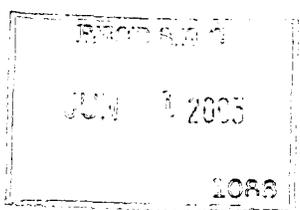


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Performance Capital Management LLC

ANNUAL REPORT

For the Fiscal Period Ending December 31, 2004

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PERFORMANCE CAPITAL MANAGEMENT, LLC

**Table of Contents
Annual Report
For the Fiscal Period Ended December 31, 2004**

	Page No.
Letter to Unit Holders.....	i
Description of Business	1
Market for Common Equity and Related Security Holder Matters	16
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Financial Statements.....	23
Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	41
Directors and Executive Officers.....	41

Upon written request, we will furnish to you, without charge, a copy of our annual report on Form 10-KSB filed with the Securities and Exchange Commission. Requests for copies of the Form 10-KSB should be directed to Harvey "Bud" Webb, Member Relations, at Performance Capital Management, LLC's principal address at 222 South Harbor Blvd., Suite 400, Anaheim, California, 92805. In the alternative, you may find the Form 10-KSB on the Securities and Exchange Commission's web-site at www.sec.gov.



Performance Capital Management, LLC

222 South Harbor Blvd., Suite 400 ♦ Anaheim, CA 92805
Phone: (800) 757-7700 ♦ Fax: (714) 502-3733

Board of Directors

*David Barnhizer
Les Bishop
Larisa Gadd
Sanford Lakoff
Larry C. Smith
Rod Woodworth
Donald Rutherford*

May 2, 2005

Dear Unit Holder:

On behalf of the Board of Directors and Management, we are pleased to report to you on our third year of operation. As in previous years, it has been an exciting and sometimes difficult period. Significant progress has been made in refining and executing the business plan we have shared with you in previous letters, notably in stabilizing costs and beginning to increase revenues. We have also sold off most of our older, poorly performing portfolios and made sizeable purchases of new debt portfolios from financial institutions with which we had not previously been in a position to do business. In our Annual Report you will find details on the steps we have taken to strengthen the vitality of our business and to address challenges we continue to face. It also includes financial statements reflecting results of operations in 2004.

Some of the major challenges we have worked hard to face include the following:

1. Buying distressed debt at reasonable prices in an increasingly competitive market;
2. Identifying additional sources of distressed debt at reasonable prices;
3. Seeking additional capital so as to take advantage of larger portfolio offerings in a less competitive market environment;
4. Lowering per unit costs by leveraging our infrastructure and by decreasing per unit variable costs to make us more efficient in servicing accounts and better able to purchase debt; and
5. Continuing to comply with Securities and Exchange Commission rules and regulations.

The competition to purchase distressed debt has become very intense, resulting in higher prices. We have responded in two ways. First, we have made use of the good relationships we have developed with major sellers and buying consortia to negotiate some purchases at reasonable prices. Second, we entered into a financing arrangement with Varde Partners, a strong, well-capitalized Minnesota firm, to enable us to make purchases of larger offerings. By using this credit facility to increase the volume of accounts we service, we have been able to leverage our infrastructure and to reduce variable costs as a percentage of total collection revenues compared to prior years. This has allowed us to become more competitive when bidding on portfolios. Please continue to view our public filings for more information on our implementation of this strategy.

As we reported last year, compliance with the SEC reporting requirements in the post-Enron era is expensive and extremely time consuming for a company like ours with a relatively small management team responsible for running the many aspects of this complicated business. The costs associated with being an SEC reporting company and with meeting the especially onerous new Sarbanes-Oxley rules have significantly increased administrative expenses.

Nevertheless, both our expense and revenue trends have generally been heading in the right direction. The overall ratio of operating expenses to total collection revenues (excluding the effect of portfolio sales) decreased to 67% in 2004 from 70% in 2003. Salary and benefit expenses decreased to 41% of total collection revenues in 2004 from 45% in 2003, while general and administrative expenses increased to 25% of total collection revenues from 23% in 2003. Total collection revenues increased \$453,000 over the prior year. Net income improved to \$791,000 in 2004, compared to a net loss of \$1.1 million in 2003.

As you review the financial statements in our report, please remember that we continue to use the accounting policy known as the "cost recovery" method. The cost-recovery method requires that the outstanding original purchase costs of our portfolios first be applied to offset total revenues from PCM collections and portfolio sales activity. We do not show net revenue from a portfolio until these purchase acquisition costs are fully recovered – a process that generally takes one or more years depending on the quality of collection results from the individual debt portfolios. As a result, our financial statements will not show that our portfolios produce net revenue to cover current operating expenses until the initial acquisition costs of portfolios have been fully recovered.

We are cautiously optimistic that total portfolio collections will continue to improve in 2005 and total operating expenses as a percentage of total portfolio collections will continue to decrease. We continue to adjust our operating plan to the competitive environment in order to achieve continued growth. We have maintained the level of quarterly distributions in a way that is carefully balanced against the need to continue building the quality of our portfolio asset base. We are confident our business model is sound and that we have the Management team and the quality of Board oversight needed to provide our investors with regular distributions while improving PCM's financial health to make it a strong, respected and attractive company to own.

We hope you will take time to examine our report. You can find further information in our filings posted on the SEC's website at www.sec.gov.

Les Bishop and Larisa Gadd
Co-chairs, the Board of Directors

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This letter includes forward-looking statements based upon our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will," "likely" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements.

Unless we say otherwise, references in this document to “we”, “us” or “our” refer to Performance Capital Management, LLC and its wholly-owned subsidiary, Matterhorn Financial Services, LLC.

FORWARD-LOOKING STATEMENTS

Except for the historical information presented in this document, the matters discussed in this Annual Report, and specifically in the sections entitled “Description of Business” and “Management's Discussion and Analysis of Financial Condition and Results of Operations,” or otherwise incorporated by reference into this document contain “forward-looking statements” (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements can be identified by the use of forward-looking terminology such as “believes,” “plans,” “expects,” “may,” “will,” “should,” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. The safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, apply to forward-looking statements made by us. Readers are urged not to place undue reliance on these forward-looking statements due to their inherent uncertainty. These forward-looking statements involve risks and uncertainties, including those statements incorporated by reference into this Annual Report. The actual results that we achieve may differ materially from any forward-looking projections due to such risks and uncertainties. These forward-looking statements are based on current expectations, and we assume no obligation to update this information. Readers are urged to carefully review and consider the various disclosures made by us in this Annual Report, our annual report on Form 10-KSB and in our other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business.

DESCRIPTION OF BUSINESS

OVERVIEW

We acquire assets originated by federal and state banking and savings institutions, loan agencies, and other sources, for the purpose of generating income and cash flow from collecting or selling those assets. Typically, these assets consist of charged-off credit card contracts. These assets are typically purchased and sold as portfolios. We try to purchase portfolios at a substantial discount to the actual amount of money that they will ultimately produce, so that we can recover the cost we pay for the portfolio, repay funds borrowed to purchase portfolios, pay our collection and operating costs and still have a profit.

ORGANIZATIONAL HISTORY

We conduct our business through Performance Capital Management, LLC, a California limited liability company formed January 14, 2002. On April 29, 2004, we formed Matterhorn Financial Services LLC (“Matterhorn”), a wholly-owned subsidiary that owns certain portfolios purchased using a loan facility with Varde Investment Partners, L.P. (“Varde”). As discussed in more detail throughout the description of our business, using Varde’s capital to acquire portfolios will affect our operational structure as well as our financial structure. Varde has a first priority security interest in all the assets of Matterhorn securing repayment of its loans to Matterhorn.

Performance Capital Management, LLC succeeded to the assets and liabilities of six entities pursuant to a plan of reorganization that was confirmed and finalized by a U.S. bankruptcy court effective February 4, 2002. For all practical purposes, we consider February 4, 2002, to be the inception of our business.

Performance Capital Management, LLC succeeded to the assets and liabilities of five California limited partnerships and one California corporation:

- Performance Capital Management, Inc., a California corporation;
- Performance Asset Management Fund, Ltd., a California limited partnership;
- Performance Asset Management Fund II, Ltd., a California limited partnership;
- Performance Asset Management Fund III, Ltd., a California limited partnership;
- Performance Asset Management Fund IV, Ltd., a California limited partnership; and
- Performance Asset Management Fund V, Ltd., a California limited partnership.

We refer to each of the limited partnerships by its fund number; for example, we refer to Performance Asset Management Fund III, Ltd., as "PAM III". We refer to all of the limited partnerships as a group as the "PAM Funds".

Performance Capital Management, Inc. and the PAM Funds, which were then controlled by an individual no longer affiliated with us, filed separate voluntary bankruptcy petitions on December 22 and 23, 1998. On motion by the California Department of Corporations, the bankruptcy court replaced the debtor-in-possession with a trustee on December 30, 1998.

Prior to the bankruptcy filings, the PAM Funds raised approximately \$57.4 million, of which approximately \$49 million was used to purchase loan portfolios. The PAM Funds typically purchased these credit card portfolios from Performance Capital Management, Inc., often at a substantial mark-up over Performance Capital Management, Inc.'s purchase price. Performance Capital Management, Inc. also collected the portfolios under joint venture agreements with the PAM Funds. Each PAM Fund's return was based on the performance of the portfolios that it purchased. Performance Capital Management, Inc.'s fees for collection services were reasonable given industry standards, but the loan portfolio mark-ups and the management fees charged to the PAM Funds were not.

