338	371	347	315	268	136	150
Income taxes payable	937	—	—	—	—	—	—	—	—	—	—	—
Accrued payroll and bonuses	2,861	1,861	1,660	930	1,674	870	776	297	711	379	280	128
Deferred tax liability	287	—	—	—	—	—	—	—	—	—	—	—
Revolving lines of credit	—	25,000	25,000	25,000	25,000	26,975	23,176	24,080	22,166	19,724	14,025	9,367
Long-term debt	966	1,006	1,031	1,050	568	587	605	623	532	545	—	—
Obligations under capital lease	499	582	675	770	825	922	924	682	602	416	350	373
Basis — swap contract	—	—	434	273	377	—	—	—	—	—	—	—
Total liabilities	7,660	29,772	29,959	29,218	29,297	30,066	26,285	26,684	24,482	21,558	15,107	10,369
Stockholders' equity												
Common stock	135	—	—	—	—	—	—	—	—	—	—	—
Additional paid in capital	78,309	—	—	—	—	—	—	—	—	—	—	—
Members' equity [4]	—	35,683	33,897	29,662	28,129	26,896	25,814	23,937	22,705	21,741	20,918	20,700
Retained earnings	2,164	—	—	—	—	—	—	—	—	—	—	—
Accumulated other comprehensive income	—	—	(434)	(273)	(377)	—	—	—	—	—	—	—
Total stockholders' equity	80,608	35,683	33,463	29,388	27,752	26,896	25,814	23,937	22,705	21,741	20,918	20,700
Total liabilities and stockholders' equity	$88,267	$65,455	$63,421	$58,606	$57,049	$56,962	$52,100	$50,621	$47,188	$43,299	$36,025	$31,070

(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.

(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.

(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, 2002, 2001 and 2000:

	2002		2001		2000	
Revenue:						
Income recognized on finance receivables	$53,802,718	96.3%	$31,220,857	96.6%	$18,990,695	98.2%
Commissions	1,944,428	3.5%	214,539	0.7%	—	0.0%
Net gain on cash sales of defaulted consumer receivables	100,156	0.2%	900,916	2.8%	342,952	1.8%
Total revenue	55,847,302	100.0%	32,336,312	100.0%	19,333,647	100.0%
Operating expenses:						
Compensation	21,700,918	38.9%	15,644,460	48.4%	9,882,683	51.1%
Legal, accounting and outside fees and services	8,092,460	14.5%	3,627,135	11.2%	2,583,001	13.4%
Communications	1,914,557	3.4%	1,644,557	5.1%	870,833	4.5%
Rent and occupancy	799,323	1.4%	712,400	2.2%	602,630	3.1%
Other operating expenses	1,436,438	2.6%	1,265,132	3.9%	652,409	3.4%
Depreciation	940,352	1.7%	676,677	2.1%	436,684	2.3%
Total operating expenses	34,884,048	62.5%	23,570,361	72.9%	15,028,240	77.7%
Income from operations	20,963,254	37.5%	8,765,951	27.1%	4,305,407	22.3%
Interest income	21,548	0.0%	65,362	0.2%	94,365	0.5%
Loss on extinguishment of debt	—	0.0%	(423,305)	-1.3%	—	0.0%
Interest expenses	(2,446,620)	-4.4%	(2,781,674)	-8.6%	(1,859,637)	-9.6%
Income before income taxes	18,538,182	33.2%	5,626,334	17.4%	2,540,135	13.1%
Provision for income taxes	1,473,073	2.6%	—	0.0%	—	0.0%
Net income	$17,065,109	30.6%	$ 5,626,334	17.4%	$ 2,540,135	13.1%
Pro forma income taxes	5,693,788	10.2%	2,100,609	6.5%	900,899	4.7%
Pro forma net income (1)	$11,371,321	20.4%	$ 3,525,725	10.9%	$ 1,639,236	8.5%

(1) During the 2002, 2001 and most of 2000 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, 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, 2002. 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, 2001 was 41.2% while for the year ended December 31, 2002 it was 32.1%. 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 a cost 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 a cost of $33 million (inclusive of purchases subsequently sold). The Company's relative cost of acquiring defaulted consumer receivable portfolios increased from 2.1% of face value for the year ended December 31, 2001 to 2.2% of face value for the year ended December 31, 2002.

Commissions

Commissions were $1.9 million for the year ended December 31, 2002, an increase of $1.7 million or 850.0% 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 twelve small sales in 2001 versus one sale in 2002.

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 44.0% of cash collections for the year ended December 31, 2002 compared with 44.4% for the same period in 2001.

Compensation

Compensation expenses were $21.7 million for the year ended December 31, 2002, an increase of $6.1 million or 39.1% compared to compensation expenses of $15.6 million for the year ended December 31, 2001. Compensation expenses increased as total employees grew from 501 at December 31, 2001 to 581 at December 31, 2002. Additionally, existing employees received normal salary increases and increased bonuses. Compensation 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, as a result of increasing employee productivity.

Legal, Accounting and Outside Fees and Services

Legal, accounting and outside 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 legal, accounting and outside 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 previously unsuccessfully liquidated accounts that have an identified means of repayment but that are nearing their legal statute of limitations.

Communications

Communications expenses were $1.9 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 decrease primarily as a result of the payoff of all outstanding revolving debt with the proceeds from the Company's initial public offering.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenue

Total revenue was $32.3 million for the year ended December 31, 2001, an increase of $13.0 million or 67.4% compared to total revenue of $19.3 for the year ended December 31, 2000.

Income Recognized on Finance Receivables

Income recognized on finance receivables was $31.2 million for the year ended December 31, 2001, an increase of $12.2 million or 64.2% compared to income recognized on finance receivables of $19.0 million for the year ended December 31, 2000. The increase was due to an increase in the Company's cash collections on its owned defaulted consumer receivables portfolios to $53.4 million from $30.7 million, an increase of 74.0%. During the year ended December 31, 2001, the Company acquired defaulted consumer receivables portfolios with an aggregate face value amount of $1.6 billion at a cost of $33 million. During the year ended December 31, 2000, the Company acquired defaulted consumer receivable portfolios with an aggregate face value of $1.0 billion at a cost of $24.7 million.

Commissions

Commissions were $214,000 for the year ended December 31, 2001, an increase of $214,000 compared to zero for the year ended December 31, 2000. The increase is a result of the commencement of the Company's contingent fee collections operations in March 2001.

Net Gain on Cash Sales of Defaulted Consumer Receivables

Net gain on cash sales of defaulted consumer receivables was $901,000 for the year ended December 31, 2001, an increase of $558,000 or 162.7% compared to net gain on cash sales of defaulted consumer receivables of $343,000 for the year ended December 31, 2000. This increase is the result of increased sale activity. In 2000 the Company sold $13.6 million in face value at an average price of 4.3% whereas in 2001 the Company sold $151.5 million in face value at an average price of 3.8%. The percentage increase in face value sold from 2000 to 2001 was significantly more than the percentage increase in recognized net gain on cash sales of defaulted consumer receivables. This is simply because the Company had a much higher basis in the receivables sold in 2001 compared with those sold in 2000.

Expenses

Total operating expenses were $23.6 million for the year ended December 31, 2001, an increase of $8.6 million or 57.3% compared to total operating expenses of $15.0 million for the year ended December 31, 2000. Total operating expenses, including compensation expenses, were 44.2% of cash collections in 2001 compared to 48.9% in 2000.

Compensation

Compensation expenses were $15.6 million for the year ended December 31, 2001, an increase of $5.7 million or 57.6% compared to compensation expenses of $9.9 million for the year ended December 31, 2000. Compensation expenses increased as total employees grew from 370 at December 31, 2000 to 501 at December 31, 2001. This increase reflects the continued staffing of both the Company's Virginia and Kansas facilities and the commencement of its contingent fee collections operations in March 2001. The additional employees were required to collect on the Company's growing portfolio of acquired pools of defaulted consumer receivables. Compensation expenses decreased to 29.3% of cash collections in 2001 from 32.2% of cash collections in 2000. Staffing at the Company's Virginia facility was responsible for 51.2% of this increase, staffing at the Company's Kansas facility was responsible for 19.8% of this increase and staffing for the Company's contingent collections operations was responsible for the remaining 29% of this increase.

Legal, Accounting and Outside Fees and Services

Legal, accounting and outside fees and services expenses were $3.6 million for the year ended December 31, 2001, an increase of $1.0 million or 38.5% compared to legal, accounting and outside fees and services expenses of $2.6 million for the year ended December 31, 2000. The increase was primarily attributable to the increased number of accounts referred to independent attorneys for collection.

Communications

Communications expenses were $1.6 million for the year ended December 31, 2001, an increase of $774,000 or 88.9% compared to communications expenses of $871,000 for the year ended December 31, 2000. The increase was primarily a result of higher postage due to mailings required under the Gramm-Leach-Bliley Act, and a higher number of phone calls made to collect on a greater number of receivables owned and serviced. Mailings were responsible for 62.9% of this increase while the remaining 37.1% is attributable to a higher number of phone calls.

Rent and Occupancy

Rent and occupancy expenses were $712,000 for the year ended December 31, 2001, an increase of $109,000 or 18.1% compared to rent and occupancy expenses of $603,000 for the year ended December 31, 2000. The

increase was primarily a result of the first full year of occupancy of the Company's Kansas facility, which opened in July 2000.

Other Operating Expenses

Other operating expenses were $1.3 million for the year ended December 31, 2001, an increase of $613,000 or 94.0% compared to other operating expenses of $652,000 for the year ended December 31, 2000. Significant components of the other operating expenses include taxes, fees and licenses, hiring expenses and travel and meals, all of which are related to the Company's contingent fee collections operations and the continued expansion of the Company's workforce throughout 2001. Taxes, fees and licenses were responsible for 26.9% of this increase, travel and meals were responsible for 16.9% of this increase, hiring expenses were responsible for 19.6% of this increase and miscellaneous expenses were responsible for the remaining 36.6% of this increase.

Depreciation

Depreciation expenses were $677,000 for the year ended December 31, 2001, an increase of $240,000 or 54.9% compared to depreciation expenses of $437,000 for the year ended December 31, 2000. The increase was attributable to increased capital expenditures during late 2000 and 2001, especially in connection with the acquisition of technology for the Company's contingent fee collection operations.

Interest Income

Interest income was $65,000 for the year ended December 31, 2001, a decrease of $29,000 or 30.9% compared to interest income of $94,000 for the year ended December 31, 2000. This decrease occurred due to the significant drop in the Company's yields during the fourth quarter of 2001. The Company's average cash balance changed from $2.7 million in 2000 to $4.3 million in 2001.

