

PORTFOLIO RECOVERY ASSOCIATES INC

Form DEF 14A

April 12, 2004

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by
Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Portfolio Recovery Associates, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

PORTFOLIO RECOVERY ASSOCIATES, INC.
Riverside Commerce Center
120 Corporate Boulevard, Suite 100
Norfolk, Virginia 23502

Notice of Annual Meeting of Stockholders
to be held on May 12, 2004

TO THE STOCKHOLDERS OF PORTFOLIO RECOVERY ASSOCIATES, INC.:

You are cordially invited to attend the Annual Meeting of Stockholders of PORTFOLIO RECOVERY ASSOCIATES, INC. (the Company), which will be held at the Company's Norfolk, Virginia headquarters located at Riverside Commerce Center, 120 Corporate Blvd, Suite 100, Norfolk, VA 23502, on May 12, 2004, at 12:00 PM (Noon) local time. At the Annual Meeting, you will be asked to:

Elect two directors to serve for a term of three years;

Approve the Amended And Restated Portfolio Recovery Associates 2002 Stock Option Plan And 2004 Restricted Stock Plan;

Ratify the selection of PricewaterhouseCoopers LLP as accountants and independent auditors for Portfolio Recovery Associates, Inc. who will audit the books and accounts of the Company for the year ending December 31, 2003, and

Transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The enclosed and Proxy Statement contains detailed information about the business to be transacted.

The Board of Directors unanimously recommends that you vote FOR the election of each nominee for director, FOR the ratification of PricewaterhouseCoopers LLP as accountants and independent auditors for Portfolio Recovery Associates, Inc., and FOR approval of the Amended And Restated Portfolio Recovery Associates 2002 Stock Option Plan And 2004 Restricted Stock Plan.

In addition to considering the matters described above, the Company will review developments since last year's stockholders meeting. The Board of Directors has fixed the close of business on April 2, 2004 as the Record Date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. Only stockholders of record at the close of business on April 2, 2004 will be entitled to notice of and to vote at the Annual Meeting. A list of such stockholders will be available during regular business hours at the Company's headquarters, located at 120 Corporate Blvd, Suite 100, Norfolk, VA 23502, for the ten days before the Annual Meeting for inspection by any stockholder for any purpose germane to the meeting.

If you have any questions or need additional information about the Annual Meeting, please contact the Company's investor relations liaison at 757- 961-3510, or via email at info@portfoliorecovery.com.

By Order of the Board of Directors,

Judith S. Scott
Executive Vice President, General Counsel and Secretary

Norfolk, Virginia

Date: April 16, 2004

Whether or not you plan to attend the Annual Meeting, please act promptly to vote your shares with respect to the proposals described above. You may vote your proxy by marking, signing, dating and promptly returning the enclosed proxy card in the postage-paid envelope provided. If you attend the Annual Meeting, you may vote your shares in person, even if you have previously submitted your proxy in writing. If you vote in person, any previously voted proxy will be withdrawn.

**PORTFOLIO RECOVERY ASSOCIATES, INC.
120 CORPORATE BLVD, SUITE 100
NORFOLK, VA 23502**

**PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 12, 2004**

Solicitation of Proxy

You are receiving a Notice of Annual Meeting, Proxy Statement and Proxy Card from Portfolio Recovery Associates, Inc. (the Company) because you own shares of common stock in the Company. The Company's Board of Directors (the Board) is soliciting your proxy to vote at its 2004 Annual Meeting of Stockholders (the Annual Meeting), which will be held in Norfolk, Virginia, at 12:00 Noon, local time, on Wednesday, May 12, 2004, and any adjournments or postponements thereof. This Proxy Statement describes the proposals that will be on the agenda at the Annual Meeting, and other important information about the Company. The proposals on the agenda for which your vote is being solicited are: the election of two directors for a term of three years; the approval of the Amended and Restated Portfolio Recovery Associates 2002 Stock Option Plan and 2004 Restricted Stock Plan (the Amended Plan); the approval and ratification of the selection of the Company's independent auditors for the fiscal year ending December 31, 2004, and such other matters as may properly come before the meeting. In addition to the formal items of business to be brought before the meeting, officers of the Company will report on the Company's operations and respond to stockholder questions. This Proxy Statement gives you information that will help you make an informed voting decision. The Company's 2003 Annual Report to Stockholders, which includes audited consolidated financial statements for the fiscal year ended December 31, 2003, is being mailed with these materials. The Notice of Annual Meeting, this Proxy Statement and the Proxy Card are first being mailed to stockholders on or about April 16, 2004.

VOTING AT THE MEETING

Date, Time and Place of the Meeting

We will hold the Annual Meeting at our corporate headquarters, located in Norfolk, Virginia. Our address is:

Portfolio Recovery Associates, Inc.
Riverside Commerce Center
120 Corporate Blvd., Suite 100
Norfolk, Virginia 23502

The Annual Meeting will begin promptly at 12:00 Noon, Eastern Time, on May 12, 2004.

Who May Vote

Each holder of shares of the Company's common stock at the close of business on April 2, 2004, the Record Date, is entitled to notice of the Annual Meeting, and to attend and vote at the Annual Meeting. Such persons are considered holders of record. As of the Record Date, approximately 15,315,106 shares of common stock of the Company were issued and outstanding, which were held by approximately 32 holders of record maintaining shares on behalf of 10,171 beneficial owners. Entities holding shares on behalf of the owners of the shares, such as banks, brokerage firms and other nominees who are beneficial holders of the Company's stock as of the

close of business on April 2, 2004, have been requested to forward these materials to beneficial stockholders. The Company will pay the reasonable mailing expenses incurred for this purpose. Any stockholder who does not receive a copy of the Notice of Annual Meeting, Proxy Statement and Proxy Card may obtain these materials at the Annual Meeting, or by contacting the Company's investor relations liaison, at 757-961-3510, or via email, at info@portfoliorecovery.com.