By early 2001, the bankruptcy trustee concluded that a viable business existed if the unreasonable mark-ups and management fees were eliminated, and he set out to develop a plan to reorganize Performance Capital Management, Inc. and the PAM Funds. Under the plan, our parent business entity, Performance Capital Management, LLC, issued "LLC Units" to the PAM Funds, which were then distributed to the investors in the PAM Funds in February 2003. We issued LLC Units to the PAM Funds based on the gross dollars (approximately \$57.4 million) the investors had invested in the respective PAM Funds. Our Operating Agreement calls for us to make pro rata cash distributions to investors based on their unreturned capital until all investors receive their full capital investment back without interest. As of our February 4, 2002, inception, we had approximately \$38 million of unreturned capital (certain investors had received approximately \$19.3 million of payments from the various PAM Funds prior to the bankruptcy filings). Note 1 to our financial statements provides financial details concerning the relative amounts of capital raised and capital returned for each of the PAM Funds. Following our February 4, 2002, emergence from bankruptcy, we made a \$12 million distribution required by our plan of reorganization, leaving us with approximately \$26 million of unreturned capital to distribute to our investors. For the last two years, we have made regular quarterly distributions to our investors. After all investors' capital investments are paid back, any further distributions are to be made based on LLC Units.

Due to a settlement approved by the bankruptcy court, the owners of Performance Capital Management, Inc., did not become investors in our business entity, Performance Capital Management, LLC. Our investors consist only of those people who invested in the PAM Funds, or their successors-in-interest.

INDUSTRY OVERVIEW

Some portion of all consumer lending transactions end up with the debtor not honoring its payment obligations. Default rates vary depending on the type of obligation, the originator of the credit and other factors, but "bad debt" is a fact of life in consumer lending.

Beginning in the late 1980s, the financial services industry, specifically the banking and savings and loan industry, underwent numerous changes due to significant losses incurred during the 1980s. The strain on the Federal Savings and Loan Insurance Corporation ("FSLIC") as a result of those losses caused not only the dissolution of the FSLIC, but also a massive government bailout. Billions of dollars in taxpayer loans were granted to regulators to assist in paying depositors, as well as providing the capital necessary to clean up the industry. This situation, better known as the "savings and loan crisis", forced the restructuring of the entire federal banking and savings and loan industry.

In an attempt to curtail future losses, federal regulators revised requirements and regulations relating to the reporting of debtor obligations as assets. Enforcement of those revisions caused industry consolidation and invigorated a market for debtor obligations that were "charged-off". As a result of these regulations, after taking a loss on the "charge-off", lending institutions can show income by selling debtor obligations carried at no value on their balance sheets, instead of incurring further expense to run a personnel-intensive collection department. An institution

liquidating off-balance sheet assets (i.e., those it has previously "charged-off") benefits to the extent that the proceeds from such a sale go directly to the cash account on the balance sheet without the removal of an on-balance sheet asset. The income from these sales is of course less than the original "charge-off", but the ability to liquidate portfolios of bad debt has become important both to the economics and the reporting obligations of lending institutions.

Participants in the collection industry generally classify bad debts based on the number of times a collection agency has worked a portfolio to try to collect it. Portfolios that an institution has just charged-off and that have never been worked by a collection agency are referred to as "fresh" paper. Portfolios that have been worked by one collection agency are referred to as "primary" paper. Similar terms describe paper worked by two (secondary), three (tertiary), four (quaternary) and more collection agencies. As a general rule, a purchaser of a portfolio will receive a greater percentage discount to the portfolio's face value as it becomes less "fresh".

Participants in the collection industry purchase portfolios either to collect them or to resell them. Many participants do both. A purchaser may perform the collection activity itself, or it may contract out that function. Some industry participants purchase portfolios principally with a view to reselling the portfolios. For example, a purchaser might acquire a large portfolio and then break it up into a number of smaller portfolios based on specific attributes for sale (such as the state in which the debtor resides). Other industry participants seeking to purchase bad debts with particular attributes would then purchase these targeted portfolios at a slight premium, returning a profit to the original purchaser.

During 2004, the amount of charged-off debt available for sale decreased, and the competition for purchases of charged-off debt increased, resulting in increased prices for portfolios. The supply of charged-off debt decreased because lending institutions did a better job collecting their delinquent accounts and consumer repayment rates improved. The February 2005 issue of Collections and Credit Risk reported that at the end of the third quarter of 2004 the combined debt purchased by publicly-traded debt-buying companies declined 14% from the same period in the prior year to approximately \$285 million. The same issue cited a report noting a similar decrease in purchases by private debt-buying companies. Increased competition to purchase portfolios has coincided with capital inflows into the market for purchasing charged-off debt. The February 2005 issue of Collections and Credit Risk reported that nearly \$350 million in public and private capital has been invested with debt purchasers in the past two years. As a result of this shrinking supply of and increased demand for charged-off debt, prices have increased, according to the February 2005 issue of Collections and Credit Risk, by as much as 50% since mid-2003, with secondary and tertiary paper increasing from one to three cents on the dollar to three to five cents on the dollar. As a result of these price pressures, the same issue reports that debt buyers have cut profit expectations and revised their experience models to lengthen the assumed collection lives for their portfolios to six years from three. Some of the larger debt buyers claim to have reduced or eliminated their purchases of charged-off credit card debt in response to these pricing pressures, and some debt buyers have begun to look more aggressively at other types of bad debt, such as delinquent cable and healthcare bills.

MARKET FOCUS

We focus on acquiring portfolios that are not "fresh". We prefer to acquire primary, secondary or tertiary paper, based on our due diligence analysis of the obligations included in the portfolio. We acquire portfolios principally with a view to collect them, although we do sell certain portions of portfolios we purchase and then collect the balance of the portfolios. We anticipate that we will make most of our portfolio purchases in the coming year using the credit facility we have established with Varde (discussed in more detail below). We will probably limit resales of certain portions of portfolios to those we acquire using solely our own funds, and use those resales to ensure that the retained portion of the portfolio conforms to our size, pricing and collectibility parameters.

We monitor the level of resources it takes to collect our various portfolios, so that we can determine when collecting a portfolio requires more resources than it returns in collections. Based on gathering this information, we can focus our collection efforts on those portfolios that we believe are most likely to provide positive returns. From time to time we sell some of our portfolios either to capitalize on market conditions, to dispose of a portfolio that is not performing or to dispose of a portfolio whose collection life, from our perspective, has run its course.

We have established the infrastructure to collect portfolios. On average we have the equivalent of between 40 and 50 full-time employees who man phones contacting debtors, and we use a "predictive dialing" telecommunications system (a "dialer") that helps to ensure that our collectors spend their time on the phones talking to debtors, not dialing numbers trying to reach them. Because we collect portfolios, we have developed an experience history that helps us predict what the ultimate value of a portfolio will be. We have a sophisticated data base to maintain our experience history that allows us to manipulate variables to assist our due diligence process when we acquire a new portfolio. We believe that collecting our portfolios reinforces our ability to realistically assess the price we should pay when we purchase additional portfolios.

PORTFOLIO ACQUISITION

Originating lenders or portfolio resellers typically sell loan accounts in bulk portfolios that range in size from tens of thousands to multi-hundred million dollars in outstanding principal balances. These portfolio sales primarily consist of a large quantity of charged-off credit card contracts, and to a lesser extent automobile deficiencies, secured and unsecured consumer installment loans, commercial loans, and other forms of indebtedness. Although we typically collect a relatively small percentage of the total outstanding principal balances of most of the portfolios we purchase, we purchase most of our portfolios at significant discounts that, coupled with effective collection efforts, permit us to collect more cash than we pay for our portfolios.

Based on our purchasing patterns and practices, institutions selling distressed indebtedness recognize us as a reliable and competent purchaser of portfolios. The credit facility we entered into with Varde (discussed in more detail below) provides additional credibility with sellers of distressed indebtedness. We rely on our own contacts and relationships to acquire portfolios, as well as utilizing outside brokers. Varde has also provided leads for portfolio purchases, and we expect that Varde will remain a source of intelligence for portfolio availability. The Varde facility has made it possible for us to purchase larger denomination portfolios, which we believe have better pricing and quality characteristics than some of the smaller denomination portfolio purchases that had historically comprised most of our purchases. This flexibility has been particularly important in light of the recent pricing pressures on portfolio purchasers.

Consistent with industry practice, we acquire portfolios without recourse to the seller of the portfolio. By acquiring title to the debt and collecting it for our own account, we are able to collect in more states than if we charged a fee to collect debts owned by third parties.

Upon contacting or being contacted by a potential seller of portfolios, we generally request certain data for due diligence purposes. We analyze a variety of data as part of our due diligence process, including:

- the mix of the states in which the debtors are located;
- the average balances outstanding in the portfolio;
- the age of the indebtedness in the portfolio;
- the types of indebtedness in the portfolio (i.e., credit card versus automobile, etc.);
- the originating lender of the indebtedness;
- the availability of documentation for the indebtedness;
- the date of the last payment on the indebtedness; and
- any prior attempts at collecting the portfolio.