Interest Expenses

Interest expenses were $2.8 million for the year ended December 31, 2001, an increase of $922,000 or 49.6% compared to interest expenses of $1.9 million for the year ended December 31, 2000. This increase was a result of increased borrowings to finance the growth in acquisitions of defaulted consumer receivable portfolios during 2001. During 2001, the Company made additional investments in defaulted consumer receivable portfolios of $33.4 million. To finance these acquisitions of defaulted consumer receivable portfolios, the Company's borrowings increased during 2001. The Company had average monthly borrowings of $25.6 million during 2001, compared to average monthly borrowings of $15.5 million during 2000.

Loss on Extinguishment of Debt

Loss on extinguishment of debt was $424,000 for the year ended December 31, 2001, an increase of $424,000 compared to none for the year ended December 31, 2000. The increase was due to the early extinguishment of debt under two of the Company's previous line of credit agreements in 2001, for which the Company expensed $232,000 of remaining unamortized debt acquisition costs and $192,000 for the extinguishment of a contingent interest provision.

Supplemental Performance Data

Owned Portfolio Performance:

The following table groups the Company's portfolio buying activity by year, showing the purchase price, actual cash collections and estimated remaining cash collections.

($ in thousands)

Purchase Period, ending December 31,	Purchase Price	Actual Cash Collections Including Cash Sales	Estimated Remaining Collections	Total Estimated Collections	Total Estimated Collections to Purchase Price
1996	$ 3,080	$ 8,582	$ 491	$ 9,074	294.58%
1997	$ 7,685	$ 20,037	$ 1,570	$ 21,607	281.16%
1998	$ 11,122	$ 26,175	$ 3,631	$ 29,806	267.99%
1999	$ 18,910	$ 40,587	$ 12,499	$ 53,087	280.73%
2000	$ 25,055	$ 46,329	$ 26,750	$ 73,079	291.68%
2001	$ 33,534	$ 47,369	$ 53,814	$ 101,184	301.73%
2002	$ 42,887	$ 15,072	$ 96,914	$ 111,986	261.12%

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.

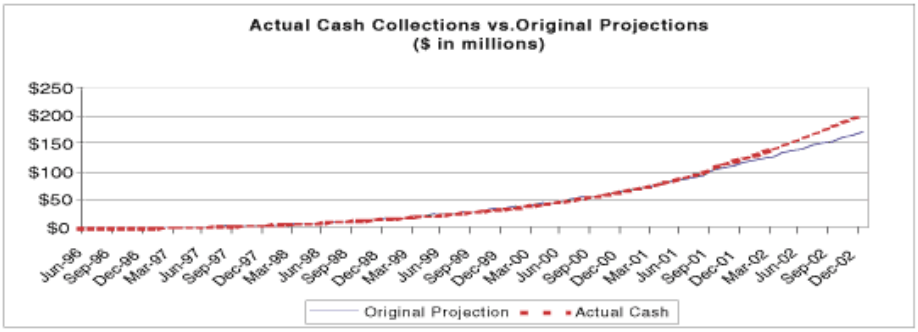
The following table, which excludes any proceeds from cash sales of finance receivables, demonstrates the Company's ability to realize significant multi-year cash collection streams on its owned pools.

($ in thousands)

Purchase Period	Cash Collection Year 1996	1997	1998	1999	2000	2001	2002	Total
1996	$548	$2,484	$ 1,890	$ 1,347	$ 1,025	$ 730	$ 496	$ 8,521
1997	—	2,507	5,215	4,069	3,347	2,630	1,829	19,597
1998	—	—	3,776	6,807	6,398	5,152	3,948	26,080
1999	—	—	—	5,139	13,069	12,090	9,598	39,896
2000	—	—	—	—	6,894	19,501	19,478	45,873
2001	—	—	—	—	—	13,045	28,833	41,879
2002	—	—	—	—	—	—	15,072	15,072
Total	$548	$4,991	$10,881	$17,362	$30,733	$53,148	$79,254	$196,918

The Company utilizes a unique, long-term approach to collecting its owned pools of receivables. This approach causes 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 the flexibility to reduce its level of current period acquisitions without a corresponding negative current period impact on cash collections and revenue.

When the Company acquires a new pool of finance receivables, a 60-70 month projection of cash collections is created. The following chart shows the Company's actual cash collections in relation to the aggregate of those original cash collection projections made at time of each respective pool purchase.



The chart above includes cash collections including cash sales of finance receivables.

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:	December 31, 2000	December 31, 2001	December 31, 2002
One year +[1]	109	151	210
Less than one year [2]	180	218	223
Total[2]	289	369	433

(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	December 31, 2000	December 31, 2001	December 31, 2002
One year + [2]	$ 14,081	$ 15,205	$ 16,927
Less than one year[3]	7,482	7,740	8,689

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

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

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

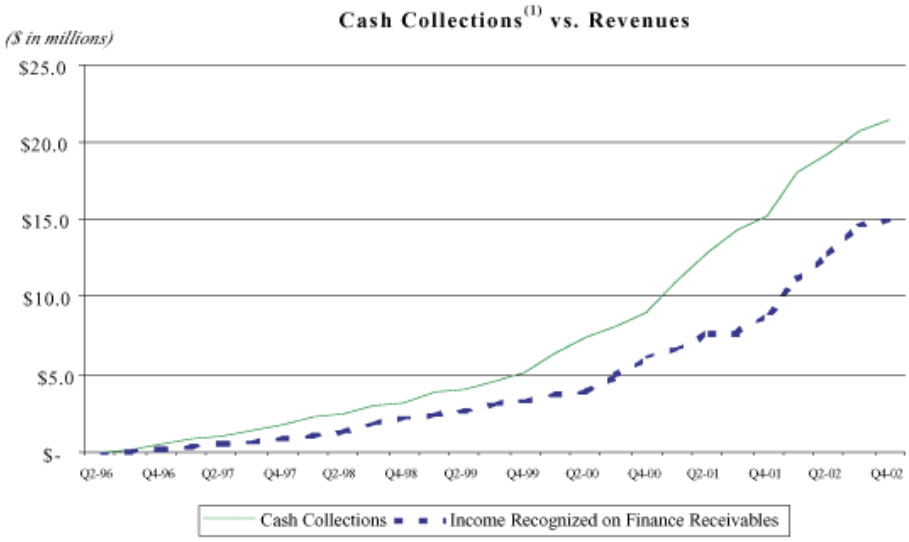
Cash Collections per Hour Paid[1]

Average performance	December 31, 2000	December 31, 2001	December 31, 2002
Total cash collections	$ 64.37	$ 77.20	$ 96.37
Cash collections excluding attorney remittances	$ 53.31	$ 66.87	$ 77.72

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

Liquidity and Capital Resources

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

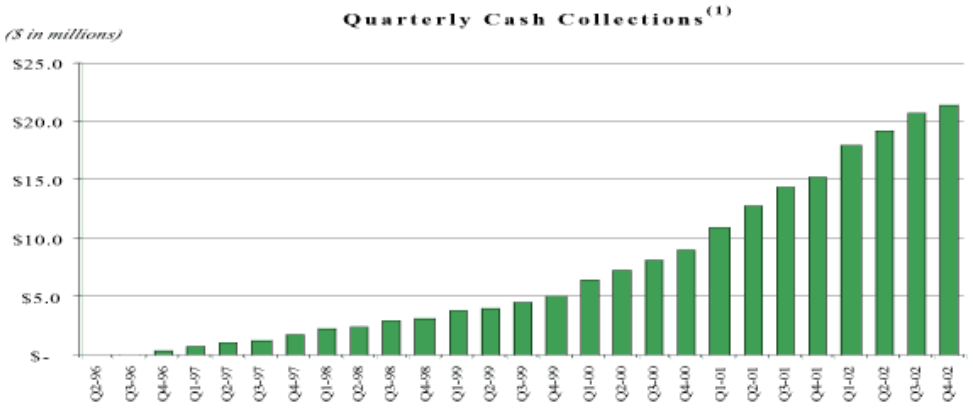


(1) Includes cash collections on finance receivables only. Excludes commission fees and cash proceeds from sales of defaulted consumer receivables.

Quarterly Cash Receipts
($ in millions)

	Cash Collections	Commission	Cash Sales	Total Revenue
Q2-96	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Q3-96	0.1	0.0	0.0	0.1
Q4-96	0.4	0.0	0.0	0.3
Q1-97	0.8	0.0	0.0	0.5
Q2-97	1.1	0.0	0.0	0.6
Q3-97	1.3	0.0	0.0	0.7
Q4-97	1.8	0.0	0.0	1.0
Q1-98	2.3	0.0	0.0	1.2
Q2-98	2.5	0.0	0.0	1.4
Q3-98	2.9	0.0	0.0	1.9
Q4-98	3.1	0.0	0.0	2.3
Q1-99	3.8	0.0	0.0	2.4
Q2-99	4.0	0.0	0.4	2.9
Q3-99	4.5	0.0	0.1	3.2
Q4-99	5.0	0.0	0.5	3.5
Q1-00	6.4	0.0	0.0	3.8
Q2-00	7.3	0.0	0.1	4.1
Q3-00	8.1	0.0	0.3	5.2
Q4-00	8.9	0.0	0.1	6.2
Q1-01	10.9	0.0	0.3	6.9
Q2-01	12.8	0.0	0.3	7.8
Q3-01	14.3	0.1	4.5	8.3
Q4-01	15.2	0.2	0.5	9.4
Q1-02	18.0	0.4	0.0	11.6
Q2-02	19.2	0.4	0.0	13.4
Q3-02	20.7	0.5	0.0	15.2
Q4-02	21.4	0.6	0.0	15.7

The Company typically experiences some seasonality in its cash collections, with the first and second quarters being seasonally stronger.



(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.

	Year Ended December 31,	
	2002	2001
Balance at beginning of period	$ 47,986,744	$ 41,124,377
Acquisitions of finance receivables, net of buybacks	42,990,924	33,491,211
Cash collections applied to principal[1]	(25,450,833)	(21,926,815)
Cost of finance receivables sold, net	(600)	(4,702,029)
Balance at end of period	$ 65,526,235	$ 47,986,744

(1) Cash collections applied to principal consists of cash collections less income recognized on finance receivables.

The Company's operating activities provided cash of $21.8 million and $6.5 million for the years ended December 31, 2002 and 2001. In this period, 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, which increased to $17.1 million for the year ended December 31, 2002.