Quorum for the Meeting

A quorum of stockholders is necessary to take action at the Annual Meeting. A majority of holders of the issued and outstanding shares of stock of the Company entitled to vote, represented in person or by proxy, will constitute a quorum. A poll will be taken of the votes cast on each proposal on the agenda. Votes cast by proxy or in person at the Annual Meeting will be tabulated by Continental Stock Transfer and Trust Company, the inspector of election appointed for the Annual Meeting. The inspector of election will also determine whether a quorum is present at the Annual Meeting. In the event that a quorum is not present at the meeting, the Annual Meeting will likely be adjourned or postponed in order to solicit additional proxies.

How to Vote

For each proposal to be considered at the Annual Meeting, a holder of common stock of the Company is entitled to one vote per share owned as of the record date. As a holder of common stock of the Company, you are invited to attend the Annual Meeting and vote your shares in person. You also may vote your proxies by mail or in person at the Annual Meeting.

Voting By Mail

If you do not expect to attend the Annual Meeting in person, and choose to vote on proposals on the agenda by mail, simply complete the enclosed proxy card, date and sign it, and return it in the postage-paid envelope provided. With respect to any other matters not on the agenda, which may properly come before the Annual Meeting, your proxy will be voted at the discretion of James Voss and Peter Cohen in accordance with their best judgment. If you are a stockholder whose shares are held in street name (i.e., in the name of a broker, bank or other record holder), you can obtain a proxy, executed in your favor, from the record holder, sign it and return it to the Company, or you may direct the record holder of your shares how to vote your proxy.

Voting At the Annual Meeting

If you are planning to attend the Annual Meeting and wish to vote your shares in person, you will be given a ballot for that purpose at the meeting. If you are a stockholder whose shares are held in street name (i.e., in the name of a broker, bank or other record holder), you will not be able to vote in person at the Annual Meeting; however, you should provide your voting instructions to your broker or bank so that they may vote on your behalf.

Changing or Revoking Your Proxy

You may change or revoke your proxy at any time before it is voted at the Annual Meeting by the following methods:

Send a written notice of a revocation of a proxy so that it is received before the taking of the vote at the meeting to:

Judith S. Scott
Executive Vice President, General Counsel and Secretary
Portfolio Recovery Associates, Inc.
Riverside Commerce Center
120 Corporate Blvd, Suite 100
Norfolk, VA 23502
Fax: 757-321-2518

Attend the Annual Meeting and vote in person. Your attendance at the Annual Meeting will not in and of itself revoke your proxy. In order to revoke your proxy, you must also vote your shares at the Annual Meeting.

If you require assistance in changing or revoking your proxy, please contact the Secretary of the Company at the address above.

Preliminary voting results will be announced at the conclusion of the Annual Meeting. The Company will also publish final voting results in its Quarterly Report on Form 10-Q for the second quarter of 2004.

Corporate Governance

In accordance with the Delaware General Corporation Law and the Company's Certificate of Incorporation and By Laws, the Company's business and affairs are managed under the direction of the Board. The directors are regularly kept informed of the Company's business through written reports and documents and operating, financial and other reports presented at meetings of the Board and committees of the Board. The Company's Board has undertaken an evaluation and review of the Company's corporate governance practices and, through its Nominating and Governance Committee, intends to continue to evaluate the Company's corporate governance in order to be in a position to convey to the Board their effectiveness, and to determine if any additions or modifications are appropriate.

The Company has adopted a Code of Ethics which applies to all employees, including the Chief Executive Officer and the Chief Financial Officer. A copy of the Code of Ethics, and the Company's corporate governance principles, are posted on the Company's website at www.portfoliorecovery.com, or you may obtain them by sending your request in writing, addressed to the Corporate Secretary, at the Company's corporate headquarters. The Company will disclose all amendments to the Code of Ethics, as well as any waivers thereof, on its website to the extent permissible by the rules and regulations of the Securities and Exchange Commission and the Nasdaq Stock Exchange.

The non-employee directors meet regularly in private sessions without any employee directors or members of management present, including at least one session to review and assess the process and effectiveness of the Board and to consider any other matters that the Directors may request. The Board consists of five members, a majority of which are independent directors. This determination was made based upon several factors, including the following:

Except for Steven D. Fredrickson, the Chairman and Chief Executive Officer, no director is an officer or employee of the Company or its subsidiaries;

No director has an immediate family member who is an officer of the Company or its subsidiaries, or has any current or past material relationship with the Company;

No director, other than Mr. Fredrickson, has worked for, been retained by, or received anything of substantial value from the Company aside from his compensation as a director;

No director is, or ever was, employed by the independent auditors for the Company;

No executive officer of the Company serves on the Compensation Committee or the board of directors of any company that employs a director or any member of the immediate family of a director; and

No director is an executive of any entity from which the Company purchases goods or services, or to which the Company makes charitable contributions.

The Board maintains three standing committees. They are: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The Audit Committee is a separate-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. Each committee is composed solely of independent directors, as that term is defined by the applicable standards promulgated by the National Association of Securities Dealers. All committees report their activities to the Board. Committee meetings are normally held in conjunction with Board meetings. During 2003, the Board held seven meetings, three of which were held by telephone. The Company does not have a formal policy regarding attendance at its meetings or at its Annual Meeting of Shareholders. The Board schedules its meetings and its Annual Meeting of Shareholders at times and dates to permit maximum attendance by directors, taking into account the directors schedules and the timing requirements of applicable laws. Of the five directors then in office, three attended the 2003 Annual Meeting of Shareholders. During the last fiscal year, no director attended fewer than 75% of the total number of meetings of the Board.

Directors are divided into three classes. The term of office of one class of directors expires each year. The terms of David Roberts and William Brophrey, both of whom are in the 2nd Class of directors, will expire on the date of the 2004 Annual Meeting. It is expected that each of the nominees will be available for election; however, should any nominee be unable to stand for election, all proxies will be voted for the election of a substitute nominated by the Board.