As sellers of portfolios have become more sophisticated regarding the quality of the accounts included in the portfolios they sell, the due diligence analysis assumes increased importance. By completing the due diligence process and considering the pertinent information regarding a potential portfolio acquisition, we believe we develop a good approximation of the value of the portfolio. We then offer to purchase the portfolio on terms that we believe will enable us to recover the purchase price of the portfolio, repay funds borrowed to purchase portfolios, pay our collection and operating costs and have a profit left over.

We purchase our portfolios for cash. If we use the Varde facility to acquire a portfolio, we and Varde provide our wholly-owned subsidiary Matterhorn with the funds needed to purchase the portfolio. Varde then has a first priority security interest in the acquired portfolio, which is owned by Matterhorn. We anticipate that we will also continue to purchase portfolios for our own account using our own cash resources, with our parent operating company,

Performance Capital Management, LLC, owning those portfolios. Varde does not have a security interest in portfolios owned by Performance Capital Management. In some cases, we resell portions of portfolios purchased by Performance Capital Management. During 2004 Performance Capital Management purchased approximately \$3.0 million of our new portfolios (net of approximately \$2.1 million of portfolios that we promptly resold) and Matterhorn purchased approximately \$2.3 million of our new portfolios. We anticipate that Matterhorn's purchases will substantially exceed Performance Capital Management's purchases in 2005. As of March 1, 2005, Matterhorn had already closed one portfolio purchase in 2005, acquiring a portfolio at a cost of approximately \$2.0 million.

On July 13, 2004, effective June 10, 2004, we entered into a definitive Master Loan Agreement with Varde, a well-known participant in the debt collection industry, to augment our portfolio purchasing capacity using capital provided by Varde. The following list summarizes some of the key business points in our agreement with Varde:

- The facility provides for up to \$25 million of capital (counting each dollar loaned on a cumulative basis) over a five-year term;
- Varde is not under any obligation to make a loan to us if Varde does not approve of the portfolio(s) we propose to acquire and the terms of the acquisition;
- Varde has the right to participate in any proposed acquisition of a portfolio by us in excess of \$500,000 pursuant to a right of first refusal; and
- We must agree with Varde on the terms for each specific advance under the loan facility, including such material terms as (a) the relative sizes of our participation and Varde's in supplying the purchase price; (b) the amount of servicing fees we will receive for collecting the portfolio; (c) the rates of return on the funds advanced by Varde and us; and (d) the split of any residual profits after repayment of the purchase price (plus interest) to Varde and us and payment of collection expenses.

It is unlikely that we will ever have outstanding indebtedness of the full \$25 million at any one time, due to the cumulative nature of the facility. We have created Matterhorn, a wholly-owned subsidiary, to serve as the entity that will purchase portfolios under the loan agreement with Varde. Varde has a first priority security interest in all the assets of Matterhorn securing repayment of its loans and payment of its interest in residual profits. Performance Capital Management has entered into a Servicing Agreement with Matterhorn as part of the agreement with Varde, and Varde has a security interest in Matterhorn's rights to proceeds under the Servicing Agreement. Under the Servicing Agreement, Performance Capital Management will collect the portfolios purchased by Matterhorn in exchange for a fee that will be agreed upon prior to the funding of each individual financing by Varde. Performance Capital Management has also guaranteed certain of Matterhorn's operational obligations under the loan documents. Varde may exercise its rights under its various security interests and the guaranty if an event of default occurs. These rights include demanding the immediate payment of all amounts due to Varde, as well as liquidating the collateral. A failure to make payments when due, if not cured within five days, is an event of default. Other events of default include:

- Material breaches of representations and warranties;
- Uncured breaches of agreements having a material adverse effect;
- Bankruptcy or insolvency of Performance Capital Management or Matterhorn;
- Fraudulent conveyances;
- Defaults in other debt or debt-related agreements;
- Failure to pay judgments when due;
- Material loss or damage to, or unauthorized transfer of, the collateral;
- Change in control of Performance Capital Management;
- Termination of Performance Capital Management as the Servicer under the Servicing Agreement; and
- Breach of Varde's right of first refusal to finance portfolio acquisitions.

When we identify a portfolio we would like to acquire using the loan facility, Matterhorn will make a proposal to Varde, specifying, among other things:

- Total cost of the portfolio(s), including closing costs and amortized expenses;
- Proportions of the total cost to be funded by Varde and us;
- Percentage of collections to be paid to Performance Capital Management as a servicing fee;

- Rates of return on the funds advanced by Varde and us; and
- Proportions of residual profits to Varde and Matterhorn after payment of the preceding four items.

When we make a proposal to Varde, Varde has the opportunity to conduct its own due diligence concerning the portfolio(s). Varde may accept our proposal, with or without modifications, in a commitment that will specify the number of days the commitment remains open. Varde has no obligation to accept a proposal and may reject a proposal for any reason or for no reason. Before Varde advances any funds, we must satisfy, or Varde must waive, certain conditions set forth in the agreement.

PORTFOLIO PROCESSING

Once we acquire a portfolio we primarily focus on collecting it, although we frequently sell certain portions of portfolios we purchase and then collect the balance of the portfolio. We will probably limit these resales of certain portions of portfolios to those we acquire using solely our own funds, and use those resales to ensure that the retained portion of the portfolio conforms to our size, pricing and collectibility parameters. In addition, from time to time we sell some of our portfolios, either to capitalize on market conditions, to dispose of a portfolio that is not performing or to dispose of a portfolio whose collection life, from our perspective, has run its course. When we engage in these sales, we continue collecting the portfolio right up until the closing of the sale. For any portfolios acquired using Varde capital, we must obtain Varde's consent for any sale.

Collecting a portfolio involves a rigorous campaign to locate and contact the maximum number of individual debtors. We attempt to locate individual debtors by continuously utilizing data from various third-party data bases. Once we contact a debtor, our collection representative begins negotiating various payment and settlement options. These options can include payments in full for all outstanding obligations, discounted settlements, short-term payment plans or "re-writes" of the underlying obligation into a new contract. Because the cost basis for each account is usually only a fraction of the debt obligation, our collection representatives can usually offer more attractive settlement and payment options to individual debtors than the originating lender or contingent collection firms that have to share recoveries with the owner of the debt. Sometimes we send portfolios (or portions of portfolios) to third-party collection agencies. We use third-party collection agencies primarily to solve capacity and state licensing compliance issues.

In contrast to many other purchasers of distressed indebtedness, we collect the majority of the portfolios we acquire, rather than using traditional third-party servicing. We have a fully operational collection facility employing, on average, the equivalent of between 40 and 50 full-time collectors. We have computer technology and equipment that aid in the collection of charged-off consumer debt portfolios. We utilize collection Dakcs software and a dialer to maximize the efficiency of our collectors by automatically sifting out calls where a live person does not answer, enabling our collectors to spend their time talking to live debtors rather than dialing numbers where there is no answer, a busy signal or an answering machine. Our Dakcs/dialer system has the flexibility to control for all types of variables in the way it places calls, for example, being sensitive to the effect of time zones and controlling for particular state laws that impose blackout times. We believe that this technology, which is industry-standard for sophisticated collectors, provides us with the ability to compete effectively in the collection industry.

We also resort to legal process to aid in collecting our portfolios when the circumstances of a particular account warrant. We do not have a set policy regarding when to initiate legal process; we exercise our judgment based on a variety of factors to determine when we believe using legal process is appropriate.

We believe our current collection infrastructure could handle a greater volume of accounts. We view our material fixed costs as:

- Payroll for administrative staff;
- Rent;
- Computer maintenance;
- Professional services; and
- Insurance.

We do not believe these costs will increase substantially if we substantially increase the volume of accounts that we collect. As we increase the volume of accounts we collect, we believe the following costs, which we view as variable, will increase:

- Payroll for additional collectors;
- Collection communication costs (principally telephone and postage);
- Collection agencies or third-party collection attorneys; and
- Repayment of borrowed funds.

Although repayment of borrowed funds is not technically a cost for purposes of our statement of operations, we view it as a variable cost of collection because the rate at which we repay the principal on Varde loans depends on the collections of the financed portfolio and we must repay the entire loan for any given portfolio within two years.

Our agreement with Varde is the most important initiative we have undertaken to leverage our infrastructure resources. We plan to use the Varde facility to obtain an increased volume of accounts to provide increased total revenues from collections that will outpace the corresponding increase in variable costs. We also believe that using the Varde facility permits us to acquire larger denomination portfolios. We believe that some of these larger denomination portfolios have pricing and quality characteristics that are difficult to find in the smaller denomination portfolios we had previously acquired. As we previously discussed, by combining our resources with Varde's, our subsidiary Matterhorn acquired approximately \$2.3 million of new portfolios during 2004, and, as of March 1, 2005, has acquired a further approximately \$2.0 million portfolio during 2005. We anticipate continuing to use the Varde facility during 2005 to increase the volume of accounts available for us to collect, and we expect that this increased volume will drive increased headcount for collection personnel. We do not currently have an initiative planned to collect accounts for third parties. We may consider collecting accounts for third parties on a case-by-case basis, however, if the economic returns to us seem reasonable.

COMPETITION

Most of the top 50 purchasers of bad debt maintain well-established collections operations and service and collect the bad debt that they purchase. A secondary source of competition for distressed debt portfolios is companies that buy debt in bulk and divide it up into smaller portfolios that are then resold to collection agencies, private investors and attorneys. Traditional collection agencies and attorneys purchase bad debt to diversify their operations and add debt they own to contingency collection work for others.