The Company's investing activities used cash of $18.8 million and $7.2 million for the years ended December 31, 2002 and 2001. 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 $10.1 million and $2.3 million for the years ended December 31, 2002 and 2001. During the current year, the Company's initial public offering generated cash from financing activities of $40.4 million. In 2001, a principal source of cash from financing activities had been proceeds from lines of credit, which totaled $28.6 million. Proceeds from lines of credit were partially offset by repayments by the Company, which totaled $25.7 million in 2001. In 2002, the Company borrowed an additional $4.0 million and prior to year end repaid the entire line of credit in full with proceeds from the initial public offering.

Cash paid for interest expense was $2.7 million and $2.8 million for the years ended December 31, 2002 and 2001, respectively. The majority of interest expenses were paid for lines of credit used to finance acquisitions of defaulted consumer receivables portfolios.

PRA III, LLC, a wholly owned subsidiary of the Company, maintains a $25.0 million revolving line of credit with Westside Funding Corporation ("Westside") pursuant to an agreement entered into on September 18, 2001 and amended on December 18, 2002. The Company, as well as PRA Receivables Management LLC (d/b/a Anchor Receivables Management), PRA II, LLC 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 September 15, 2005. The agreement provides for:

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

This facility had no amounts outstanding at December 31, 2002.

In addition, PRA AG Funding, LLC, the Company's wholly owned subsidiary, maintains a $2.5 million revolving line of credit, pursuant to an agreement entered into with RBC Centura Bank on June 30, 2002. The credit facility bears interest at a spread over LIBOR and extends through July 2003. The agreement provides:

- that the Company maintain a current ratio of 1.6 to 1.0 (the current ratio being defined to include finance receivables as a current asset and to include the credit facility with Westside as a current liability);
- that the Company maintain a debt to tangible net worth ratio of not more than 1.5 to 1.0;
- for a minimum balance sheet cash position at month end of $2 million; and
- a restriction on distributions by the Company to 75% of net income.

This $2.5 million facility had no amounts outstanding at December 31, 2002.

As of December 31, 2002 there are three additional loans outstanding. On July 20, 2000, PRA Holding I, LLC, the Company's wholly owned subsidiary, entered into a credit facility with Bank of America, N.A., 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 with Bank of America, N.A. in the amount of $107,000 in order to purchase a generator 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, LLC entered into an additional arrangement with Bank of America, N.A. for a $500,000 commercial loan in order to finance construction of a parking lot at the Company's Norfolk, Virginia location. This loan bears interest at a fixed rate of 6.47% and matures on September 1, 2007.

Recent Accounting Pronouncements

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002." SFAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and an amendment of that statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and eliminates extraordinary gain and loss treatment for the early extinguishment of debt. This statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers" and amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. This statement is effective for fiscal years beginning after May 15, 2002. The Company has adopted SFAS 145 for the year ending December 31, 2002. The application of this statement did not have a material impact on the Company's financial statements other than the elimination of the extraordinary loss treatment for the debt extinguishment in 2001.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The application of this statement is not expected to have a material impact on the Company's financial statements.

In November 2002, FASB issued FASB Interpretation No. ("FIN") 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements Nos. 5, 57, and 107 and rescission of FIN 34. FIN 45 details the disclosures that should be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. This interpretation also requires a company to record a liability for certain

guarantees that have been issued. The disclosure provisions are effective for interim or annual periods ending after December 15, 2002. The recognition requirements of this interpretation are effective for all guarantees issued or modified subsequent to December 31, 2002. The adoption of this interpretation did not have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide three alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based compensation. This statement also amends disclosure provisions of SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting to require additional disclosures in annual and interim financial statements. This statement is effective for fiscal years ending after December 15, 2002. The amendment of the disclosure requirements of Opinion 28 is effective for interim financial reports beginning after December 15, 2002. Effective January 1, 2002, the Company adopted the fair value method using the prospective method of transition. The prospective method required the Company to apply the provisions of SFAS No. 123 to new stock awards granted from the beginning of the year of adoption and going forward. The adoption of this statement did not have a material impact on the Company's financial position or results of operation.

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 is not expected to have a material impact on the Company's financial position or the results of operations.

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, 2002, the Company had no variable rate debt outstanding on its revolving credit line. The Company had 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.

Index to Financial Statements

Report of Independent Accountants

Board of Directors and Audit Committee
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, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Harrisburg, Pennsylvania
February 7, 2003

Portfolio Recovery Associates, Inc.
Consolidated Statements of Financial Position
December 31, 2002 and 2001

Assets	2002	2001
Cash and cash equivalents	$17,938,730	$ 4,780,399
Finance receivables, net	65,526,235	47,986,744
Property and equipment, net	3,794,254	3,379,576
Other assets	1,008,168	901,789
Total assets	$88,267,387	$57,048,508
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 1,363,833	$ 236,885
Accrued expenses	745,754	614,698
Income taxes payable	937,231	—
Accrued payroll and bonuses	2,861,336	1,674,371
Deferred tax liability	286,882	—
Revolving lines of credit	—	25,000,000
Long-term debt	965,582	568,432
Obligations under capital lease	499,151	825,313
Basis — swap contract	—	377,303
Total liabilities	7,659,769	29,297,002
Stockholders' equity:		
Common stock, par value $0.01, authorized shares, 32,000,000, issued and outstanding shares - 13,520,000 (12/31/02 only)	135,200	—
Additional paid in capital	78,308,754	—
Members' equity	—	28,128,809
Retained earnings	2,163,664	—
Accumulated other comprehensive income	—	(377,303)
Total stockholders' equity	80,607,618	27,751,506
Total liabilities and stockholders' equity	$88,267,387	$57,048,508

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, 2002, 2001 and 2000

	2002	2001	2000
Revenues:			
Income recognized on finance receivables	$53,802,718	$31,220,857	$18,990,695
Commissions	1,944,428	214,539	—
Net gain on cash sales of defaulted consumer receivables	100,156	900,916	342,952
Total revenue	55,847,302	32,336,312	19,333,647
Operating expenses:			
Compensation and employee services	21,700,918	15,644,460	9,882,683
Outside legal and other fees and services	8,092,460	3,627,135	2,583,001
Communications	1,914,557	1,644,557	870,833
Rent and occupancy	799,323	712,400	602,630
Other operating expenses	1,436,438	1,265,132	652,409
Depreciation and amortization	940,352	676,677	436,684
Total operating expenses	34,884,048	23,570,361	15,028,240
Income from operations	20,963,254	8,765,951	4,305,407
Other income and (expense):			
Interest income	21,548	65,362	94,365
Loss on extinguishment of debt	—	(423,305)	—
Interest expense	(2,446,620)	(2,781,674)	(1,859,637)
Income before income taxes	18,538,182	5,626,334	2,540,135
Provision for income taxes	1,473,073	—	—
Net income	$17,065,109	$ 5,626,334	$ 2,540,135
Pro forma income taxes	5,693,788	2,100,609	900,899
Pro forma net income	$11,371,321	$ 3,525,725	$ 1,639,236
Pro forma net income per common share			
Basic	$ 1.08	$ 0.35	$ 0.16
Diluted	$ 0.94	$ 0.31	$ 0.14
Pro forma weighted average number of shares outstanding			
Basic	10,529,452	10,000,000	10,000,000
Diluted	12,066,202	11,457,741	11,365,901

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, 2002, 2001 and 2000

	Members' Equity	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 1999	$ 20,313,281	$ —	$ —	$ —	$ —	$20,313,281
Net income	2,540,135	—	—	—	—	2,540,135
Distributions	(148,010)	—	—	—	—	(148,010)
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 IPO, 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
Options granted and tax effect of warrant exercise	—	—	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

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, 2002, 2001 and 2000

	2002	2001	2000
Operating activities:			
Net income	$ 17,065,109	$ 5,626,334	$ 2,540,135
Adjustments to reconcile net income to cash provided by operating activities:			
Increase in equity from vested options	124,386	—	—
Income tax benefit related to stock option exercise	248,960	—	—
Depreciation and amortization	940,352	676,677	436,684
Loss on extinguishment of debt	—	423,305	—
Deferred tax expense	286,882	—	—
Gain on sales of finance receivables, net	(100,156)	(900,916)	(342,952)
Gain on disposal of property and equipment	—	(1,766)	—
Changes in operating assets and liabilities:	—		
Other assets	(106,379)	(590,647)	75,514
Accounts payable	1,126,948	80,132	33,633
Income taxes payable	937,231	—	—
Accrued expenses	131,056	219,835	102,402
Accrued payroll and bonuses	1,186,965	963,780	236,536
Net cash provided by operating activities	21,841,354	6,496,734	3,081,952
Cash flows from investing activities:			
Purchases of property and equipment	(1,316,132)	(1,279,356)	(1,069,420)
Acquisition of finance receivables, net of buybacks	(42,990,924)	(33,571,212)	(25,035,237)
Collections applied to principal on finance receivables	25,450,833	21,926,815	11,741,998
Proceeds from sale of finance receivables, net of allowances for returns	100,756	5,682,946	650,865
Cash restricted for letter of credit	—	—	500,000
Net cash used in investing activities	(18,755,467)	(7,240,807)	(13,211,794)
Cash flows from financing activities:			
Proceeds from IPO	40,379,884	—	—
Proceeds from exercise of options	210,000	—	—
Distribution of capital	(5,549,530)	(202,931)	(148,010)
Proceeds from lines of credit	4,000,000	28,577,298	25,612,141
Payments on lines of credit	(29,000,000)	(25,743,719)	(13,488,098)
Proceeds from long-term debt	500,000	107,000	550,000
Payments on building loan	(102,850)	(70,235)	(18,333)
Payments of capital lease obligations	(365,060)	(334,420)	(142,347)
Net cash provided by financing activities	10,072,444	2,332,993	12,365,353
Net increase in cash and cash equivalents	13,158,331	1,588,920	2,235,511
Cash and cash equivalents, beginning of period	4,780,399	3,191,479	955,968
Cash and cash equivalents, end of period	$ 17,938,730	$ 4,780,399	$ 3,191,479
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 2,698,782	$ 2,821,784	$ 1,847,747
Noncash investing and financing activities:			
Capital lease obligations incurred	38,896	555,988	414,404
Basis — swap contract	(377,303)	377,303	—

The accompanying notes are an integral part of these 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 in substantially all cases either purchased from the credit originator or are collected on behalf of clients on a commission fee basis. This is primarily accomplished by maintaining a staff of highly skilled collectors whose purpose is to contact the customers and arrange payment of the debt. Secondarily, 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 is a named borrower under a $25 million loan facility (see Note 7). In addition, PRA, PRA Holding I, and Anchor, exclusive of Anchor's deposits held for others, are named guarantors. PRA III was formed under the laws of the Commonwealth of Virginia and will exist in perpetual existence under those laws.