Audit Committee

The Audit Committee, whose chairman is James Voss, and whose other current members are Peter Cohen and William Brophrey, held five meetings during 2003, one of which was by telephone. Each member of the Audit Committee is independent, as that term is defined by the applicable standards promulgated by the National Association of Securities Dealers, and meets the heightened criteria for independence applicable to members' audit committees under Rule 4200(a)(15) and Rule 4350(d)(2)(A) of the National Association of Securities Dealers' listing standards. In the opinion of the Board, Mr. Voss and Mr. Cohen are both qualified as audit committee financial experts, pursuant to Section 401(h) of Regulation S-K. During 2003, the Audit Committee completed a review of its charter, practices and procedures in order to assure continued compliance with the provisions of the Sarbanes-Oxley Act of 2002 and related regulatory initiatives.

As described in its charter, the Audit Committee's duties are to:

Provide independent, objective oversight of the Company's internal controls and accounting functions, and review with management and independent auditors the Company's accounting policies and practices and the adequacy of internal controls;

Make recommendations to the Board regarding the appointment of an accounting firm

to serve as the Company's auditors, and approve their services and related fees;

Review the scope and results of the annual examination performed by the independent auditors,

Perform such other duties as set forth in its charter.

The charter of the Audit Committee was adopted by the Audit Committee on December 4, 2002, and was ratified by the full Board on February 5, 2003. The Audit Committee's charter, including all amendments thereto, is available at the Company's web site, at www.portfoliorecovery.com, or in print to any shareholder who sends a request to the Corporate Secretary at the Company's mailing address.

The Audit Committee is not responsible for the planning or conduct of the audits, or the determination that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles.

Following a review of the independent auditor's performance and qualifications, including consideration of management's recommendation, the Audit Committee approved the reappointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the 2004 fiscal year.

Compensation Committee

The Compensation Committee, whose chairman is David Roberts, and whose other current members are Peter Cohen and William Brophy, met three times during 2003. Each member of the Compensation Committee is independent, as that term is defined by the applicable standards promulgated by the National Association of Securities Dealers. As described in its charter, the Compensation Committee is responsible for establishing the Company's executive officer compensation policies, and for administering these policies. The charter of the Compensation Committee is available at the Company's web site, at www.portfoliorecovery.com, or in print to any shareholder who sends a request to the Corporate Secretary at the Company's mailing address. No member of the Compensation Committee, during fiscal year ended December 31, 2003, was an officer or employee of the Company or any of its subsidiaries, or was formerly an officer of the Company or any of its subsidiaries, or had any relationships requiring disclosure by the Company.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee, whose Chairman is William Brophy, and whose other current members are James Voss and David Roberts, met three times during 2003. Each member of the Nominating and Corporate Governance Committee is independent, as such term is defined by the applicable standards promulgated by the National Association of Securities Dealers. The charter of the Nominating and Corporate Governance Committee was adopted on December 4, 2002. The charter of the Nominating and Corporate Governance Committee is available at the Company's web site, at www.portfoliorecovery.com, or to any shareholder who sends a request to the Corporate Secretary at the Company's mailing address.

As described in its charter, the Nominating and Corporate Governance Committee is responsible for recommending to the Board corporate governance principles, considering and reporting periodically to the Board on all matters relating to the selection, qualification and compensation of members of the Board and candidates nominated to the Board, as well as any other matters relating to the duties of the members of the Board. In addition, the Nominating and Corporate

Governance Committee reviews Company policies related to ethics and public and social issues important to the Company, and makes recommendations to the Board on such issues to assure that the Company fulfills its missions and objectives.

The Nominating and Corporate Governance Committee is also responsible for the selection and recommendation to the Board of nominees for election as directors. Nominations of candidates for election as directors may also be made by the Board or by shareholders. Prior to 120 days in advance of the anniversary date of the Proxy Statement for last year's annual meeting, the Company did not receive any recommendations from shareholders for potential director candidates for election as directors. The Nominating and Corporate Governance Committee recommended to the Board the re-election of directors David Roberts and William Brophey.

Board of Directors

The following table sets forth certain information about the Company's directors.

| | | | |
|-----------------------|----|--|---------------------------|
| Steven D. Fredrickson | 44 | President, Chief Executive Officer and Chairman of the Board | March 1996 ⁽¹⁾ |
| William P. Brophey | 66 | Director | November 2002 |
| Peter A. Cohen | 57 | Director | November 2002 |
| David N. Roberts | 42 | Director | March 1996 ⁽¹⁾ |
| James M. Voss | 61 | Director | November 2002 |

(1) While Steven D. Fredrickson and David N. Roberts were appointed as directors of the Company upon its creation in August 2002, they were each managers of Portfolio Recovery Associates, L.L.C., the predecessor entity to the Company, since its creation in March 1996.

Nominees for Election to Three-year Terms Which Will Expire in 2007

William Brophey, Director - 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.

David N. Roberts, Director - Mr. Roberts has been with Angelo, Gordon & Co., L.P. since 1993. He currently 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.

Director Continuing in Office Term Expiring in 2005

James Voss, Director - Mr. Voss has more than 35 years of business experience as a senior financial executive. He currently heads Voss Consulting, Inc., serving as a financial consultant to community banks regarding policy, organization, credit risk management and strategic planning. From 1992 through 1998, he served as a senior executive of First Midwest Bank, holding the positions of executive vice president and chief credit officer. Mr. Voss' experience includes more than 24 years as a senior executive (1965-1989) with Continental Bank of Chicago, and he has held the position of 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.

Directors Continuing in Office Terms Expiring in 2006

Steven D. Fredrickson, President, Chief Executive Officer and Chairman of the Board - Prior to co-founding the Company 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.