A number of national companies exist that buy large portfolios and resell and/or attempt to collect on them for a certain period and then resell them. The Varde loan facility permits us to compete with these national companies, both because of the economic credibility it affords and because of the reputational credibility an association with Varde affords within the industry. We also compete with some of these larger companies by joining together with other firms to bid on some large portfolio purchases. In any case, we have succeeded in buying national portfolios directly from original creditors.

The February 2005 issue of *Collections & Credit Risk* reported an estimate that \$350 million in public and private capital has been invested with debt purchasers in the past two years. In addition, improved financial performance (i.e., lower chargeoff rates for debt originators) has decreased the supply of charged-off accounts available for purchase. The same article reported that credit card debt prices increased as much as 50% since mid-2003, with even more dramatic increases in some of the prices for secondary market portfolios. These general price increases have resulted in debt buyers cutting their profit expectations and lengthening the period over which they expect to collect their portfolios. This general increase in portfolio purchase prices reduces the expected rate of return on portfolios available for purchase and increases the focus on the cost to collect portfolios. It is possible that larger, better funded competitors able to achieve economies of scale will try to use their superior financial resources to acquire portfolios at these higher prices and drive smaller less well capitalized collectors such as us out of business. We have responded to these pricing pressures by augmenting our purchases from originating creditors with purchases on the secondary market. We must compete in this environment by continually seeking out quality sources of portfolios and conducting rigorous due diligence on those portfolios that we do purchase to ensure that we can recover the cost we pay for the portfolios, repay funds borrowed to purchase portfolios, pay our collection and operating costs and still have a profit.

INTELLECTUAL PROPERTY

We have licenses for the software used in our telecommunications and data base systems. We maintain our data base and our system for performing due diligence as trade secrets. We do not intend to seek any sort of copyright or business process patent protection. We have a policy in our employee handbook that prohibits employees from disclosing trade secrets as a condition of employment.

GOVERNMENT REGULATION

Federal and state statutes establish specific guidelines and procedures that debt collectors must follow when collecting consumer accounts. Our policy is to comply with the provisions of all applicable federal laws and comparable state statutes in all of our recovery activities, even in circumstances in which we may not be specifically subject to these laws. Our failure to comply with these laws could have a material adverse effect on us in the event and to the extent that they apply to some or all of our 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 that are or may be applicable to our business as a debt collector include the following:

Fair Debt Collection Practices Act. Certain of our operations are subject to the Fair Debt Collection Practices Act, or FDCPA, and comparable statutes existing in many states. Under the FDCPA, a debt collector is restricted in the methods it uses to collect consumer debt. For example, a debt collector (1) is limited in communicating with persons other than the consumer about the consumer's debt, (2) may not telephone at inconvenient hours, and (3) must provide verification of the debt at the consumer's request. Requirements under state collection agency statutes vary, with most requiring compliance similar to that required under the FDCPA. In addition, some states and certain municipalities require debt collectors to be licensed with the appropriate authorities before collecting debts from debtors within those jurisdictions. Our policy is to comply with the provisions of the FDCPA, comparable state statutes and applicable licensing requirements. Although many states do not require that debt owners obtain a license to collect in the state, we believe that a number of states will act to require such licensing in the future. To safeguard against this possibility and to retain flexibility to collect for third parties if such an opportunity presents itself, we have undertaken a project to get licensed in each state where a license is required to collect on behalf of a third party. We have established policies and procedures to reduce the likelihood of violations of the FDCPA and related state statutes. For example, our account representatives receive training on these policies and must pass a test on the FDCPA, and our collectors work in an open environment that allows managers to monitor their interaction with debtors.

Fair Credit Reporting Act. In addition to the FDCPA, we are subject to the Fair Credit Reporting Act, or FCRA. The FCRA is a federal statute that regulates the activities of consumer reporting agencies, the users of reports, and those who furnish information to consumer reporting agencies, and provides rights to consumers affected by such reports. As a user of credit reports and a furnisher of information, we have developed policies and procedures to ensure compliance with the FCRA to reduce the likelihood of erroneous information reporting and to respond quickly to inquiries by credit agencies and account holders.

Gramm-Leach-Bliley Act. We are subject to the provisions of the Gramm-Leach-Bliley Act, as well as comparable privacy statutes existing in some states. This federal statute requires that we advise our debtors about our privacy policy the first time we contact them and once a year for every year that they remain one of our debtors. If we change our privacy policy, we must promptly notify our debtors of the change. This legislation requires that we annually provide our debtors with specific information about our privacy policy. We do not disclose non-public information about our debtors except as permitted by law. We do not sell or otherwise share information about our debtors with outside marketers.

Electronic Funds Transfer Act. We are also subject to the Electronic Funds Transfer Act. This act regulates the use of the Automated Clearing House, or ACH, system to make electronic funds transfers. All ACH transactions must comply with the rules of the National Automated Check Clearing House Association, or 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, we use automated predictive dialers to place calls to consumers. The Telephone Consumer Protection 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 that affect our 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 we are not a credit originator, some of these laws directed toward credit originators may occasionally affect our operations because the debt we purchased was 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 that regulate credit originators require, among other things, that credit issuers disclose to consumers the interest rates, fees, grace periods, and balance calculation methods associated with their credit accounts. Consumers are entitled under current laws to have payments and credits applied to their accounts promptly, to receive prescribed notices, and to require billing errors to be resolved promptly. Some laws prohibit discriminatory practices in connection with the extension of credit. Federal statutes further provide that, in some cases, consumers cannot be held liable for, or their liability is limited with respect to, charges to the credit account that were a result of an unauthorized use of credit. These laws, among others, may give consumers a legal cause of action against us, or may limit our ability to recover amounts owing with respect to the debt, whether or not we 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 us. Accordingly, when we acquire charged-off consumer debt, we contractually require credit originators to indemnify us against any losses caused by their failure to comply with applicable statutes, rules and regulations relating to the debt before they are sold to us.

The U.S. Congress and several states are currently in the process of enacting and amending legislation concerning identity theft. Additional consumer protection and privacy protection laws may be enacted that would impose additional requirements on the enforcement of and recovery on consumer credit card or installment accounts. Any new laws, rules or regulations that may be adopted or amended, as well as existing consumer protection and privacy protection laws, may adversely affect our ability to recover the charged-off consumer debt.

We cannot ensure that some of the charged-off consumer debt was not established as a result of identity theft or unauthorized use of credit and, accordingly, we could not recover the amount of the charged-off consumer debt. As a purchaser of charged-off consumer debt, we may acquire debt subject to legitimate defenses on the part of the consumer. In general, for a period of 90 to 180 days after purchasing charged-off consumer debt portfolios, we are able to require the seller of the portfolio by contract to buy back any unqualified accounts, which include bankrupt debtors, debtors who have died, debt created by identity fraud or theft, and debt paid off prior to sale of the portfolio.

EMPLOYEES

As of March 17, 2005, we had 86 full-time employees and 5 part-time employees classified as follows: 3 full-time executive officers; 20 full-time and 2 part-time administrative personnel; and 63 full-time, including supervisors, and 3 part-time collection personnel.

We believe that our ability to attract, hire, and retain qualified personnel now and in the future is important to our success. As discussed more fully in the section entitled "Risk Factors: We Experience High Employee Turnover Rates and May not be Able to Hire and Retain Enough Sufficiently Trained Employees to Support our Operations", our industry experiences high turnover rates for collection personnel. Our core group of collection personnel has remained fairly stable, but we still experience high turnover rates with new collection personnel. Given industry norms for turnover, we believe that our employee relations are good. None of our employees are represented by a collective bargaining unit.

RESEARCH AND DEVELOPMENT

We have had no research or development activities since inception.

ENVIRONMENTAL MATTERS

Our current operations do not involve activities that materially affect the environment. We dispose of ordinary hazardous substances commonly found in an office environment in substantial compliance with environmental laws.

RISK FACTORS

Please carefully consider the following risk factors in addition to the other information appearing in this Annual Report and our filings with the Securities and Exchange Commission.

WE MAY NOT BE ABLE TO COLLECT SUFFICIENT AMOUNTS ON OUR DEFAULTED LOAN PORTFOLIOS TO FUND OUR OPERATIONS

Our business consists of acquiring and servicing primarily loan portfolios that debtors 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 loans, often using a combination of in-house recovery efforts and third-party collection agencies. These defaulted loans are difficult to collect and we may not collect a sufficient amount to cover our investment associated with purchasing the defaulted loan portfolios and the costs of running our business.

WE MAY NOT BE ABLE TO PURCHASE CHARGED-OFF CONSUMER DEBT AT APPROPRIATE PRICES, AND A DECREASE IN OUR ABILITY TO PURCHASE DEBT COULD ADVERSELY AFFECT OUR ABILITY TO GENERATE REVENUE

If one or more credit originators stops selling charged-off consumer debt to us and we are otherwise unable to purchase charged-off consumer debt from credit originators at appropriate prices, we could lose a potential source of income and our business may be materially harmed.

The availability of charged-off consumer debt portfolios at prices that generate an appropriate return on our investment depends on a number of factors both within and outside of our control, including the following:

- the continuation of current growth trends in the levels of debt obligations;
- continued sales of charged-off consumer debt portfolios by credit originators;
- continued growth in the number of industries selling charged-off consumer debt portfolios;
- competitive factors affecting potential purchasers and credit originators of charged-off debt, including the number of firms engaged in the collection business and the capitalization of those firms, that may cause an increase in the price we are willing to pay for portfolios of charged-off consumer debt or cause us to overpay for portfolios of charged-off consumer debt; and

- our ability to purchase portfolios in industries in which we have little or no experience with the resulting risk of lower returns if we do not successfully purchase and collect the debt.