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 AG Funding, PRA Holding I, Anchor and PRA III. 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 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.

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.

2. Summary of Significant Accounting Policies, continued:

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 they make on behalf of clients, which may be credit organizations 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 funds are received. 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. Any stipulated escalation clauses that are considered to be reasonable and ordinary are expensed as incurred.

Capital leases: Leases are analyzed to determine if they meet the definition of a capital lease as defined in FASB 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.

Warrants and Stock Options: The Company applied the intrinsic value method provided for under Accounting Principles Board Opinions ("APB") No. 25. Accounting for Stock Issued to Employees, for all warrants issued to employees prior to January 1, 2002. For warrants issued to non-employees, the Company followed the fair value method of accounting as prescribed under SFAS No. 123, Accounting for Stock Based Compensation. On January 1, 2002 the Company adopted SFAS No. 123 on a prospective basis for all warrants and options granted. For warrants issued to employees prior to January 1, 2002, pro forma net income assuming the warrants were accounted for under the fair value method, has been disclosed in Note 12 in 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, 2002, 15,000 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.

Reclassifications: Certain 2001 and 2000 amounts have been reclassified to conform to the 2002 presentation.

Recent Accounting Pronouncements: In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002." SFAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and an amendment of that statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and eliminates extraordinary gain and loss treatment for the early extinguishment of debt. This statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers" and amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. This statement is effective for fiscal years beginning after May 15, 2002. The Company has adopted SFAS 145 for the year ending December 31, 2002. The application of this statement did not have a material impact on the Company's financial statements other than the elimination of the extraordinary loss treatment for the debt extinguishment in 2001.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The application of this statement is not expected to have a material impact on the Company's financial statements.

In November 2002, FASB issued FASB Interpretation No. ("FIN") 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements Nos. 5, 57, and 107 and rescission of FIN 34. FIN 45 details the disclosures that should be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. This interpretation also requires a company to record a liability for certain guarantees that have been issued. The disclosure provisions are effective for interim or annual periods ending after December 15, 2002. The recognition requirements of this interpretation are effective for all guarantees issued or modified subsequent to December 31, 2002. The adoption of this interpretation did not have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide three alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based compensation. This statement also amends disclosure provisions of SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting to require additional disclosures in annual and interim financial statements. This statement is effective for fiscal years ending after December 15, 2002. The amendment of the disclosure requirements of Opinion 28 is effective for interim financial reports beginning after December 15, 2002. Effective January 1, 2002, the Company adopted the fair value method using the prospective method of transition. The prospective method required the Company to apply the provisions of SFAS No. 123 to new stock awards granted from the beginning of the year of adoption and going forward. The adoption of this statement did not have a material impact on the Company's financial position or results of operation.

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 is not expected to have a material impact on the Company's financial position or the results of operations.

3. Finance Receivables:

As of December 31, 2002 and 2001, the Company had $65,526,235 and $47,986,744, respectively, remaining of finance receivables. These amounts represent 330 and 258 pools of accounts as of December 31, 2002 and 2001, respectively.

Changes in finance receivables at December 31, 2002 and 2001, were as follows:

	2002	2001
Balance at beginning of year	$ 47,986,744	$ 41,124,377
Acquisitions of finance receivables, net of buybacks	42,990,924	33,491,211
Cash collections	(79,253,551)	(53,147,672)
Income recognized on finance receivables	53,802,718	31,220,857
Cash collections applied to principal	(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	$ 65,526,235	$ 47,986,744

4. Operating Leases:

The Company rents office space and equipment under operating leases. Rental expense was $668,795, $777,676 and $698,256 for the years ended December 31, 2002, 2001 and 2000, respectively.

Future minimum lease payments at December 31, 2002, are as follows:

2003	$ 880,139
2004	1,103,463
2005	1,105,145
2006	733,378
2007	387,797
Thereafter	984,240
	$5,194,162

5. Capital Leases:

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

	2002	2001
Software	$ 270,008	$ 375,022
Computer equipment	178,893	319,535
Furniture and fixtures	600,564	600,564
Equipment	27,249	—
Less accumulated depreciation	(461,326)	(352,425)
	$ 615,388	$ 942,696

Depreciation expense recognized on capital leases for the years ended December 31, 2002, 2001 and 2000 was $213,016, $238,719 and $79,558, respectively.

Commitments for minimum annual rental payments for these leases as of December 31, 2002 are as follows:

2003	$309,208
2004	169,102
2005	70,834
2006	7,365
2007	—
	556,509
Less amount representing interest and taxes	57,358
Present value of net minimum lease payments	$499,151

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. The Company makes matching contributions of up to 4% of an employee's salary. Total compensation expense related to these contributions was $275,858, $198,627 and $152,983 for the years ended December 31, 2002, 2001 and 2000, respectively.

7. Revolving Lines of Credit:

Amounts outstanding under revolving lines of credit at December 31, 2002 and 2001, were as follows:

	2002	2001
Line of credit with commercial lender, originated September 2001, amended December 18, 2002, collateralized by all receivables, collections on receivables and assets of PRAIII, LLC ; expires on September 15, 2005; interest is based on LIBOR and was 6.17% and 6.25% at December 31, 2002 and 2001, respectively; total credit available $25 million	$—	$25,000,000

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. 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 is 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. Instead of obtaining a waiver, the indebtedness outstanding under this facility was paid off on November 14, 2002 with proceeds obtained from the IPO.

The Company has reached an agreement to modify 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 December 30, 1999, PRA entered into a $12.5 million credit agreement with AG PRA 1999 Funding Co., ("AG 1999"), that expired on June 30, 2002. AG 1999 is owned by affiliates of Angelo, Gordon & Co., a majority stockholder, and certain members of PRA management. Terms of the credit agreement included the possibility of AG 1999 earning contingent interest. Over the term of the agreement, PRA borrowed $6.6

million. In December 2001, PRA repaid all outstanding loans under this agreement and incurred an expense of $300,000 to extinguish the contingent interest provision. PRA incurred interest expense related to the agreement of $450,532 during the year ended December 31, 2001. In addition, in accordance with the agreement the management committee of PRA granted AG 1999 warrants to purchase 125,000 membership units of PRA which were immediately exercisable for $3.60 per unit. The agreement discussed above was entered into after arms' length negotiations between the related party and PRA.

In addition, PRA AG Funding maintains a $2.5 million revolving line of credit, with a commercial lender which extends through July 2003. The line of credit bears interest at a spread over LIBOR. The terms of this agreement require that PRA maintain a current ratio of 1.6:1.0 or greater, the current ratio being defined to include finance receivables as a current asset and to include the credit facility in place as of December 31, 2002 as a current liability. The agreement further requires that PRA maintain a debt to tangible net worth ratio of 1.5:1.0 or less and a minimum balance sheet cash position at month end of $2 million. Distributions are limited under the terms of the facility to 75% of net income. PRA AG Funding is in full compliance with these covenants. This $2.5 million facility had no amounts outstanding as of December 31, 2002.

8. Property and equipment:

Property and equipment, at cost, consist of the following as of December 31, 2002 and 2001:

	2002	2001
Software	$ 1,431,938	1,036,172
Computer equipment	1,435,795	1,130,786
Furniture and fixtures	942,178	848,901
Equipment	1,037,372	640,574
Leasehold improvements	343,329	277,469
Building and improvements	1,136,762	1,057,643
Land	100,515	100,515
Less accumulated depreciation	(2,633,635)	(1,712,484)
Net property and equipment	$ 3,794,254	$ 3,379,576

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 $118,924 and $792,047 for the years ended December 31, 2001 and 2002, 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” on the income statement and a reduction of net income in the cash flow statement.

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 4.38% and 9.26% during 2001 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 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.

Annual payments including interest on all loans outstanding as of December 31, 2002 are as follows:

2003	$ 219,090
2004	216,248
2005	465,456
2006	121,905
2007	88,174
Thereafter	—
	1,110,873
Less amount representing interest	(145,291)
Principal due	$ 965,582

These three loans are collateralized by property and buildings that have a book value of $1,104,012 and $1,104,129 as of December 31, 2002 and 2001, respectively.

12. Stockholders’ Equity:

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

Prior to the IPO on November 8, 2002, there were two classes of members in PRA: operating members and capital members. On April 6, 1999, PRA amended and restated its limited liability company operating agreement (the “Agreement”), to authorize the issuance of 20,000,000 membership units. From December 31, 1999 until the IPO, 10,000,000 membership units were outstanding of which the capital members owned 8,797,000 (87.97%) membership units of the business, while the operating members owned the remaining

1,203,000 (12.03%) membership units. Allocations and distributions of profits and losses were based on the aforementioned percentages.

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

The following summarizes all warrant and option related transactions from December 31, 1999 through December 31, 2002:

	Options Outstanding	Weighted Average Exercise Price
December 31, 1999	2,325,000	4.17
Granted	65,000	4.20
Exercised	—	—
Cancelled	(230,000)	4.20
December 31, 2000	2,160,000	4.17
Granted	155,000	4.20
Exercised	—	—
Cancelled	(120,000)	4.20
December 31, 2001	2,195,000	4.17
Granted	870,000	12.88
Exercised	(50,000)	4.20
Cancelled	(22,150)	9.03
December 31, 2002	2,992,850	$ 6.66

At December 31, 2002, the Company had exercisable warrants outstanding of 2,135,000. All but 225,000 were issued to employees and operating members of the Company. Of the 225,000 issued to non-employees, 125,000 were issued to AG 1999 (see Note 7), 80,000 were issued and vested to SMR Research Corporation, a vendor of the Company in connection with a business agreement to utilize certain software, and 20,000 were issued to the Board of Directors. All of the options vest in 5 years except for the 80,000 warrants granted to SMR Research Corporation in 1999 of which 20,000 vested immediately and 60,000 were vested in the following year and the 125,000 warrants granted to AG 1999 in 1999 which vested immediately. During the year ended December 31, 2002, 50,000 warrants were granted which vest 15,000 in one year, 10,000 in each of the 3 subsequent years and 5,000 based on performance which is expected to occur in the first year. The majority of outstanding warrants vested at the IPO, however, the total number of warrants that did not vest is 50,000 which were granted in 2002. For the warrants that accelerated due to the IPO, a pro forma expense of $33,000 was incurred in fiscal 2002, instead of 2003 and 2004 which would have been prescribed under the normal vesting schedule in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”). These accelerated warrants will be treated under APB 25 as they were granted under that accounting principle. All warrants and stock options issued in 2002 and later will be accounted for under SFAS No. 123, “Accounting for Stock Based Compensation” (“SFAS 123”).