Peter Cohen, Director - Mr. Cohen is currently a director who serves on the Audit Committee and the Compensation Committees of the Board. He 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 President, Chairman and CEO of Shearson. Under his leadership, Shearson grew to become the second-largest full-service firm in the securities industry. 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 \$6 billion of assets under management. 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 Scientific Games 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.

Director Compensation

Non-employee directors receive a quarterly retainer of \$3,750, except for the Chairman of the Audit Committee, who receives a retainer of \$5,000 per quarter. Each director is also reimbursed

for travel expenses in connection with attendance at Board meetings. Under the Company's 2002 Stock Option Plan, non-employee directors received a grant of 5,000 stock options at the fair market value on the date of the grant. Also, pursuant to the Company's 2002 Stock Option Plan, non-employee directors were awarded an additional grant of 5,000 stock options, to which they became entitled on the first anniversary date of the commencement of their service as a director (or in the case of David Roberts, a director who served prior to the Company's initial public offering, on the anniversary date of the initial public offering). Stock options vest and are exercisable in five equal installments on the first five anniversaries of the grant date, and expire seven years after the grant date. In fiscal year 2004, and annually thereafter, the Company's current non-employee directors will receive annual grants of 1,000 restricted shares of the Company's common stock, as of the anniversary dates of their appointment, subject to approval by the shareholders of the Amended Plan at the 2004 Annual Meeting. After the approval of the Amended Plan, directors will no longer be awarded stock options.

PROPOSAL ONE: ELECTION OF DIRECTORS

Upon the recommendation of the Nominating and Corporate Governance Committee, the Board has nominated current board members David Roberts and William Brophrey for re-election as directors at the Annual Meeting. If elected, Mr. Roberts and Mr. Brophrey will each serve in the 2nd Class of directors for three-year terms, which will expire on the date of the 2007 Annual Meeting of Stockholders. Mr. Roberts currently serves as Chairman of the Compensation Committee, and also serves on the Nominating and Corporate Governance Committee. Mr. Brophrey currently serves as Chairman of the Nominating and Corporate Governance Committee and also serves on the Compensation Committee and the Audit Committee. Both of these nominees have consented to be named in this Proxy Statement and to serve if elected.

Proxies will be voted for the election of the above two nominees for re-election as directors. Directors will be elected by a plurality of the votes cast or represented by proxy at the Annual Meeting. Broker non-votes (i.e. where brokers are prohibited from exercising discretionary authority for beneficial owners who have not returned a proxy) will be treated as abstentions. Under Delaware General Corporate Law, an abstaining vote is not deemed a vote cast or represented by proxy. As a result, abstentions are not included in the tabulation of the results on the election of directors, and therefore do not have the effect of votes in opposition.

Nominees for director who receive the affirmative votes of a plurality of the common shares represented and voting in person or by proxy at the Annual Meeting will be elected directors of the Company. Information about the nominees and the continuing directors whose terms expire in future years is set forth above.

The Board of Directors unanimously recommends a vote FOR the nominees named in the paragraph above.

Executive Compensation

The following table sets forth all compensation awarded to, earned by, or paid to the Company's Chief Executive Officer and the other five most highly compensated officers for all services rendered to the Company and its subsidiaries for the fiscal years ended December 31, 2003, 2002 and 2001, except as may otherwise be specifically noted:

| Name and Principal Position | Annual Compensation | | | Long-Term Compensation | |
|--|---------------------|------------|------------------|---|---------------|
| | Year | Salary(\$) | Bonus(\$) (1) | Securities Underlying Warrants (2)/Options | |
| Steven D. Fredrickson President, Chief Executive Officer and Chairman of the Board | 2003 | 197,600 | 425,000 | _____ | / _____ |
| | 2002 | 248,858 | 425,000 | _____ | / 190,000 |
| | 2001 | 181,311 | 251,528 | _____ | / _____ |
| Kevin P. Stevenson Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary | 2003 | 132,500 | 290,000 | _____ | / _____ |
| | 2002 | 163,383 | 285,000 | _____ | / 105,000 |
| | 2001 | 108,937 | 161,696 | _____ | / _____ |
| Craig A. Grube Executive Vice President- Acquisitions | 2003 | 132,500 | 290,000 | _____ | / _____ |
| | 2002 | 156,970 | 280,000 | _____ | / 105,000 |
| | 2001 | 109,026 | 174,529 | _____ | / _____ |
| William F. O Daire (3) Senior Vice President, Operations | 2003 | 90,000 | 160,000 | _____ | / _____ |
| | 2002 | 80,000 | 160,000 | _____ | / 60,000 |
| | 2001 | 64,519 | 70,000 | _____ | / _____ |
| Judith S. Scott Executive Vice President, General Counsel and Secretary | 2003 | 90,000 | 100,000 | _____ | / _____ |
| | 2002 | 83,885 | 50,000 | _____ | / 25,000 |
| | 2001 | 77,846 | 35,000 | | 6,500 / _____ |

(1) This table reflects for a given year all bonuses earned by the above officers for such years. The Company typically pays bonuses in the year following the year in which the bonus was earned.

(2) In connection with the reorganization of the Company, warrants owned by the officers shown in the above table were exchanged for warrants to purchase the same number of shares of the Company's common stock with the same respective exercise price. All warrants are immediately exercisable and have an exercise price of \$4.20 per share.

(3) Mr. O Daire is not an Executive Officer of the Company; however, his compensation details are included in this table due to his level of compensation.

Prior to the Company's initial public offering in November 2002, the Company was operated as a limited liability company and Mr. Fredrickson, Mr. Stevenson and Mr. Grube were non-employee members of the limited liability company. As such, they were required to pay self-employment taxes, as well as other taxes not typically incurred by executive officers of a corporation; consequently, they were given additional compensation in 2002 and in prior years to offset the impact of the Company's operations as a limited liability company as compared to a corporation, for each of the periods presented.