Because of the length of time involved in collecting charged-off debt on acquired portfolios and the volatility in the timing of our collections, we may not be able to identify trends and make changes in our purchasing strategies in a timely manner.

Although we do not currently have any forward flow contracts committing a debt seller to sell a steady flow of charged-off consumer debt to us, we have entered into such contracts in the past and may do so in the future depending upon market conditions. To the extent our competition enters into forward flow contracts, the pool of portfolios available for purchase is diminished. In addition, if we elect to enter into forward flow contracts, we would be obligated to purchase debt for a fixed percentage of the face amount and, consequently, our results of operations could be negatively impacted if the fixed percentage is in excess of the appropriate market value.

LIMITED OPERATING HISTORY

We have only been operating as a consolidated entity since February 2002, when we emerged from bankruptcy. As a result, our business model is still in an evolving stage. The limited operating history means we do not have the benefit of the many years of experience that some other companies have and can use to modify their business plans and optimize their business strategies. Our limited operating history makes an evaluation of our business and prospects difficult.

OUR GROWTH AND OPERATING RESULTS COULD BE IMPAIRED IF WE ARE UNABLE TO MEET OUR FUTURE CAPITAL NEEDS

Our ultimate success depends on our ability to continue to generate revenue through our operations. If our operations are impaired for any reason, the Varde loan facility is not available to supply working capital for operations, and we do not have another source of funding readily available to fund our continued operations. In addition, we have distributed some capital to our members each of the past eight quarters. There is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to us. If unavailable, our operations could be severely limited, and we may not be able to implement our business plan in a timely manner or at all. We may not be able to access capital markets due to the lack of liquidity of our securities. If equity financing is used to raise additional working capital, the ownership interests of our existing LLC Unit holders will be diluted.

ANY RUPTURE IN OUR RELATIONSHIP WITH VARDE COULD DAMAGE OUR OPERATIONS BY UNDERMINING OUR INFRASTRUCTURE LEVERAGING STRATEGY AND DAMAGING OUR REPUTATION WITHIN THE INDUSTRY

Our relationship with Varde includes the credit facility and the improved access to quality portfolios that our association with Varde provides. We rely on this relationship with Varde to ensure that we will purchase a steady stream of new portfolios that will enable us to leverage our infrastructure. Our relationship with Varde could suffer from any one of a number of factors, including:

- We could default on our obligations under the credit facility;
- Varde could refuse to fund purchases of portfolios we would like to purchase; or
- Varde could disagree with our conservatism in purchasing new portfolios and refuse to make any new advances under the credit facility.

These circumstances could result in the following effects on our operations:

- In the case of default, Varde could seize Matterhorn's assets, which consist of portfolios into which we have invested a substantial amount of our own capital;
 - We could not sustain levels of portfolio purchasing that would maximize return on our infrastructure;
- or

- We could suffer damage to our reputation in the industry, intensifying any difficulty we might otherwise have maintaining levels of portfolio purchasing that would maximize return on our infrastructure.

Any of these effects would severely limit our ability to generate the level of collections that we believe our fixed costs can support. In addition, we would have to reduce our variable collection costs, principally by terminating collection personnel. These steps would reduce our collection efficiency, and we might find it difficult to recover quickly from the reputational damage to us as an employer. Overall, these effects would lead to reduced revenues and lower margins, and could place us at risk of our revenues not covering costs if we could not reduce costs quickly enough.

WE MAY NOT BE ABLE TO MAKE FUTURE DISTRIBUTIONS AND OUR INVESTORS MAY NOT RECOVER THEIR ENTIRE CAPITAL CONTRIBUTIONS

Despite the directive in our Operating Agreement requiring us to make sufficient distributions to our LLC Unit holders to ensure a full return of their capital contributions to the PAM Funds, our operations may not produce enough income to enable us to make those distributions. In such a case, our LLC Unit holders may not recover the full amount of their investments in the PAM Funds. By making some distributions to our LLC Unit holders each quarter, we may not have enough financial resources available to purchase portfolios at a level that would permit us to build the aggregate fair value of our portfolios. If we cannot continue to build our portfolios' aggregate fair value, we may not be able to cover our operating costs and make future distributions, resulting in our investors not recovering their entire capital contributions.

THERE IS NO MARKET FOR OUR SECURITIES AND OUR OPERATING AGREEMENT RESTRICTS THE TRANSFER OF OUR SECURITIES

There is no trading market for our securities at present and there has been no trading market to date. We are not planning and do not intend to facilitate the development of a trading market for our securities. The ability to sell LLC Units is also restricted by our Operating Agreement. These factors make our securities very illiquid.

WE EXPERIENCE HIGH EMPLOYEE TURNOVER RATES AND MAY NOT BE ABLE TO HIRE AND RETAIN ENOUGH SUFFICIENTLY TRAINED EMPLOYEES TO SUPPORT OUR OPERATIONS

The debt servicing and collection industry is very labor intensive and, similar to other companies in our industry, we typically experience a high rate of employee turnover for our collection personnel. Our annual turnover rate for our collection personnel, excluding those employees that do not complete our eight-day training program, was approximately 100%. We compete for qualified personnel with companies in our industry and in other industries. Our growth requires that we continually hire and train new collectors. A higher turnover rate among our collectors will increase our recruiting and training costs and limit the number of experienced collection personnel available to service our charged-off consumer debt. If this were to occur, we would not be able to service our charged-off debt portfolios effectively and this would reduce our ability to continue our growth and operate.

WE SERVE MARKETS THAT ARE HIGHLY COMPETITIVE AND MAY BE UNABLE TO COMPETE WITH BUSINESSES THAT MAY HAVE GREATER RESOURCES THAN WE HAVE

We face competition in the market we serve from new and existing providers of debt collection management services, including other purchasers of defaulted loan portfolios, third-party contingent fee collection agencies and credit originators that manage their own defaulted credit rather than outsourcing it. The debt collection industry is highly fragmented and competitive, consisting of several thousand consumer and commercial agencies, most of which compete in the contingent fee business.

We face bidding competition in our acquisition of charged-off debt portfolios, and we also compete on the basis of reputation, industry experience and performance. Some of our 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 the industry than we currently have. In the future, we may not have the resources or ability to compete successfully. As there are few significant barriers for

entry to the industry, there can be no assurance that additional competitors with greater resources than ours will not enter our market. Moreover, there can be no assurance that institutions will continue to sell their defaulted debt at recent levels or at all, or that we may continue to offer competitive bids for defaulted debt portfolios. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors are able to do, we may experience reduced access to defaulted debt portfolios at appropriate prices and reduced revenues.

WE MAY NOT BE SUCCESSFUL AT ACQUIRING DEFAULTED LOANS OF NEW ASSET TYPES

We may pursue the acquisition of defaulted loan portfolios of asset types in which we have little current experience. We may not be successful in completing any acquisitions of defaulted loans of these asset types and our limited experience with these asset types may impair our ability to collect on these loans. This may cause us to pay too much for these loans and consequently we may not generate a profit from these portfolio acquisitions.

OUR COLLECTIONS MAY DECREASE IF BANKRUPTCY FILINGS INCREASE OR IF BANKRUPTCY LAWS CHANGE

Before the effects of economic recovery are widely felt, the amount of defaulted loans may continue to increase, which contributes to an increase in the amount of personal bankruptcy filings. In addition, proposed changes to bankruptcy laws favorable to creditors may encourage some debtors to file for bankruptcy before new laws take effect. Under certain bankruptcy filings, a debtor's assets are sold to repay credit originators, but since the charged-off consumer debt we purchase is generally unsecured we often would not be able to collect on those loans. We cannot ensure that our collections experience would not decline with an increase in bankruptcy filings or if bankruptcy laws change in a manner adverse to our business. If our actual collection experience with respect to a defaulted debt portfolio is significantly lower than projected when we purchased the portfolio, our financial condition and results of operations could deteriorate.

WE MAY NOT BE ABLE TO CONTINUALLY REPLACE OUR DEBT PORTFOLIOS WITH ADDITIONAL DEBT PORTFOLIOS SUFFICIENT TO OPERATE EFFICIENTLY AND PROFITABLY

To operate profitably, we must continually acquire and service a sufficient amount of defaulted debt to generate revenue that exceeds our expenses and distributions. Fixed costs such as salaries and lease or other facility costs constitute a significant portion of our overhead and, if we do not continually replace the debt portfolios we service with additional portfolios, we may have to reduce the number of our collection personnel. We would then have to rehire collection staff as we obtain additional debt portfolios. These practices could lead to:

- low employee morale;
- fewer experienced employees;
- higher training costs;
- disruptions in our operations;
- loss of efficiency; and
- excess costs associated with unused space in our offices.

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 debt available for purchase from credit originators. We cannot predict how our ability to identify and purchase debt and the quality of the debt 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.