The following information is as of December 31, 2002:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 4.20	2,010,000	3.23	$ 4.20	2,010,000	$ 4.20
$ 3.60	125,000	2.25	$ 3.60	125,000	$ 3.60
$ 10.00	50,000	5.45	$ 10.00	—	$ 10.00
$ 13.00	792,850	7.82	$ 13.00	—	$ 13.00
$ 16.16	15,000	7.82	$ 16.16	—	$ 16.16
Total at December 31, 2002	2,992,850	4.47	$ 6.66	2,135,000	$ 4.16

Prior to November 8, 2002, the Company applied APB 25 in accounting for stock based employee compensation arrangements whereby no compensation cost related to stock options is deducted to determine net income for warrants granted at or above fair value to warrants issued prior to the IPO. In connection with the IPO, the Company adopted SFAS 123, and it will be applied prospectively to all granted warrants and stock options. This accounting standard must be adopted as of the beginning of the Company's fiscal year, which is January 1, 2002.

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

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

The fair value model utilizes the risk-free interest rate at grant with an expected exercise date sometime in the future generally assuming an exercise date in the first half of 2005. In addition, warrant valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Prior to our 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, 2001 and 2000 was $1.24, $0.35, and $0.21, respectively.

For purposes of pro forma disclosures, the estimated fair value of the warrants is amortized over the warrants' vesting period. Had the Company's warrants been accounted for under SFAS 123, net income would have been reduced to the following pro forma amounts for the years ended December 31, 2002, 2001 and 2000:

Net income:	2002	2001	2000
As reported	$17,065,109	$5,626,334	$2,540,135
Pro forma	$17,016,637	$5,613,480	$2,537,908

Effective December 30, 1999, PRA's management committee issued warrants to acquire 125,000 membership units to an affiliate of Angelo, Gordon & Co. (see Note 7). The warrants immediately vested and are exercisable at $3.60 per unit. The warrants are exercisable in whole or in part and expire March 31, 2005. As these warrants are not issued as compensation to an employee or operating member of the Company, an expense of $17,069, $17,069, and $17,068 was recognized in the years ended December 31, 2002, 2001, and 2000, 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.

The Company created the 2002 Stock Option Program on November 7, 2002. Up to 2,000,000 shares of common stock may be issued under this program. The Program expires November 7, 2007. All options issued under the program vest ratably over 5 years. Once granted, the options expire on November 7, 2010. No grant of options to a single person can exceed 150,000. As of December 31, 2002, 820,000 options have been granted under this plan of which 12,150 have been canceled. See tables above for average price information. These options are accounted for under SFAS 123 and all expense for 2002 are included in earnings as a component of compensation.

Effective August 18, 1999, PRA's management committee issued warrants to acquire 200,000 membership units to SMR Research Corporation. The warrants were to vest over a 60 month period and are exercisable at $4.20 per unit. The warrants vested as to 80,000 membership units and the remaining 120,000 membership units were cancelled upon the termination of an agreement between the Company and SMR Research Corporation. The value of the warrants was calculated using the intrinsic method and no expense was recognized on these warrants. The fair value approach was then applied, as designated by SFAS 123, which utilizes a comparison of the discounted value of the underlying units discounted using a risk-free interest rate at the date of grant, these warrants were shown to have a negative present value and as such no expense has been recorded.

13. Income Taxes:

Prior to November 8, 2002, the Company was organized as a limited liability company (LLC), 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 provision includes income taxes on earnings for the period November 1, 2002 through December 31, 2002 as well as taxes related to the conversion from an LLC to a corporation.

The income tax expense recognized for 2002 is composed of the following:

	Federal	State	Total
Current tax expense	$1,005,368	180,823	$1,186,191
Deferred tax expense	242,633	44,249	286,882
Total income tax expense	$1,248,001	$225,072	$1,473,073

The Company also recognized a net deferred tax liability of $286,882 as of December 31, 2002. The components of this net liability are:

	2002
Deferred tax assets:	
Deferred compensation	$ 14,872
FAS123 expense	47,997
Total deferred tax asset	62,869
Deferred tax liabilities:	
Depreciation	260,125
Prepaid expenses	89,626
Total deferred tax liability	349,751
Net deferred tax liability	$286,882

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

A reconciliation of the Company's statutory tax rates to the effective tax rates is as follows:

	2002
Federal tax at statutory rates	$ 6,488,363
State tax expense, net of federal benefit	144,090
Income while Company was an LLC	(5,215,505)
Other	56,125
Total income tax expense	$ 1,473,073

The Company presented pro forma tax information assuming they have been a taxable corporation since inception and assuming tax rates equal to the rates that would have been in effect had they been required to report income tax expense in such years. The Company's pro forma income tax expense comprised of the following components for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Pro forma income tax reconciliation:			
Additional federal tax at statutory rate	$5,215,506	$1,912,953	$863,645
Additional state income tax, net of federal benefit	581,156	226,975	100,199
Other	(102,874)	(39,319)	(62,945)
Total pro forma tax provision	$5,693,788	$2,100,609	$900,899

14. Contingencies and Commitments:

Employment Agreements:
The Company has eight employment agreements with each of its executive and senior management group, the terms of which expire on March 31, 2003 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 $3,338,503. The agreements also contain confidentiality and non-compete provisions.

Litigation:
Included in accrued expenses is a liability for the settlement of an arbitration case totaling $325,000.

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.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth certain information as of March 10, 2003 about the Company's directors and executive officers.

Name	Position	Age
Steven D. Fredrickson	President, Chief Executive Officer and Chairman of the Board	43
Kevin P. Stevenson	Senior Vice President, Chief Financial Officer, Treasurer and Assistant Secretary	39
Craig A. Grube	Senior Vice President — Acquisitions	42
Andrew J. Holmes	Senior Vice President — Administration	55
James L. Keown	Senior Vice President — Information Technology	45
Judith S. Scott	Senior Vice President, General Counsel and Secretary	57
William P. Brophey	Director	65
Peter A. Cohen	Director	56
David N. Roberts	Director	41
James M. Voss	Director	60

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, Senior 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, Senior 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.

Andrew J. Holmes, Senior Vice President — Administration. Prior to co-founding Portfolio Recovery Associates in 1996, Mr. Holmes was a 27-year veteran of Household Finance Corporation ("HFC"), last serving as Department Manager, Specialty Services at HRSC where he was responsible for portfolio sales and purchases. Mr. Holmes held a variety of management positions both in the lending and collection/recovery sides of various HFC businesses. He received his B.A. degree from St. Peters College.

James L. Keown, Senior Vice President — Information Technology. 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.

Judith S. Scott, Senior 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. from Virginia State University, a post baccalaureate degree from Swarthmore College, and a J.D. from the Catholic University School of Law.

William P. Brophey, Director. Mr. Brophey was elected as a director of Portfolio Recovery Associates in 2002. Currently retired, Mr. Brophey 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. Brophey 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.

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 2003 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 2003 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 2003 Annual Meeting of Stockholders.

Item 14. 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 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:

(b) **Reports on Form 8-K.**

The Company filed a current report on Form 8-K on November 25, 2002 announcing its appointment of three new directors to its board, the signing of a lease for a facility in Hampton, Virginia and the agreement in principal with its primary lender, Westside Funding Corporation to modify the terms of its loan agreement.

(c) **Exhibits.**

2.1	Equity Exchange Agreement between Portfolio Recovery Associates, L.L.C. and Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 2.1 of the Registration Statement on Form S-1.)
3.1	Amended and Restated Certificate of Incorporation of Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-1.)
3.2	Amended and Restated By-Laws of Portfolio Recovery Associates, Inc. (Incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1.)
4.1	Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1.)
4.2	Form of Warrant (Incorporated by reference to Exhibit 4.2 of the Registration Statement on Form S-1.)
10.1	Credit Agreement, dated as of December 30, 1999, by and between PRA AG Funding, LLC, AG PRA 1999 Funding Co., LLC. (Incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-1.)
10.2	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.)
10.3	Loan and Security Agreement, dated September 18, 2001, by and between Westside Funding Corporation, PRA III, LLC, Portfolio Recovery Associates, L.L.C., PRA Receivables Management, LLC (d/b/a Anchor Receivables Management), PRA II, LLC and PRA Holding I, LLC. (Incorporated by reference to Exhibit 10.3 of the Registration Statement on Form S-1.)
10.4	First Amendment to Loan and Security Agreement, dated December 18, 2002, by and between Westside Funding Corporation, PRA III, LLC, Portfolio Recovery Associates, L.L.C., PRA Receivables Management, LLC (d/b/a Anchor Receivables Management), PRA II, LLC and PRA Holding I, LLC.
10.5	Business Loan Agreement, dated June 28, 2002, by and between PRA AG Funding, LLC and RBC Centura Bank. (Incorporated by reference to Exhibit 10.4 of the Registration Statement on Form S-1.)

10.6	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.)
10.7	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.)
10.8	Employment Agreement, dated December 8, 2002, by and between Steven D. Fredrickson and Portfolio Recovery Associates, Inc.
10.9	Employment Agreement, dated December 8, 2002, by and between Kevin P. Stevenson and Portfolio Recovery Associates, Inc.
10.10	Employment Agreement, dated December 8, 2002, by and between Craig A. Grube and Portfolio Recovery Associates, Inc.
10.11	Employment Agreement, dated December 20, 2002, by and between Andrew J. Holmes and Portfolio Recovery Associates, Inc.
10.12	Employment Agreement, dated December 27, 2002, by and between James L. Keown and Portfolio Recovery Associates, Inc.
10.13	Employment Agreement, dated December 8, 2002, by and between Judith S. Scott and Portfolio Recovery Associates, Inc.
10.14	Portfolio Recovery Associates, Inc. 2002 Stock Option Plan. (Incorporated by reference to Exhibit 10.12 of the Registration Statement on Form S-1.)
10.15	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.)
10.16	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.)
10.17	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.)
10.18	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.)
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).
99.1	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Portfolio Recovery Associates, Inc.
(Registrant)

Dated: March 17, 2003

By:/s/ Steven D. Fredrickson

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

By:/s/ Kevin P. Stevenson

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

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 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.