Options Granted

During fiscal year 2003, there were no stock options granted to the Company's Executive Officers under the Company's 2002 Stock Option Plan, and there were no stock options exercised by them; however, William F. O Daire, Senior Vice President, Operations exercised 15,000 options during fiscal year 2003.

Warrant and Stock Option Exercises in Fiscal Year 2003 and Year-End Values

The table below provides information concerning the exercise of warrants by certain officers of the Company during fiscal year 2003, the value received as a result of such warrant exercises, as well as vested and exercisable options and unvested and unexercisable options held by such officers, and their values.

| Name | # Shares Acquired | | # Securities Underlying Unexercised Options/Warrants at Fiscal Yr. End | | Value of Unexercised In-The-Money Options/Warrants at Fiscal Yr. End | |
|-----------------------|-------------------|----------------|--|---------------|--|---------------|
| | On Exercise | Value Received | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Steven D. Fredrickson | 636,000(1) | \$ 13,548,900 | 38,000 | 152,000 | \$ 514,900 | \$ 2,059,600 |
| Kevin P. Stevenson | 455,000 | \$ 9,691,500 | 21,000 | 84,000 | \$ 284,550 | \$ 1,138,200 |
| Craig A. Grube | 317,000(2) | \$ 6,756,300 | 21,000 | 84,000 | \$ 284,550 | \$ 1,138,200 |
| William F. O Daire | 40,000(3) | \$ 843,600 | 0 | 60,000 | \$ 0 | \$ 813,000 |
| Judith S. Scott | 0 | \$ 0 | 12,500 | 20,000 | \$ 235,375 | \$ 271,000 |

(1) Exercise of 635,000 warrants in connection with the Company's secondary offering on May 21, 2003, and exercise of 1,000 AG PRA 1999 warrants owned by Mr. Fredrickson.

(2) Exercise of 315,000 warrants in connection with the Company's secondary offering on May 21, 2003, and exercise of 2,000 AG PRA 1999 warrants owned by Mr. Grube.

(3) Mr. O Daire is not an Executive Officer of the Company; however, details of his stock option and warrant exercises are included in this table due to his level of compensation.

Employment Agreements

Steven D. Fredrickson is party to an employment agreement which expires on December 31, 2005. The term of the agreement will be automatically extended for additional one-year terms unless otherwise terminated by either party. Mr. Fredrickson's agreement provides for a base salary of \$190,000 per year for the first year and an increase of not less than four percent (4%) for each subsequent year. Mr. Fredrickson is eligible for an annual cash incentive bonus based on the Company's management bonus program. The agreement also contains confidentiality provisions and a one year non-compete covenant. If the Company terminates Mr. Fredrickson without cause, he would receive a severance package that would include a lump-sum payment equal to (a) his then current base salary and accrued vacation pay through the date of such termination, (b) the greater of a lump-sum payment equal to two times his then current base salary or the minimum base salary due under the remaining term of his employment agreement and (c) the greater of a lump-sum payment equal to two times the amount of the bonus compensation, if any, paid to him in the year immediately prior to the year of termination or the bonus compensation due under the remaining term of

the employment agreement.

Kevin P. Stevenson is party to an employment agreement which expires on December 31, 2005. The term of the agreement will be automatically extended for additional one-year terms unless

otherwise terminated by either party. The agreement provides for a base salary of \$120,000 per year for the first year and an increase of not less than four percent (4%) for each subsequent year. Mr. Stevenson is also eligible for an incentive bonus based on the Company's management bonus program. The agreement also contains confidentiality provisions and a one year non-compete covenant. If the Company terminates Mr. Stevenson without cause, he would receive a severance package that would include a lump-sum payment equal to (a) his then current base salary and accrued vacation pay through the date of such termination, (b) a lump-sum payment equal to two times his then current base salary and (c) a lump-sum payment equal to two times the amount of the bonus compensation, if any, paid to him in the year immediately prior to the year of termination.

Craig A. Grube is party to an employment agreement which expires on December 31, 2005. The term of the agreement will be automatically extended for additional one-year terms unless otherwise terminated by either party. The agreement provides for a base salary of \$120,000 per year for the first year and an increase of not less than four percent (4%) for each subsequent year. Mr. Grube is eligible for an incentive bonus based on the Company's management bonus program. The agreement also contains confidentiality provisions and a one year non-compete covenant. If the Company terminate Mr. Grube without cause, he would receive a severance package that would include a lump-sum payment equal to (a) his then current base salary and accrued vacation pay through the date of such termination, (b) a lump-sum payment equal to two times his then current base salary and (c) a lump-sum payment equal to two times the amount of the bonus compensation, if any, paid to him in the year immediately prior to the year of termination.

William F. O Daire is party to an employment agreement which expires on December 31, 2005. The agreement provides for a base salary of \$80,000 per year for the first year and an increase of not less than four percent (4%) for each subsequent year. Mr. O Daire is eligible for an incentive bonus based on the Company's management bonus program. The agreement also contains confidentiality provisions and a one year non-compete covenant. If the Company terminate Mr. O Daire without cause, he would receive a severance package that would include a lump-sum payment equal to (a) his then current base salary and accrued vacation pay through the date of such termination, (b) a lump-sum payment equal to one times his then current base salary or the minimum base salary due him under the remaining term and (c) a lump-sum payment equal to the greater of one times the amount of the bonus compensation, if any, paid to him in the year immediately prior to the year of termination, or the target bonus compensation paid to him during the term.