OUR OPERATIONS COULD SUFFER FROM TELECOMMUNICATIONS OR TECHNOLOGY DOWNTIME OR INCREASED COSTS

Our success depends in large part on sophisticated telecommunications and computer systems. The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty or operating malfunction, could disrupt our operations. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for

our collection activities. Any failure of our information systems or software or our backup systems would interrupt our business operations and harm our business. Our headquarters is located in a region that is susceptible to earthquake damage, which may increase the risk of disruption of information systems and telephone service for sustained periods.

Further, our 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 our profitability or disrupt our operations and harm our business.

WE MAY NOT BE ABLE TO SUCCESSFULLY ANTICIPATE, MANAGE OR ADOPT TECHNOLOGICAL ADVANCES WITHIN OUR INDUSTRY

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

While we believe that our existing information systems are sufficient to meet our current demands and continued expansion, our future growth may require additional investment in these systems. We depend on having the capital resources necessary to invest in new technologies to acquire and collect charged-off consumer debt. We cannot ensure that adequate capital resources will be available to us at the appropriate time.

OUR SENIOR MANAGEMENT TEAM IS IMPORTANT TO OUR CONTINUED SUCCESS AND THE LOSS OF ONE OR MORE MEMBERS OF SENIOR MANAGEMENT COULD NEGATIVELY AFFECT OUR OPERATIONS

The loss of the services of one or more of our executive officers or key employees could disrupt our operations. We have employment agreements with David Caldwell, our Chief Operations Officer, William Constantino, our Chief Legal Officer, and Darren Bard, our Chief Information Officer. However, these agreements do not and will not assure the continued services of these officers. Our success depends on the continued service and performance of our executive officers, and we cannot guarantee that we will be able to retain those individuals. The loss of the services of one or more of our executive officers could seriously impair our ability to continue to acquire or collect on debt and to manage and expand our business. We do not currently maintain key man life insurance for our officers.

OUR ABILITY TO RECOVER OUR DEFAULTED DEBT PORTFOLIOS MAY BE LIMITED UNDER FEDERAL AND STATE LAWS

Federal and state laws may limit our ability to recover and enforce our debt portfolios regardless of any act or omission on our part. Some laws and regulations applicable to credit card issuers may preclude us from collecting on charged-off consumer debt portfolios we purchase if the credit card issuer previously failed to comply with applicable law in generating or servicing the charged-off consumer debt. Collection laws and regulations also directly apply to our 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 debt. Any new laws, rules or regulations that may be adopted, as well as existing consumer protection and privacy protection laws, may adversely affect our ability to collect on our debt portfolios and may harm our 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 our debt portfolios. Although we cannot predict if or how any future legislation would impact our business, our failure to comply with any current or future laws or regulations applicable to us could limit our ability to collect on our charged-off debt portfolios, which could reduce our profitability and harm our business.

RECENT LEGISLATIVE ACTIONS AND PROPOSED REGULATIONS WILL REQUIRE CORPORATE GOVERNANCE INITIATIVES, WHICH MAY BE DIFFICULT AND EXPENSIVE TO IMPLEMENT

To implement required corporate governance initiatives mandated by the Sarbanes-Oxley Act and the Securities and Exchange Commission, we may be required to enhance our internal controls, hire additional personnel and utilize

additional outside legal, accounting and advisory services, all of which would cause our general and administrative expenses to substantially increase. We also expect that the premiums we pay for directors' and officers' insurance policies will increase in the future as a result of higher claim rates incurred by insurers on other insured companies in recent years. These increased costs will adversely affect our operating results by increasing expenses by an amount that is significant for a company of our size. In addition, senior management's attention to our core business may be diverted by these initiatives, which could result in decreased collections.

LIMITED LIABILITY OF OUR EXECUTIVE OFFICERS AND DIRECTORS MAY DISCOURAGE UNIT HOLDERS FROM BRINGING A LAWSUIT AGAINST THEM.

Our Operating Agreement contains provisions that limit the liability of our directors for monetary damages and provide for indemnification of our officers and directors. These provisions may discourage Unit Holders from bringing a lawsuit against our officers and directors for breaches of fiduciary duty and may also reduce the likelihood of derivative litigation against our officers and directors even though such action, if successful, might otherwise have benefited the Unit Holders. In addition, a Unit Holder's investment in Performance Capital Management, LLC may be adversely affected to the extent that costs of settlement and damage awards against our officers or directors are paid by Performance Capital Management, LLC pursuant to the indemnification provisions of our Operating Agreement. The impact on a Unit Holder's investment in terms of the cost of defending a lawsuit may deter the Unit Holder from bringing suit against one of our officers or directors. We have been advised that the SEC takes the position that these provisions do not affect the liability of any officer or director under applicable federal and state securities laws.

MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

MARKET

There is no trading market for our securities at present and there has been no trading market to date. We are not planning and do not intend to facilitate the development of a trading market.

HOLDERS OF RECORD

As of March 15, 2005, we had approximately 2,500 members, and one economic interest owner who is a non-voting LLC Unit Holder.

DISTRIBUTIONS

Our Operating Agreement calls for us to make pro-rata cash distributions to our members based on their unreturned capital (certain investors received approximately \$19.3 million of payment from various PAM Funds prior to the bankruptcy filing) until all members receive their full capital investment back without interest. From February 4, 2002 (Inception) to December 31, 2004, we have made distributions to the members and economic interest owner totaling approximately \$13.0 million. After all investor capital investments are paid back, any further distributions are to be made, as determined by our Board of Directors, in its sole and absolute discretion, pro rata based upon LLC Units outstanding.

RECENT SALES OF UNREGISTERED EQUITY SECURITIES

We did not issue or sell any equity securities during the fiscal year ended December 31, 2004.

PURCHASES OF SECURITIES

We did not purchase any LLC Units from our members during the fourth quarter ended December 31, 2004. However, the Company completed a procedure authorized by our plan of reorganization to cancel the interests of members we have not been able to locate. Through delivery to last known addresses and public advertising in a national newspaper in April 2004, we attempted to notify approximately 41 people or entities listed as investors in the PAM Funds. At December 31, 2004, the Company cancelled ownership of approximately 7,055 LLC Units in

accordance with the procedure outlined in the reorganization plan. Also, related unreturned capital of approximately \$305,000 was cancelled and approximately \$152,000 of uncashed distribution checks were forfeited and returned to the Company. The \$152,000 of unclaimed distributions was treated as an addition to Members' Equity at the end of the fourth quarter of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited Financial Statements included herein. Certain statements contained herein may constitute forward-looking statements, as discussed at the beginning of this Annual Report. Our actual results could differ materially from the results anticipated in the forward-looking statements as a result of a variety of factors, including those discussed in our filings with the Securities and Exchange Commission and in the subsection of Item 1 entitled "Description of Business; Risk Factors".

OVERVIEW

We acquire assets originated by federal and state banking and savings institutions, loan agencies, and other sources, for the purpose of generating income and cash flow from collecting or selling those assets. Typically, these assets consist of charged-off credit card contracts. These assets are typically purchased and sold as portfolios.

Before purchasing a portfolio, we conduct due diligence to assess the value of the portfolio. We try to purchase portfolios at a substantial discount to the actual amount of money that they will ultimately produce, so that we can recover the cost we pay for portfolios, repay funds borrowed to purchase portfolios, pay our collection and operating costs and still have a profit. We believe that market conditions currently make it difficult, although not impossible, to purchase portfolios at prices that will permit us to accomplish these objectives. We record our portfolios at cost based on the purchase price. We reduce the cost bases of our portfolios on a portfolio-by-portfolio basis based on collections, sales of some or all of the portfolio and impairment of net realizable value.

We frequently sell certain portions of portfolios we purchase and then collect the balance of the portfolio, to ensure that the retained portion of the portfolio conforms to our size, pricing and collectibility parameters. We do not generally purchase loan portfolios solely with a view to their resale, and for this reason we generally do not show portfolios on our balance sheet as "held for investment". From time to time we sell some of our portfolios either to capitalize on market conditions, to dispose of a portfolio that is not performing or to dispose of a portfolio whose collection life, from our perspective, has run its course. When we engage in these sales, we continue collecting the portfolio right up until the closing of the sale.

We refer to the discounted present value of the actual amount of money that we believe a portfolio will ultimately produce as the "fair value" of the portfolio. If we conduct our business successfully, the aggregate fair value of our portfolios should be substantially greater than the aggregate cost basis of our portfolios presented on our balance sheet. We must make assumptions to determine fair value, the most significant of which are the magnitude and timing of future collections and the discount rate used to determine present value. Because of the inherent uncertainty associated with predicting future events, our determinations of fair value at any particular point in time are only estimates, and actual fair value could ultimately vary significantly from our estimate.

We earn revenues from collecting our portfolios and from selling our portfolios or portions of our portfolios. We recognize gross revenue when we collect an account and when we sell a portfolio or a portion of it. On our statement of operations, we reduce our gross revenues by the cost basis recovery of our portfolios to arrive at net revenue. For collections, we reduce the cost basis of the portfolio dollar-for-dollar until we have completely recovered the cost basis of the portfolio. When we sell a portfolio or a portion of it, to the extent of remaining cost basis for the portfolio, we reduce the cost basis of the portfolio by a percentage of the original portfolio cost.

Our net revenues from portfolio collections may vary from quarter to quarter because the number and magnitude of portfolios where we are still recovering costs may vary, and because the return rates of portfolios whose costs we have already recovered in full may vary. Similarly, our net revenues from portfolio sales may vary from quarter to

quarter depending on the number and magnitude of portfolios (or portions) we decide to sell and the market values of the sold portfolios (or portions) relative to their cost bases.