In accordance with the requirements of the Securities and 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: March 17, 2003

By:/s/ Steven D. Fredrickson

Steven D. Fredrickson
President and Chief Executive Officer

Dated: March 17, 2003

By:/s/ Kevin P. Stevenson

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

Dated: March 17, 2003

By:/s/ William P. Brophey

William P. Brophey
Director

Dated: March 17, 2003

By:/s/ Peter A. Cohen

Peter A. Cohen
Director

Dated: March 17, 2003

By:/s/ David N. Roberts

David Roberts
Director

Dated: March 17, 2003

By:/s/ James M. Voss

James M. Voss

CERTIFICATIONS

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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

By: /s/ Steven D. Fredrickson

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

I, Kevin P. Stevenson, certify that:

1. I have reviewed this annual report on Form 10-K of PORTFOLIO RECOVERY ASSOCIATES, INC.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003 By: /s/ Kevin P. Stevenson

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

Exhibit 10.4

December 18, 2002

First Amendment to Loan and Security Agreement

This First Amendment to Loan and Security Agreement (the "LSA"), dated September 18, 2001, among PRA III, LLC, "Borrower"), WESTSIDE FUNDING CORPORATION (the "Lender") and PORTFOLIO RECOVERY ASSOCIATES, L.L.C., PRA RECEIVABLES MANAGEMENT, LLC (d/b/a ANCHOR RECEIVABLES MANAGEMENT), PRA II, LLC and PRA HOLDING I, LLC (each a "Guarantor" and collectively, the "Guarantors") is entered into this eighteenth day of December 2002.

WITNESSETH:

WHEREAS, the Borrower, Lender and Guarantors have previously entered into the LSA; and

WHEREAS, the Borrower, Lender and Guarantors desire to amend certain of the terms and provisions of the LSA;

NOW, THEREFORE, in consideration of the foregoing, other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, Lender and Guarantors agree as follows:

Section 1. Definitions and Acknowledgement

(a) Capitalized terms that are not specifically defined herein shall have the meanings assigned thereto in the LSA.

(b) It is hereby acknowledged that Portfolio Recovery Associates, Inc. ("PRA") has completed an initial public offering of its equity. In connection with such offering, Portfolio Recovery Associates, L.L.C. ("LLC") has entered into various agreements and arrangements to reorganize its corporate structure. Accordingly, the members of LLC have transferred all of their membership units, and warrants to purchase membership units, to PRA, a newly formed Delaware corporation, in exchange for an equivalent amount of common stock, and warrants to purchase common stock, of PRA. LLC is now a wholly owned subsidiary of PRA. Furthermore, in connection with this reorganization, LLC transferred to PRA all of its membership interests in each of PRA Receivables Management, LLC (d/b/a Anchor Receivables Management) and PRA Holding I, LLC and PRA II, LLC merged into LLC and was dissolved.

(c) It is hereby acknowledged that PRA II, LLC shall be removed as an LSA Guarantor and that PRA shall be included as an LSA Guarantor.

Section 2. Amendments

(a) The definition of the term “Assumed Name” shall be amended by deleting “PRA II, L.L.C.” therefrom and inserting “Portfolio Recovery Associates, Inc.” in the place thereof.

(b) The definition of the term “Backup Service Fee” shall be amended by deleting “Seven Thousand Five Hundred Dollars ($7,500.00)” therefrom and inserting “Three Thousand Five Hundred Dollars ($3,500.00)” in the place thereof.

(c) The definition of the term “Change in Control” shall be amended to read as follows:

“CHANGE IN CONTROL: The term “Change in Control” shall mean any of the following (I) the acquisition by a third party, other than Angelo, Gordon & Co., L.P. or affiliated entities, of a majority of the issued and outstanding shares of PRA or (II) the failure of PRA to continue to own, directly or indirectly, in the aggregate, free and clear of all liens except for liens in favor of the Lender, 100% of the issued and outstanding membership interest of the Borrower.”

(d) The definition of the term “Commitment Fee” shall be amended by deleting “the product of (i) 0.35% and, (ii) the Facility Amount” therefrom, and inserting, “One Hundred Forty Thousand Dollars ($140,000.00)” in the place thereof.

(e) The definition of the term “Facility Amount” shall be amended by deleting “Forty Million Dollars ($40,000,000.00)” therefrom and inserting “Twenty Five Million Dollars ($25,000,000.00)” in the place thereof.

(f) The definition of the term “Guarantor” shall be amended by deleting “PRA II, L.L.C.” therefrom and inserting “Portfolio Recovery Associates, Inc.” in the place thereof.

(g) The definition of the term “Management Agreement” shall be amended by deleting “PRA” therefrom and inserting “LLC” in the place thereof.

(h) The definition of the term “PRA” shall be amended by deleting “Portfolio Recovery Associates, L.L.C.” therefrom and inserting “Portfolio Recovery Associates, Inc.” in the place thereof.

(i) The definition of the term “PRA Purchase Agreement” shall be amended by deleting “PRA” therefrom and inserting “LLC” in the place thereof.

(j) The definition of the term “Stated Interest Rate” shall be amended by deleting “4.35%” therefrom and inserting “3.50%” in the place thereof.

(k) The definition of the term “Unused Facility Fee” shall be amended to read as follows:

“UNUSED FACILITY FEE: The term “Unused Facility Fee” shall mean for any Settlement Date, (i) if the average daily principal balance of the Outstanding Facility Amount for the month immediately preceding such Settlement Date is less than $10,000,000, an amount equal to 1/12th of 0.75% multiplied by the difference between the Facility Amount and the average daily principal balance of the Outstanding Facility Amount for the month immediately preceding such Settlement Date, or (ii) if the average daily principal balance of the Outstanding Facility Amount for the month immediately preceding such Settlement Date is equal to or more than $10,000,000, an amount equal to 1/12th of 0.25% multiplied by the difference between the Facility Amount and the average daily principal balance of the Outstanding Facility Amount for the month immediately preceding such Settlement Date.”

(l) Section 1. shall be amended to incorporate the following defined term in its appropriate alphabetical order:

"LLC: The term "LLC" shall mean Portfolio Recovery Associates, L.L.C."

(m) Section 5.1.A. shall be amended to read as follows:

"Each of Borrower and Guarantor is a limited liability company or a corporation, duly formed, validly existing and in good standing under the laws of the state of its formation or incorporation, as applicable, is duly qualified to do business and is in good standing as a foreign entity in all states where such qualification is required, has all necessary power and authority to enter into this Agreement and each of the documents and instruments relating hereto and to perform all of its obligations hereunder and thereunder."

(n) Section 5.1.D.(II) shall be amended to read as follows:

"violate any provision of their respective Certificate of Formation, Operating Agreement, Certificate of Incorporation or By-Laws, as applicable."

(o) Section 5.1. X. shall be amended to read as follows:

"None of the Capital Stock of any Subsidiary of PRA shall be a certificated security."

(p) Section 6.1.E. shall be amended to read as follows:

"Carry on and conduct their business in the same manner and in the same fields of enterprise as they are presently engaged, and shall preserve their limited liability company or corporate existence, as applicable, licenses or qualifications as a domestic entity in the jurisdiction of its organization or incorporation, as applicable, and as a foreign entity in every jurisdiction in which the character of its assets or properties or the nature of the business transacted by it at any time makes qualification as a foreign entity necessary, and to maintain all other material rights and franchises, provided, however, nothing herein shall be construed to prevent Borrower from closing any retail location in the good faith exercise of its business judgment."

(q) Section 6.1.Q. shall be amended by deleting "PRA" therefrom and inserting "LLC" in the place thereof.

(r) Section 6.1.R. shall be amended by deleting "PRA" therefrom and inserting "LLC" in the place thereof.

(s) Section 6.2.D. shall be amended to read as follows:

"Cause or take any of the following actions with respect to either Borrower or Guarantor (except for PRA): (i) redeem, retire, purchase or otherwise acquire, directly or indirectly, any of Borrower's or Guarantor's outstanding Capital Stock; or (ii) purchase or acquire, directly or indirectly, any shares of Capital Stock, evidences of indebtedness or other securities of any Person or entity."

(t) Section 6.2.E. shall be amended to read as follows:

"Amend, supplement or otherwise modify either of Borrower's or Guarantor's Certificate of Formation, Operating Agreement, Certificate of Incorporation or By-Laws, as applicable, in such a way which would have a Material Adverse Effect on the condition and operations, prospects or financial condition of the Borrower or Guarantor (as the case may be)."

(u) Section 6.2.I. shall be amended to read as follows:

"Allow Borrower or Guarantor (except for PRA) to be owned and controlled directly or indirectly by any Person or entity other than the shareholders, members and senior management that own and control Borrower or Guarantor (as the case may be) as of the date hereof."

(v) Section 6.2.M. shall be amended to read as follows:

"Permit any equity holder of Borrower or Guarantor (except for PRA) to pledge or otherwise hypothecate any equity or membership interest in Borrower or Guarantor (as the case may be)."

(w) Section 6.5. shall be amended by deleting "or equivalent duly appointed member of PRA" therefrom.

(x) The LSA shall be amended to add a new Section 9.21 to read in its entirety as follows:

"In connection with this Agreement, each of the Borrower and Guarantor have agreed to furnish and make available to Lender certain financial and other information concerning the Borrower or Guarantor. As a condition to the Borrower or Guarantor furnishing such information to Lender, Lender agrees to treat the Confidential Material confidentially in accordance with the terms of this Section 9.21 and to take or refrain from taking certain actions herein set forth. As used herein, the term "Confidential Material" shall include (x) any information, regardless of the form in which it is communicated or maintained (whether prepared by the Borrower, Guarantor or otherwise) and which is made available or disclosed to Lender or its affiliates, subsidiaries, directors, officers, employees, agents and representatives (including attorneys and other advisors) (collectively, "Lender's Representatives") by or on behalf of the Borrower or Guarantor or which Lender or Lender's Representatives learn or obtain orally, through observation, or through analysis of such information, and (y) all reports, analyses, notes or other information that are based on, contain or reflect any Confidential Material. As used herein, the term "Confidential Material" does not include information which (i) is or becomes generally known to the public, other than as a result of a disclosure by Lender or Lender Representatives in violation of this Agreement, (ii) becomes available to Lender on a non-confidential basis from a source other than the Borrower or Guarantor, provided that such source is not known by Lender to be bound by a confidentiality agreement with or other obligation of secrecy to the Borrower or Guarantor, or otherwise known by Lender to be prohibited from transmitting such information to Lender or Lender's Representatives by a contractual, legal or fiduciary obligation or (iii) was disclosed to Lender on a non-confidential basis prior to its disclosure to Lender or Lender's Representatives by the Borrower or Guarantor.