Judith Scott is party to an employment agreement which expires on December 31, 2005. The term of the agreement will be automatically extended for additional one-year terms unless otherwise terminated by either party. The agreement provides for a base salary of \$85,000 per year for the first year and an increase of not less than four percent (4%) for each subsequent year. Ms. Scott is eligible for an incentive bonus based on the Company's management bonus program. The agreement also contains confidentiality provisions and a one year non-compete covenant. If the Company terminates Ms. Scott without cause, she would receive a severance package that would include a lump-sum payment equal to (a) her then current base salary and accrued vacation pay through the date of such termination, (b) a pro-rata portion of her target bonus compensation for the year terminated, whether or not the target is actually met, and (c) the greater of a lump sum payment equal to one times the amount of the then current base salary or minimum base salary due for the remaining term, and a lump sum equal to the greater of one times the bonus compensation, if any, paid to her in the year immediately prior to the year of termination, or the target bonus compensation due under the remaining term (whether or not such target is actually met).

Compensation Committee Interlocks and Insider Participation

All of the members of the Compensation Committee are non-employee directors and are not former officers of the Company. David Roberts is a limited partner of the entity which is a general partner of Angelo Gordon, one of the Company's principal stockholders. As a limited partner in such entity, Mr. Roberts maintains an indirect economic interest in Angelo Gordon, but has no voting or dispositive power with respect to PRA Investments, L.L.C., Angelo Gordon or otherwise. See Certain Relationships and Related Transactions.

Compensation Committee Report

The Compensation Committee has furnished the following report to stockholders of the Company in accordance with rules adopted by the Securities and Exchange Commission:

The charter of the Compensation Committee was adopted on December 4, 2002. As described in its charter, the Compensation Committee is charged with the responsibility to develop and administer compensation programs for the Company's executives and administer the Company's incentives and stock ownership programs. The Compensation Committee recommended that the Board approve an amendment to the 2002 Stock Option Plan to provide for the issuance of restricted shares of the Company's stock to employees, officers and non-employee directors of the Company. Upon the recommendation of the Compensation Committee, the Board approved the Amended Plan, which the shareholders are being requested to approve at the Annual Meeting.

Executive Compensation

The Compensation Committee has established fundamental standards for executive compensation. To assist the Company in attracting and retaining high quality talent, the Company provides executives with compensation packages that include a base pay that is competitive in the marketplace, and the ability to substantially increase their compensation through performance. The performance component of each executive's compensation package is established to assist the Company in achieving overall corporate performance goals that ultimately enhance stockholder value. In accordance with this philosophy, the Company compensates its executives based upon their performance and the performance of the Company through three primary sources: base pay, performance-based annual bonus, stock options, and, subject to the shareholders' approval of the Amended Plan, the Company will also have the ability to award its executives shares of restricted stock. Using this approach, a portion of the compensation for executives is stipulated, and a significant portion of the compensation for executives may be uncertain.

Base Pay

The Company sets salaries for executives, taking into account the competitive marketplace and a subjective assessment of the nature of the position. The applicable marketplace includes companies of similar size, and companies in the receivables management and debt collection markets.

Management Bonus Program

The Company maintains a management incentive bonus program that includes the executive

officers. Officer bonuses under the Company's management bonus program are awarded based upon performance and the extent to which the Company achieves its net profitability goals. If results of operations meet or exceed net profitability goals, the amount of an executive's bonus may be increased at the discretion of the Company's Compensation Committee, and if the results of operations for the year are not positive, and do not achieve net profitability goals, the Company's Compensation Committee may determine whether or not a bonus will be awarded.

Equity Incentives

The Company utilizes long-term equity incentive awards to promote the success of the Company and enhance its value by linking the personal interests of participants to those of its stockholders, and providing motivation for outstanding performance. The Company has granted nonqualified or incentive stock options to its employees, officers and directors, and subject to approval by the shareholders of the Amended Plan, may grant restricted shares of stock. The Compensation Committee has the authority to determine eligibility, the types and sizes of grants and any vesting provisions, including acceleration of vesting of options and restricted shares. An aggregate of 2,000,000 shares of the Company's common stock will be available for grant under the Amended Plan, subject to a proportionate increase or decrease in the event of a stock split, reverse stock split, stock dividend, or other adjustment to the Company's common stock. The maximum number of shares that may be granted to any participant during any fiscal year is 200,000. The Amended Plan will become effective upon its approval by the shareholders at the Annual Meeting.

Compensation of the Chief Executive Officer

The salary of the Chief Executive Officer for 2003 was based on the terms and conditions of his employment agreement. His bonus was based on certain performance goals established at the beginning of 2003 by the Compensation Committee, and the extent to which these goals were achieved or exceeded. Factors involved in the Chief Executive Officer's incentive compensation included financial achievements, such as the Company's realizing earnings goals and significant profitability increases in 2003. Other non-financial goals achieved which were included as factors in arriving at the total compensation included increased productivity, as measured by cash collections per collector hour paid, increased operating margins, increased tenure of the collector workforce, additions to the Company's management and technological infrastructure to support continued growth in the Company's business, and leadership during the Company's first full year as a publicly traded company. All of these factors were collectively taken into account by the Compensation Committee in recommending the salary and bonus for the Chief Executive Officer. The compensation for the Company's other executive officers was determined in a similar fashion.

Tax Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code places a \$1.0 million limit on the tax deductibility of compensation paid or accrued with respect to a covered employee of a publicly-held corporation. The Compensation Committee believes that all compensation realized in fiscal year 2003 by the executive officers is deductible under Section 162(m).

This report is submitted on behalf of the Compensation Committee:

David Roberts, Chairman
Peter Cohen

William Brophy

PROPOSAL TWO: APPROVAL OF THE 2004 AMENDED AND RESTATED PORTFOLIO RECOVERY ASSOCIATES 2002 STOCK OPTION PLAN AND 2004 RESTRICTED STOCK PLAN

The Board of Directors has, subject to shareholder approval, amended its 2002 Stock Option Plan in order to provide for the issuance by the Company of restricted shares of stock to its employees and non-employee directors. Restricted shares are shares of stock that are subject to forfeiture during a pre-established period if certain conditions, such as continued service or achievement of performance goals, are not met. The total shares available and subject to the Amended Plan will not be increased by this amendment. Only the manner of issuances of equity will be changed under the Amended Plan. On February 6, 2004, the Board of Directors voted to submit the Amended Plan to the shareholders for their approval. The shareholders will be asked to approve the Amended Plan at the Annual Meeting.