Our operating costs and expenses consist principally of salaries and benefits and general and administrative expenses. Fluctuations in our salaries and benefits correspond roughly to fluctuations in our headcount. Our general and administrative expenses include non-salaried collection costs, telephone, rent and professional expenses. Fluctuations in telephone and collection costs generally correspond to the volume of accounts we are attempting to collect. Professional expenses tend to vary based on specific issues we must resolve.

BASIS OF PRESENTATION

We present our financial statements based on our February 4, 2002, emergence from bankruptcy being treated as the inception of our business. In our emergence from bankruptcy, we succeeded to the assets and liabilities of six entities that were in bankruptcy. The equity owners of the PAM Funds approved a reorganization plan under which the owners of the PAM Funds agreed to receive ownership interests in Performance Capital Management, LLC, in exchange for their ownership interests in the predecessor entities. Our consolidated financial statements include the accounts of our parent operating company, Performance Capital Management, LLC, and its wholly-owned special purpose subsidiary Matterhorn Financial Services LLC. All significant intercompany balances and transactions have been eliminated.

CRITICAL ACCOUNTING ESTIMATES

We present investments in portfolios on our balance sheet at the lower of cost, market, or estimated net realizable value. As discussed above, we reduce the cost basis of a portfolio on a proportionate basis when we sell a portion of the portfolio, and we treat amounts collected on a portfolio as a reduction to the carrying basis of the portfolio on an individual portfolio basis. When we present financial statements we assess the estimated net realizable value of our portfolios on a portfolio-by-portfolio basis, and we reduce the value of any portfolio that has suffered impairment because its cost basis exceeds its estimated net realizable value. Estimated net realizable value represents management's estimates, based upon present plans and intentions, of the discounted present value of future collections. We must make assumptions to determine estimated net realizable value, the most significant of which are the magnitude and timing of future collections and the discount rate used to determine present value. Once we write down a particular portfolio, we do not increase it in subsequent periods if our plans and intentions or our assumptions change.

We present the fair value of our portfolios only in the notes to our financial statements, not in the basic financial statements themselves. In order to understand our financial statements the reader must understand the concepts involved in estimation of the fair value of our portfolios, as discussed in the section above entitled "Overview". Because of the inherent uncertainty associated with predicting future events, our determinations of fair value at any particular point in time are only estimates, and actual fair value could ultimately vary significantly from our estimate.

When we collect an account in a portfolio, we reduce the cost basis of the portfolio dollar-for-dollar until we have completely recovered the cost basis of the portfolio. We believe this method of accounting for the amortization of the purchase price of our portfolios is conservative and minimizes the effect of estimation on our results of operations. This policy has the effect of "front-loading" expenses, however, and may result in a portfolio initially showing no net revenue for a period of time and then showing only net revenue once we have recovered its entire cost basis. We believe a policy grounded in conservatism is preferable to a policy of attempting to match portfolio cost basis to revenue on a proportionate basis over the life of the portfolio, due to the distressed nature of the portfolio assets and the lack of assurance that projected collections will actually occur.

When we sell a portfolio or a portion of it, to the extent of remaining cost basis for the portfolio, we reduce the cost basis of the portfolio by a percentage of the original portfolio cost. Our policy does not take into account whether the portion of the portfolio we are selling may be more or less valuable than the remaining accounts that comprise the portfolio. We believe our policy, which is grounded in this objective measure for cost basis recovery, is preferable to a policy that would attempt to estimate whether a portion of a portfolio being sold is more or less valuable than the

remaining accounts that comprise the portfolio, because our policy minimizes the effect of estimation on our results of operations.

As discussed in greater detail below, our credit facility with Varde provides for up to \$25 million of capital (counting each dollar loaned on a cumulative basis) over a five-year term ending in July 2009. The facility provides for Varde to receive a residual interest in portfolio collections after all funds invested in the portfolio have been repaid (with interest) and all servicing costs have been paid. We do not record a liability for this residual interest due to the distressed nature of the portfolio assets and the lack of assurance that collections sufficient to result in a liability to Varde will actually occur.

For ease of presentation in the following discussions of "Operating Results" and "Liquidity and Capital Resources", we round amounts less than one million dollars to the nearest thousand dollars and amounts greater than one million dollars to the nearest hundred thousand dollars.

OPERATING RESULTS

Comparison of Results for the Years Ended December 31, 2004 and December 31, 2003

The following discussion compares our results for the years ended December 31, 2004 and December 31, 2003. We generated net income of \$791,000 in 2004, compared to a net loss of \$1.1 million in 2003. Our operating activities provided cash of \$153,000 in 2004, as compared to \$651,000 in 2003.

Revenue

Our net revenues increased to \$7.5 million in 2004, from \$5.6 million in 2003. The following table presents a comparison of the components of our revenues in 2004 to 2003, as well as presenting net revenue as a percentage of the corresponding total revenue (approximate amounts due to rounding):

	Total		Collections		Sales	
	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
	(\$ in millions)		(\$ in millions)		(\$ in millions)	
Total revenues	\$ 14.0	\$ 10.0	\$ 9.9	\$ 9.4	\$ 4.1	\$ 0.6
Less basis recovery	(6.5)	(4.4)	(3.4)	(3.9)	(3.1)	(0.5)
Net revenues	<u>\$ 7.5</u>	<u>\$ 5.6</u>	<u>\$ 6.5</u>	<u>\$ 5.5</u>	<u>\$ 1.0</u>	<u>\$ 0.1</u>
Net revenue percentage	53.6%	55.6%	66.0%	58.1%	23.9%	12.0%

Portfolio collections continue to provide most of our total revenues. We showed substantial improvements in both total revenues and net revenues from portfolio collections. Our total revenues from portfolio collections increased principally due to collections from recently purchased portfolios and increased efficiency in collection procedures for both recently purchased and older portfolios. Our net revenues from portfolio collections (as well as the corresponding percentage of net revenues to total revenues) increased principally due to maintaining collection trends on our older portfolios with low or fully-amortized cost bases while simultaneously exploiting portfolios purchased during the second half of 2002 and 2003. We have completely recovered the cost basis of most of these portfolios purchased in 2002 and 2003, resulting in collections of these portfolios generating net revenues. During 2004, we acquired \$5.3 million of new portfolios (net of portions of portfolios we promptly resold). In future periods, we expect our total revenue from collections to increase as we begin to exploit the large purchases we made in 2004 and plan to continue making in 2005. The cost basis recovery associated with collecting these 2004 portfolios, combined with the portfolio that we have already acquired in 2005 and additional portfolios we plan to acquire in 2005, could more than offset the increase in net revenue percentage we would otherwise expect our 2002 and 2003 portfolios to generate and actually result in a decrease in our net revenue percentage.

Total revenues and net revenues from portfolio sales increased dramatically. During 2004 we sold a substantial number of old portfolios, some of whose collection lives, from our perspective, had run their course, and some to

capitalize on market conditions. As part of our program to emphasize efforts to continue to collect some of our older portfolios, we identified a substantial number of older portfolios whose collection lives, from our perspective, had run their course. We concluded that we could no longer efficiently collect these portfolios based on our cost structure. We identified these portfolios as candidates for sale and sold a number of these portfolios in the first quarter of 2004. Current plans for 2005 do not call for the sale of a large number of older portfolios, but we may engage in further sales if we believe market conditions are acceptable. These old portfolio sales generated substantial net revenues because these portfolios generally had cost bases that had been fully or substantially recovered prior to their sale. 2004 total revenues from portfolio sales also included \$2.2 million of revenues from portfolios (or portions of portfolios) that we sold promptly after their purchase. These resales did not result in material net revenues. We anticipate continuing to sell portions of newly acquired portfolios from time to time, but we do not expect to generate substantial net revenues from these sales.

Our net income of \$791,000 for 2004 is essentially due to the \$1.0 million of net revenues we derived from portfolio sales. Without this large volume of sales, we would have essentially broken even or had a slight loss in 2004. Although we still have some older portfolios identified for sale, we do not expect future portfolio sales to be of the same magnitude that we experienced in 2004.

Operating Expenses

Our total operating costs and expenses of \$6.7 million in 2004 were comparable to the \$6.6 million in 2003. Our ratio of operating costs and expenses to total revenues from collections (i.e., excluding the effect of portfolio sales), a measure of collection efficiency, decreased to 67.4% for the year ended December 31, 2004, from 69.9% for the year ended December 31, 2003. The slight improvement in this ratio results principally from the increase in our collection revenues outpacing increases in our expenses by \$388,000. We intend to monitor the magnitude of these incremental increases relative to the principal and interest we pay to Varde under the credit facility to ensure that the Varde facility provides additional liquidity to us and does not become the source of a cash crunch.

Our general and administration expenses increased to \$2.5 million in 2004 from \$2.2 million in 2003, due primarily to increased costs for legal and audit and due to an increase in outside legal collection costs. The increase in legal costs was due to a large extent to costs associated with setting up our credit facility with Varde. Our salaries and benefits expenses decreased to \$4.0 million in 2004 from \$4.2 million in 2003, due to a decrease in average headcount during the year. Our operating expenses may increase somewhat in the coming year because we plan to increase headcount in our collection personnel to exploit the increase in portfolio purchases to generate an increase in total collection revenues.