Lender agrees that the Confidential Material will be used solely for the purpose described in this Agreement, and that such information will be kept confidential; provided, however, that any such information may be disclosed (i) to Lender's Representatives (it being understood that Lender Representatives shall be informed by Lender of the confidential nature of such information) (ii) at the request of a regulatory

agency or in connection with an examination of Lender, (iii) pursuant to subpoena or other court process, (iv) at the express direction of any other authorized government agency, or (v) to Lender's independent auditors or counsel provided that each person who receives such information has been made aware of the confidential nature of such information.

In the event that Lender or any of Lender's Representatives receive a request or demand to disclose all or any part of the information contained in the Confidential Material under the terms of a subpoena or order issued by a court of competent jurisdiction or otherwise, Lender agrees to (i) promptly notify PRA (unless such notice is not permitted by law) of the existence, terms and circumstances surrounding such a request so that PRA may seek, at its sole expense, a protective order or other appropriate relief or remedy or waive compliance with the terms of this Agreement; and (ii) should PRA seek such a protective order, consult with PRA in connection with such action. If, in the opinion of Lender's counsel, disclosure by Lender of all or any part of the information contained in the Confidential Material is required by law, Lender agrees to (x) promptly notify PRA (unless such notice is not permitted by law) of the proposed disclosure, (y) disclose only such information which is required by law, in Lender's counsel's reasonable opinion, to be disclosed and (z) mark as "confidential" any information disclosed by Lender to any of Lender's Representatives so as to ensure that confidential treatment will be accorded to the disclosed information to the maximum extent permissible by law.

All Confidential Material shall remain the exclusive property of the Borrower and Guarantor and, promptly upon termination of the LSA Lender shall return all Confidential Material to PRA and not retain any copies, extracts or other reproductions in whole or in part of such information, except that Lender may destroy all or any portion of the Confidential Material that may be found in analyses, compilations, studies or other documents prepared by Lender or Lender's Representatives, except that Lender may retain one or more copies of such Confidential Material as may be required by any applicable regulations, in accordance with internal document retention policies and for regulatory purposes and requirements, subject to the confidentiality obligations set forth herein. Such destruction shall, upon PRA's request, be certified in writing to PRA by an authorized officer supervising such destruction. Notwithstanding the return or destruction of all of the Confidential Material, Lender and Lender's Representatives shall continue to be bound by your obligations under this Section 9.21.

It is understood and agreed that money damages would not be a sufficient remedy for any breach of this Section 9.21 by Lender and that PRA shall be entitled to specific performance or other equitable relief as a remedy for any such breach. Such remedy shall not be deemed to be the exclusive remedy for Lender's breach of this Section 9.21 but shall be in addition to all other remedies available at law or equity to Borrower or Guarantor. Lender agrees that the provisions of this Section 9.21 shall be deemed to apply, with equal force and effect, to any of Lender's Representatives, as if such persons were a signatory hereto and that Lender shall be responsible for any breach of the provisions of this Section 9.21 by any of Lender's-Representatives.

Notwithstanding anything provided in this Section 9.21 to the contrary, Lender's obligations and responsibility with respect to any Confidential Material shall terminate on the second anniversary of the receipt of such Confidential Material by Lender or Lender's Representative from Borrower or Guarantor."

Section 3. Waiver and Consent

Lender hereby consents to the all actions taken by the Borrower and Guarantor in connection with PRA's initial public offering and the reorganization of the Borrower and Guarantor as described in Section 1(b) hereof. Lender further waives all Default or Events of Defaults under the LSA or any acts by Borrower or Guarantor which may be deemed to be a violation of any representation, warranty or covenant under the LSA and Borrower and Guarantor waive all Defaults or Events of Default under the LSA or any acts by Lender which may be deemed to be a violation of any representation, warranty or covenant under the LSA. As of the date hereof, giving effect to the above waiver and consent, neither Lender, nor Borrower or Guarantor is aware of any Default or Event of Default under the LSA or any violation of any representation, warranty or covenant under the LSA.

Section 4. Amendment Fee

The Borrower shall pay the Lender on the date hereof an amendment fee in the amount of Seventy Five Thousand Dollars ($75,000.00).

Section 5. Costs and Expenses

The Borrower shall pay the Lender within ten (10) days of the date of any invoice presented to the Borrower for the legal fees and costs (whether from internal or external counsel) incurred by the Lender in connection with the preparation, negotiation and execution of this Amendment.

Section 6. Acknowledgement of Guarantors and Ratification of LSA

Each Guarantor hereby acknowledges the amendments to the LSA being made by this Amendment and except as explicitly amended as provided herein, each of the Lender, Borrower and each Guarantor hereby ratify and reaffirm the provisions of the LSA and its obligations under the Guaranty, dated September 18, 2001, executed by each Guarantor in favor of the Lender.

Section 7. Effective Date

This Amendment shall become effective as of the date first above written upon the execution and delivery thereof by each of the parties hereto.

Section 8. Governing Law

THIS AMENDMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

Section 9. Severability

Each provision of this Amendment shall be severable from every other provision of this Amendment for the purpose of determining the legal enforceability of any provision hereof, and the unenforceability of one or more provisions of this Amendment in one jurisdiction shall not have the effect of rendering such provision or provisions unenforceable in any other jurisdiction.

Section 10. Counterparts

This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

Section 11. Legal Opinions

Each Guarantor and the Borrower shall cause to be delivered to Lender on the date hereof an opinion of counsel to the Guarantors and the Borrowers covering such matters as the enforceability of this amendment similar in form to the opinion delivered on the Closing Date.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed as of the date and year first written above.

BORROWER:
PRA III, LLC
a Virginia limited liability company

By: /s/ Kevin P. Stevenson

Name: Kevin P. Stevenson
Title: Member Representative

GUARANTOR:
PORTFOLIO RECOVERY ASSOCIATES, L.L.C.
a Delaware Limited Liability company

By: /s/ Steven D. Fredrickson

Name: Steven D. Fredrickson
Title: President

PRA RECEIVABLES MANAGEMENT, LLC
a Virginia limited liability company

By: /s/ Kevin Stevenson

Name: Kevin Stevenson
Title: Member Representative

PRA HOLDING I, LLC
a Virginia limited liability company

By: /s/ Kevin Stevenson

Name: Kevin Stevenson
Title: Member Representative

PORTFOLIO RECOVERY ASSOCIATES, INC.
a Delaware corporation

By: /s/ Steven D. Fredrickson

Name: Steven D. Fredrickson
Title: President

LENDER

Westside Funding Corporation
a Delaware Corporation

By: /s/ Brian Statfeld

Name: Brian Statfeld
Title: Executive Director

By: /s/ Jeffrey Kramer

Name: Jeffrey Kramer
Title: Executive Director

Exhibit 10.8

EMPLOYMENT AGREEMENT

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

W I T N E S S E T H :

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

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

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

1. Employment.

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

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

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

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

4. Compensation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Termination Procedure.

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

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

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

8. Termination of Employment.

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

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

c) Termination of Employment by the Company for Cause.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Confidential Information.

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

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

11. Non-Competition; Non-Solicitation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____

Name:
Position:

By: /s/ Steven D. Fredrickson

Steven D. Fredrickson

Exhibit 10.9

EMPLOYMENT AGREEMENT

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

W I T N E S S E T H :

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

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

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

1. Employment.

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

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

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

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

4. Compensation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Termination Procedure.

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

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

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

8. Termination of Employment.

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

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

c) Termination of Employment by the Company for Cause.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Confidential Information.

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

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

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

11. Non-Competition; Non-Solicitation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____
Name:
Position:

By: /s/ Kevin P. Stevenson
Kevin P. Stevenson

Exhibit 10.10

EMPLOYMENT AGREEMENT

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

W I T N E S S E T H :

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

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

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

1. Employment.

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

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

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

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

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

4. Compensation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Termination Procedure.

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

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

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

8. Termination of Employment.

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

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

c) Termination of Employment by the Company for Cause.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Confidential Information.

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

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

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

11. Non-Competition; Non-Solicitation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____
Name:
Position:

By: /s/ Craig A. Grube
Craig A. Grube

Exhibit 10.11

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 20, 2002 by and between PORTFOLIO RECOVERY ASSOCIATES, INC., a Delaware corporation (the "Company"), and Andrew J. Holmes ("Employee").

W I T N E S S E T H :

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

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

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

1. Employment.

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

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

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

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

4. Compensation.

a) Base Salary. Employee shall be paid a base salary (the "Base Salary") at an annual rate of $94,000, payable at such intervals as the other executive officers of the Company are paid, but in any event at least on a monthly basis. On each January 1 following the Commencement Date, commencing January 1, 2003, Base Salary shall be increased annually by no less than 4% over the immediately preceding year's Base Salary.

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

(i) Management Bonus. The performance of the business shall be reviewed at the end of each operating year and compared to such goals as are set forth in the business plan for that year as approved by the Board (the "Business Plan"). If the results of operations for the year achieve the net profitability goals for the year specified in the approved Business Plan, a bonus equal to no less than 20% of the Employee's Base Salary shall be paid to him (the "Management Bonus"). If the results of operations for the year exceed the net profitability goals of the approved Business Plan, the amount of the Employee's Management Bonus may be increased in recognition of the degree to which performance exceeded such goals, and the Employee's contribution to such superior performance results as determined in the sole discretion of the Compensation Committee of the Board (the "Committee"). If the results of operations for the year fail to achieve such net profitability goals, the amount, if any of the Employee's Management Bonus shall be within the absolute discretion of the Committee, provided that the Committee shall give reasonable consideration to any intervening or extraordinary events or circumstances that might have given rise to such shortfall.

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

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

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

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

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

b) Scope of Indemnification. In addition to the insurance coverage provided for in Section 5(a), the Company and any of the Company's affiliates as to which Employee has at any time served as a director, officer, employee, agent or fiduciary (collectively, the "Indemnitors") shall jointly and severally hold harmless and indemnify Employee (and his heirs, executors and administrators) to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by him in connection with or arising out of any action, suit or proceeding (each, a "Claim") in which he may be involved by reason of his having been a director, officer, employee, agent or fiduciary of any Indemnitor (whether or not he continues to be a director, officer, employee, agent or fiduciary thereof at the time of incurring such expenses or liabilities), or by reason of any action or inaction on Employee's part while serving in any such capacity, such expenses and liabilities to include, but not be limited to, losses, damages, judgments, investigation costs, court costs and attorneys' fees and the cost of reasonable settlements.