The Board believes that adoption of the Amended Plan is in the best interest of the Company and its shareholders, because it will permit the Compensation Committee to award restricted shares of stock to employees and directors, and use the award of such shares of stock of the Company to continue to offer competitive incentives and successfully retain and reward its best employees and its directors. The Board expects that the Amended Plan will be an important factor in retaining and rewarding the high caliber employees essential to its success. The Amended Plan provides that restricted shares awarded to employees may vest based upon the achievement of certain performance standards, thereby motivating employees to strive to enhance the growth and profitability of the Company. By granting key employees shares of restricted stock, the Company will enhance its ability to adequately compensate its employees, and more closely align their interests with the interests of its shareholders. By approving the Amended Plan, the shareholders will be approving material terms of awards described below.

Summary of the Amended Plan

The following is a summary of the terms of the Amended Plan and of certain tax effects of participation in the Plan. This summary is qualified in its entirety by reference to the complete text of the Amended Plan, which is attached hereto as Exhibit A. To the extent that there is a conflict between this summary and the Amended Plan, the terms of the Amended Plan will govern.

The Amended Plan will be administered by the Compensation Committee of the Board. Under the Amended Plan, employees, officers and non-employee directors of the Company may be granted non-qualified stock options and/or restricted shares of the Company's common stock. The exercise price per share purchasable under stock options is determined by the Compensation Committee at the time the option is granted. The stock option exercise price will not be less than the fair market value of the Company's stock at the time the option is granted, in most cases. For purposes of the Amended Plan, fair market value means the fair market value of the shares or other securities determined by the Committee in good faith or in accordance with applicable law.

Unless otherwise determined by the Committee, the fair market value of shares is determined by: the closing price per share of the Company's stock on the principal exchange on which the shares are then trading on the last trading day prior to the option grant; or if the shares are not traded on an exchange but are quoted on the Nasdaq Stock Market or a successor quotation system, if the shares are then listed as a National Market issue under the Nasdaq Stock Market,

the last sales price, or in all other cases, the mean between the closing representative bid and asked prices for the shares on that date as reported by the Nasdaq Stock Market or such successor quotation system.

A participant may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the participant, and to receive any distributions with respect to any options or restricted shares upon the death of the participant. A beneficiary, guardian, legal representative or other person claiming any rights under the Amended Plan from or through any participant shall be subject to all terms and conditions of the Amended Plan and any Stock Option Agreement or Restricted Share Agreement applicable to such participant, except as otherwise determined by the Committee, and to any additional restrictions deemed necessary or appropriate by the Committee.

The awards made pursuant to the Amended Plan may be in varying amounts and may be subject to such vesting restrictions as deemed desirable by the Compensation Committee. The total number of shares authorized for issuance pursuant to the Amended Plan is 2,000,000. The Company believes that generally a share of restricted stock is more valuable than a share subject to a stock option. Therefore, the Company may grant restricted share awards for fewer shares than it has previously granted for stock option awards. Appropriate adjustments will be made to the number of shares reserved under the Amended Plan and the terms of any outstanding awards in the event of any stock dividend, stock split, reverse stock split, recapitalization or similar change in the Company's capital structure.

Subject to the provisions of the Amended Plan, the Compensation Committee will determine in its discretion the persons to whom, and the times at which awards of restricted shares and/or stock options will be granted, the types and sizes of awards, and all of their terms and conditions. The Compensation Committee will have the authority to interpret the Amended Plan and awards granted thereunder. Awards may be granted only to employees and non-employee directors of the Company or any subsidiary of the Company. As of December 31, 2003, the Company had 798 employees who would be eligible to receive such grants, and four non-employee directors who would be eligible to receive such grants under the Amended Plan. Awards of restricted shares or stock options may be granted by the Compensation Committee of the Board subject to such vesting restrictions, if any, as may be determined by the Committee, and as set forth in a written Stock Option Agreement or Restricted Share Agreement between the Company and the employee or non-employee director. Stock options or shares of restricted stock subject to such vesting restrictions may not be sold or otherwise transferred or pledged until the restrictions, if any, lapse or are terminated. Vesting restrictions may lapse in full or in installments on the basis of the employee's or non-employee director's continued service, or other factors, such as performance criteria established by the Compensation Committee of the Board. Participants in the Amended Plan who hold shares that are subject to vesting restrictions will have no right to vote the shares or receive all dividends and other distributions. Generally, upon an employee's termination of service, the employee will forfeit any stock options which have not vested, or shares of restricted stock as to which the vesting restrictions have not lapsed. If a restricted share or stock option granted ceases to remain outstanding for any reason other than its exercise, the restricted shares or shares subject to such option may again be awarded under the Amended Plan.

The Amended Plan provides that any non-employee directors who are appointed after the approval of the Amended Plan by the Company's shareholders will receive automatic grants of 2,000 restricted shares of stock upon their initial appointment, and all non-employee directors will receive annual grants of 1,000 shares each, generally on the anniversary date of their initial appointment to the board. The first awards of restricted shares to non-employee directors pursuant to the Amended Plan are expected to be granted in November, 2004. The award of restricted

shares to non-employee directors is intended to qualify as a formula plan within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934. The Company does not intend to grant any additional stock options to its directors after the approval by shareholders of the Amended Plan. Whether stock options or awards of restricted shares under the Amended Plan are actually granted, and the actual number of stock options or restricted shares to be granted may depend on a number of factors, including the fair market value of the Company's common stock on future dates, employee performance, and such other criteria as determined in the discretion of the Compensation Committee of the Board. The Board may amend or terminate the Amended Plan at any time, provided that no such amendment will be made without stockholder approval, if such approval is required by applicable law or by the rules of the Nasdaq Stock Exchange. Unless otherwise expressly provided in the Amended Plan or in an applicable Stock Option Agreement or Restricted Share Agreement, a stock option or restricted share granted under the Amended Plan may be exercised or may vest after the Amended Plan terminates. The Compensation Committee may correct any defect, supply any omission or fix any inconsistency in the Amended Plan or any Stock Option Agreement or Restricted Share Agreement in the manner and to the extent it deems desirable to effect the intent of the Amended Plan. However, the amendment, suspension or termination of the Amended Plan may not alter or impair any rights or obligations under a granted option or restricted share unless the holder of the stock option or restricted share approves.