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

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

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

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

7. Termination Procedure.

a) Notice of Termination. Any termination of Employee's Employment by the Company or by Employee during the Term (other than termination pursuant to Section 8(a) of this Agreement) shall be communicated by written notice ("Notice of Termination") to the other party hereto in accordance with Section 13 herein. For purposes of this Agreement, a Notice of Termination shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's Employment under the provision so indicated.

b) Date of Termination. "Date of Termination" shall mean (a) if Employee's Employment is terminated by his death, the date of death, (b) if Employee's Employment is terminated pursuant to Section 8(b) herein, 30 days after Notice of

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

8. Termination of Employment.

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

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

c) Termination of Employment by the Company for Cause.

(i) Nothing herein shall prevent the Company from terminating Employee's Employment for Cause (as hereinafter defined). From and after the Date of Termination, Employee shall no longer be entitled to receive Base Salary and Bonus Compensation and the Company shall no longer be required to pay premiums on any life insurance or disability policy for Employee. Any rights and benefits which Employee may have in respect of any other compensation or any employee benefit plans

or programs of the Company, whether pursuant to Section 4(c) or otherwise, shall be determined in accordance with the terms of such other compensation arrangements or plans or programs. The term "Cause," as used herein, shall mean: (A) Employee's conviction, or plea of guilty or *nolo contendere* to, a felony; (B) Employee's engaging in willful misconduct that is economically injurious to the Company (including, but not limited to, a willful violation of Sections 10 or 11 of this Agreement or the embezzlement of funds or misappropriation of other property of the Company or any subsidiary); or (C) Employee shall breach this Agreement in a material manner or engage in fraudulent conduct as regards the Company which results either in personal enrichment to Employee or material injury to the Company. Notwithstanding the foregoing, under no circumstances shall Employee's refusal or unwillingness to make any of the certifications required of him as Chief Executive Officer of the Company pursuant to Section 302 or Section 906 of the Sarbanes-Oxley Act of 2002, or any rules or regulations promulgated thereunder, or any similar requirements of any federal, state, local or foreign governmental authority or agency, or of any national securities exchange or quotation system on which any class or series of the Company's capital stock is then traded or listed for quotation, constitute or give rise to a basis for termination for "Cause."

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

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

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

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

following a “change in control” (as hereinafter defined) of the Company), the following shall apply:

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

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

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

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

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

(A) an acquisition after the date of this Agreement by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting

securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this definition, the following transactions shall not constitute a change in control: (a) any acquisition by the Company or by an employee benefit plan (or related trust) sponsored or maintained by the Company or an affiliate, (b) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, (c) any acquisition by, or consummation of a Corporate Transaction with, an affiliate of the Company, or (d) a Non-Control Transaction;

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

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

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

(iv) Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall be deemed to have occurred upon (i) the removal of Employee from, or a failure of Employee to continue as, Senior Vice President — Administration, (ii) any material diminution in the nature or scope of the authorities, powers, functions, duties or responsibilities attached to such positions, (iii) the relocation

of the Company's principal executive offices to a location more than 50 miles from Norfolk, Virginia, or (iv) the material breach by the Company of this Agreement and, in the case of clauses (i)-(iv) above, Employee does not agree to such change (which decision is personal in nature and not subject to any fiduciary responsibilities Employee may have as an officer or director of the Company) and elects to terminate his Employment.

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

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

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

(viii) Excise Tax. In the event that Employee becomes entitled to any payments or benefits under this Agreement and any portion of such payments or benefits, when combined with any other payments or benefits provided to Employee (including, without limiting the generality of the foregoing, by reason of the exercise of

any stock options or the receipt of any shares of stock of the Company), which in the absence of this Section 8(d)(ii)(J), would be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the amount payable to Employee under this Agreement shall be reduced to the largest amount or greatest right (for example, by deferring the vesting date of Employee's options) such that none of the amounts payable to Employee under this Agreement and any other payments or benefits received or to be received by Employee as a result of, or in connection with, an event constituting a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(A) of the Code) (collectively, a "Control Change") or the termination of Employment (including a Constructive Termination, and whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Control Change or any person having such a relationship with the Company or such person as to require attribution of stock ownership between the parties under Section 318(a) of the Code) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code. The Company shall cooperate in good faith with Employee in making such determination. In the event that the vesting date of any option is deferred hereunder, the term during which such option may be exercised shall be extended until the ninetieth (90th) day following the full vesting thereof.

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

10. Confidential Information.

a) Employee covenants and agrees that he will not at any time, either during the Term or thereafter, use, disclose or make accessible to any other person, firm, partnership, corporation or any other entity any Confidential Information (as defined below) pertaining to the business of the Company except (i) while employed by the Company, in the business of and for the benefit of the Company or (ii) when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Company to divulge, disclose or make accessible such information. For purposes of this Agreement, "Confidential Information" shall mean non-public information concerning the Company's financial data, statistical data, strategic business plans, product development (or other proprietary product data), customer and supplier lists, customer and supplier information, information relating to practices, processes, methods, trade

secrets, marketing plans and other non-public, proprietary and confidential informati`on of the Company; provided, however, that Confidential Information shall not include any information which (x) is known generally to the public other than as a result of unauthorized disclosure by Employee, (y) becomes available to the Employee on a non-confidential basis from a source other than the Company or (z) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Company. It is specifically understood and agreed by Employee that any Confidential Information received by Employee during his Employment by the Company is deemed Confidential Information for purposes of this Agreement. In the event Employee's Employment is terminated hereunder for any reason, he immediately shall return to the Company all tangible Confidential Information in his possession.

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

11. Non-Competition; Non-Solicitation.

a) Employee agrees that during the Non-Competition Period (as defined in Section 11(d) below), without the prior written consent of the Company: (i) he shall not be a principal, manager, agent, consultant, officer, director or employee of, or, directly or indirectly, own more than 1% percent of any class or series of equity securities in, any partnership, corporation or other entity, which, now or at such time, has material operations which are engaged in any business activity competitive (directly or indirectly) with the Business of the Company (a "Competing Entity"); and (ii) he shall not, on behalf of any Competing Entity, directly or indirectly, have any dealings or contact with any suppliers or customers of the Company. As used in this Agreement, the term "Business" means the purchase, collection and management of portfolios of defaulted consumer receivables, but shall not include such collection and management activities to the extent they are incidental to a business primarily engaged in loan origination or servicing. Notwithstanding the foregoing, an entity will not be deemed to be a Competing Entity, and Employee will not be deemed to be engaged in the Business, if (i) Employee is employed by an entity that is engaged in any meaningful way in one or more businesses other than the Business (the "Non-Competing Businesses"), (ii) such entity's relationship with Employee relates solely to the Non-Competing Businesses, and (iii) if requested by the Company, such entity and Employee shall provide the Company with reasonable assurances that Employee will have no direct or indirect involvement in the Business on behalf of such entity.

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

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

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

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

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

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

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

If to Employee, to: Mr. Andrew J. Holmes
1105 Winchester Way
Chesapeake, Virginia 23320
Fax:

14. Entire Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the matters contemplated herein and supersedes all prior agreements or understandings among the parties related to such matters.

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

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

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

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

19. Fees and Expenses. If either party institutes any action or proceedings to enforce any rights the party has under this Agreement, or for damages by reason of any alleged breach of any provision of this Agreement, or for a declaration of each party's rights or obligations hereunder or to set aside any provision hereof, or for any other judicial remedy, the prevailing party shall be entitled to reimbursement from the other

party for its costs and expenses incurred thereby, including but not limited to, reasonable attorneys' fees and disbursements.

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

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

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

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

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

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____
Name:
Position:

By: /s/ Andrew J. Holmes
Andrew J. Holmes

Exhibit 10.12

EMPLOYMENT AGREEMENT

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

W I T N E S S E T H:

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

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

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

1. Employment.

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

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

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

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

4. Compensation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Termination Procedure.

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

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

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

8. Termination of Employment.

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

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

c) Termination of Employment by the Company for Cause.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Confidential Information.

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

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

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

11. Non-Competition; Non-Solicitation.

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

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

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

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

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

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

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

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

If to the Company, to:	Portfolio Recovery Associates, Inc. 120 Corporate Boulevard Norfolk, Virginia 23502 Attn: General Counsel Fax:
If to Employee, to:	Mr. James L. Keown 932 Gideon Rd. Virginia Beach, Virginia 23454 Fax:

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

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

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

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

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

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

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

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

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

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

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

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

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____
Name:
Position:

By: /s/ James L. Keown
James L. Keown

Exhibit 10.13

EMPLOYMENT AGREEMENT

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

W I T N E S S E T H :

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

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

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

1. Employment.

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

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

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

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

4. Compensation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Termination Procedure.

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

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

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

8. Termination of Employment.

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

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

c) Termination of Employment by the Company for Cause.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Confidential Information.

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

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

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

11. Non-Competition; Non-Solicitation.

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

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

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

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

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

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

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

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

If to the Company, to:	Portfolio Recovery Associates, Inc. 120 Corporate Boulevard Norfolk, Virginia 23502 Attn: General Counsel Fax:
If to Employee, to:	Mr. Judith S. Scott 405 Pin Oak Rd. Newport News, Virginia 23601 Fax:

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

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

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

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

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

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

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

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

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

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

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

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

PORTFOLIO RECOVERY ASSOCIATES, INC.

By: _____
Name:
Position:

By: /s/ Judith S. Scott
Judith S. Scott

EXHIBIT 23.1

[PRICEWATERHOUSECOOPERS LOGO]

Report of Independent Accountants

Board of Directors and Stockholders
Portfolio Recovery Associates, Inc.:

In our opinion, the accompanying consolidated statements of financial positions and the related consolidated statements of operations, changes in stockholders' equity, and cash flows present fairly, in all material respects, the financial position of Portfolio Recovery Associates, Inc. and its subsidiaries (the "Company") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the 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/ PriceWaterhouseCooper LLP

Harrisburg, Pennsylvania
February 7, 2003

Exhibit 99.1

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

In connection with the Annual Report of Portfolio Recovery Associates, Inc. (the "Company") on Form 10-K for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven D. Fredrickson, Chief Executive Officer, President and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 17, 2003 By: /s/ Steven D. Fredrickson

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

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

In connection with the Annual Report of Portfolio Recovery Associates, Inc. (the "Company") on Form 10-K for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin P. Stevenson, Chief Financial Officer, Senior Vice President, Treasurer and Assistant Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 17, 2003 By: /s/ Kevin P. Stevenson

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