The Company currently has no plans to issue additional stock options to its Executive Officers and directors; however, it is likely that the Company will grant restricted shares in fiscal year 2004 to Executive Officers and directors who served in their capacities after January 1, 2003. Benefits and amounts which may be allocated to employees of the Company pursuant to the Amended Plan during fiscal year 2004 are not currently determinable, as these amounts will depend upon factors such as the achievement by such employees of performance goals. The table below describes the number and estimated value of restricted shares that are expected to be allocated to the non-employee directors during the 2004 fiscal year.

New Plan Benefits of the Amended and Restated Portfolio Recovery Associates
2002 Stock Option Plan and 2004 Restricted Stock Plan

| Name and Position | Estimated Value (1) | Number of Units |
|---------------------------|------------------------|--------------------|
| James Voss, Director | \$ 27,960 | 1,000 |
| Peter Cohen, Director | \$ 27,960 | 1,000 |
| William Brophey, Director | \$ 27,960 | 1,000 |
| David Roberts, Director | \$ 27,960 | 1,000 |

(1) Based on the closing price for the Company's stock on the Nasdaq Stock Market on April 5, 2004.

The following table provides information with respect to securities authorized for issuance under the Company's equity compensation plans as of December 31, 2003:

| Plan Category | Number of Securities Authorized for Issuance Under the Plan | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights | Weighted-average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|--|--|---|--|---|
| Equity compensation plans approved by security holders | 2,000,000 | 905,410 | \$ 12.92 | 1,081,545 |
| Equity compensation plans not approved by security holders | None | None | None | None |
| Total | 2,000,000 | 905,410 | \$ 12.92 | 1,081,545(1) |

(1) 13,045 shares of restricted stock were issued as employment inducement grants in 2003. Under the Amended Plan, 2,000,000 shares have been made available for issuance. The table above reflects the number of shares subject to outstanding awards and the amount available for future issuance. All awards were in the form of stock options with an exercise price equal to the fair market value of the stock at the grant date, except for (a) grants of 13,045 shares of restricted stock which were issued to new employees as inducement grants in 2003, and (b) warrants to purchase shares of the Company's common stock which were received as a result of a one-for-one warrant exchange in connection with the reorganization of the Company in 2002, all of which have an exercise price of \$4.20 per share, and 107,500 of which remain unexercised.

Summary of U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the Amended Plan, and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances. A person acquiring restricted stock normally recognizes ordinary income equal to the difference between the amount, if any, paid for the restricted stock and the fair market value of the shares on the determination date. Ordinarily, the determination date for an award of restricted stock is the date any vesting restrictions lapse. The recognition of ordinary income as a result of the restricted shares awarded under the Amended Plan will be subject to withholding of income and employment taxes. A recipient may elect, pursuant to Section 83(b) of the Internal

Revenue Code, to treat the acquisition date of the restricted stock subject to vesting restrictions as the determination date by filing an election with the Internal Revenue Service. Upon the sale of shares that were subject to restrictions, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date, will be taxed as capital gain or loss. The Company generally should be entitled to a tax deduction equal to the amount of ordinary income recognized by the participant as a result of the acquisition of those shares, except to the extent such deduction may be limited by applicable provisions of the Internal Revenue Code.

Required Vote

Approval of this proposal requires the affirmative vote of a majority of the votes cast or represented by proxy at the Annual Meeting. Broker non-votes (i.e. where brokers are prohibited from exercising discretionary authority for beneficial owners who have not returned a proxy) will be treated as abstentions. Under Delaware General Corporate Law, an abstaining vote is not deemed a vote cast or represented by proxy. As a result, abstentions are not included in the tabulation of the results on the election of directors, and therefore do not have the effect of votes in opposition. The Board of Directors believes that the adoption of the Amended Plan is in the best interests of the Company and its shareholders for the reasons stated above.

The Board of Directors unanimously recommends a vote FOR approval of the 2004 Amended and Restated Portfolio Recovery Associates 2002 Stock Option Plan and 2004 Restricted Stock Plan.

PROPOSAL THREE: APPROVAL OF INDEPENDENT AUDITORS

Upon the recommendation of the Audit Committee, the Board has selected PricewaterhouseCoopers LLP as independent auditors for the Company, subject to the approval of the stockholders, to audit its consolidated financial statements for the fiscal year ending December 31, 2004, and to perform other audit-related services, relating to the Company's quarterly reports and registration statements filed with the Securities and Exchange Commission.

Audit Fees

PricewaterhouseCoopers LLP has acted as independent auditors with respect to the Company's consolidated financial statements for the year ended December 31, 2003, and has also performed non-audit-related services for the Company, including tax related services. In connection with its 2003 taxes, which are anticipated to be completed in 2004, the Company intends to retain a separate tax accounting firm which is not related to PricewaterhouseCoopers LLP. This is expected to decrease the non-audit related services provided by PricewaterhouseCoopers LLP in 2004.

The following table sets forth the aggregate fees billed by PricewaterhouseCoopers LLP. For professional services rendered during the years ended December 31, 2003 and December 31, 2002, and for the reviews of financial statements included in the Company's Forms 10-Q, or services normally provided by the independent Auditor in connection with statutory or regulatory filings or engagements for each of those fiscal years:

Principal Accountant Fees and Services

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