We believe our current collection infrastructure could handle a greater dollar volume of accounts. We view our material fixed costs as:

- Payroll and benefits for administrative staff;
- Rent;
- Computer maintenance;
- Professional services; and
- Insurance.

We do not believe these costs will increase substantially if we substantially increase the volume of accounts that we collect. As we increase the volume of accounts we collect, we believe the following costs, which we view as variable, will increase:

- Payroll and benefits for additional collectors;
- Collection communication costs (principally telephone and postage);
- Collection agencies or third-party collection attorneys; and
- Repayment of borrowed funds.

Although repayment of borrowed funds is not technically a cost for purposes of our statement of operations, we view it as a variable cost of collection because the rate at which we repay the principal on Varde loans depends on the collections of the financed portfolio - and we must repay the entire loan for any given portfolio within two years.

As discussed in greater detail below, we believe that our agreement with Varde will continue to assist our efforts to acquire the volume of new portfolios it will take to produce substantial increases in total revenues from collections. It remains possible that the deteriorating market conditions that have led to increased portfolio prices could limit our ability to achieve increases in total revenues from collections, because of the difficulty in replenishing and then increasing our portfolios.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents increased \$1.0 million in 2004 to a balance of \$2.0 million at December 31, 2004. During the year ended December 31, 2004, our portfolio collections and sales generated \$14.0 million of cash, we borrowed \$1.7 million, recovered \$152,000 from forfeited distributions, and we used \$6.5 million for operating and other activities, \$7.4 million for purchases of new portfolios, \$674,000 for distributions to unit holders and \$285,000 to repay loans payable.

During 2004, we continued making progress toward, but did not achieve results consistent with, our business plan: to recover the cost we pay for our portfolios, repay funds borrowed to purchase portfolios, pay our collecting and operating costs and still have a profit. Excluding the results from the large volume of portfolio sales in 2004, our cost basis recovery of \$3.4 million plus our operating and other expenses of \$6.7 million slightly exceeded our total revenues from collections of \$9.9 million. We generated sufficient cash to repay the portion of borrowed funds that came due in 2004. We believe these results reflect the steady progress we have made to focus on collecting the right portfolios in an efficient manner. We believe our future results will continue to reflect this progress, although the "front-loading" of cost basis recovery from our recent large portfolio purchases could once again cause our statement of operations to show a net loss.

During 2004 we believe we continued to improve the balance between our new and old portfolios. In addition, we believe that our procedures to ensure that our collectors continue to focus collection efforts on older portfolios that still have returns to yield, rather than focusing just on the most recently acquired portfolios, continue to show results. We have used our dialer to ensure that our collectors continue to focus on portfolios other than those we have most recently acquired. By monitoring the results of calls originated through our dialer, we identified portfolios that required more cost to collect than others. Particularly where we had worked to collect these portfolios over an extended period of time, we determined that some of our portfolios' collection lives had run their course from our perspective. We sold a number of older portfolios identified by this process in 2004. We believe this process of constantly evaluating portfolio returns against costs of collection should continue to improve the balance between our new and old portfolios. Current plans for 2005 do not call for the sale of a large number of older portfolios, but we may engage in further sales if we believe market conditions are acceptable.

During 2004, we simultaneously addressed two objectives: (1) to increase the volume of portfolios available for collection in order to capitalize on infrastructure capacity and (2) to improve cash liquidity. Of the \$7.4 million of portfolios we purchased in 2004, we retained \$5.3 million to collect (we promptly resold the other \$2.1 million). These purchases enabled us to reverse a trend in 2003 of steadily declining portfolio cost basis, which had resulted from our difficulty in finding portfolios available for purchase at prices we considered reasonable. Because of the improvement in the volume of portfolios available for collection, we expect to add collection personnel to capitalize on our infrastructure capacity, with increased total revenues from collections outpacing increased costs associated with added headcount. Whether we continue to acquire portfolios at the same pace as in 2004 will continue to depend on our assessment of market conditions, as well as the amount of liquid cash and other financial resources available to us.

We improved our cash liquidity at the same time we increased the volume of our portfolios due primarily to three reasons:

- We used the Varde credit facility to acquire \$1.7 million of the portfolios;
- Our total revenue from collections of \$9.9 million substantially outpaced our cash operating costs and expenses of \$6.5 million; and
- Our sales of older portfolios provided cash of \$1.9 million.

These three sources of cash, totaling \$7.0 million, when combined with the \$152,000 we recovered from forfeited distributions, permitted us to purchase \$5.3 million of portfolios (net of portions of portfolios we promptly resold),

pay \$674,000 of distributions to unit holders and repay \$285,000 of loans from Varde, while still increasing our cash on hand by \$1.0 million to \$2.0 million at December 31, 2004.

Our portfolios provide our principal long-term source of liquidity. Over time, we expect to convert our portfolios to cash in an amount that equals or exceeds the cost basis of our portfolios. In addition, some portfolios whose cost bases we have completely recovered will continue to return collections to us. Our estimate of the fair value of our portfolios at December 31, 2004, increased \$3.9 million to \$19.2 million from \$15.3 million at December 31, 2003. At the same time, the cost basis of our portfolios increased to \$3.0 million at December 31, 2004, from \$2.1 million at December 31, 2003.

In general, we expect increases in the cost basis of our portfolios presented on our balance sheet to accompany increases in portfolio fair value. The magnitude and timing of our collections could cause cost basis to decline in some quarters when fair value actually increases, however, because we "front-load" our cost basis recovery instead of matching portfolio cost basis recovery to revenue on a proportionate basis over the life of the portfolio. Our purchasing patterns could reinforce this divergence. A decrease in the magnitude of new portfolio acquisitions (i.e., failing to reinvest all of cash collections representing cost basis recovery) may still result in a fair value increase because new portfolios generally have a fair value that exceeds their purchase price.

Our estimate of fair value and our portfolio cost basis increased due in part to the large portfolio purchases we made in 2004, and fair value also increased because we believe recently purchased portfolios will provide better collection ratios than some of the older portfolios we inherited from our PAM Fund predecessors, because newly acquired portfolios generally provide an increase in fair value substantially greater than the increase in cost basis recorded on our balance sheet and because improved collection procedures have extended the collection lives of some of our older portfolios. We believe the fair value of our portfolios will continue to increase in the near term as we acquire new portfolios. We believe our portfolio cost basis will also increase in the near term because we can use the Varde credit facility as well as reinvest some cash proceeds from collections into the purchase of new portfolios. Long-term growth in portfolio cost basis will depend on whether market conditions continue to permit us to purchase portfolios at reasonable prices and on our financial resources.

We used a discount rate of 20% to determine the fair values of our portfolios at December 31, 2004, and December 31, 2003. The following table sets forth alternative estimates of fair value if we assessed collection risk as higher (using a discount rate of 25%) or lower (using a discount rate of 15%).

	December 31, 2004	December 31, 2003
Higher collection risk (25% discount rate)	\$ 17.9 million	\$ 14.3 million
Assumed collection risk (20% discount rate)	\$ 19.2 million	\$ 15.3 million
Lower collection risk (15% discount rate)	\$ 20.8 million	\$ 16.6 million

Our estimates of fair values also would change if we revised our projections of the magnitude and timing of future collections. Because of the inherent uncertainty associated with predicting future events, our determinations of fair value at any particular point in time are only estimates, and actual fair value could ultimately vary significantly from our estimate.

We plan to realize the difference between fair value and cost basis over time as we collect our portfolios. We generally collect our portfolios over periods of time ranging from three to seven years, with the bulk of a portfolio's yield coming in the first three years we collect it. If we succeed in collecting our portfolios and realize the difference between fair value and cost basis of our portfolios, we will recover the cost we paid for them, repay funds borrowed to purchase them, pay our collection and operating costs, and still have excess cash.

In the near term, we plan to reinvest some of our cash collections representing cost basis recovery to acquire additional portfolios and use the Varde facility to acquire additional portfolios to continue growing the fair value of our portfolios on a quarter to quarter basis. Ultimately we plan to reinvest all of the cash representing cost basis recovery, plus a portion of excess cash, to acquire additional portfolios.

Our Board of Directors has described this strategy as having two parts:

- Provide an annuity without impairing the value of the business; and
- Grow the business to increase the annuity.

Due to factors such as the availability of new portfolios, market pricing conditions for new portfolios, the timing of loan repayments and residual interest payments to Varde, and the timing of distributions to our members, we may not achieve increases in fair value each quarter.

In the near term we plan to use some of our cash collections representing cost basis recovery to make distributions to our members and interest holders. Ultimately we plan to generate cash in excess of our collection and operating costs and our cost basis recovery and to use some of the excess cash to make distributions to our members and interest holders. Beginning in April 2003, we began making quarterly distributions. During 2004, we made distributions totaling \$674,000. We made a distribution of \$165,000 in January 2005 relating to our quarter ended December 31, 2004.

Our agreement with Varde provides us with a source of capital to purchase new portfolios. The agreement provides up to \$25 million of capital (counting each dollar loaned on a cumulative basis) over a five-year term. It is unlikely that we will ever have outstanding indebtedness approaching the full \$25 million at any one time, due to the cumulative nature of the facility. At December 31, 2004, Matterhorn owed \$1.4 million under the facility in connection with purchases of certain charged-off loan portfolios. The assets of Matterhorn provide security for Varde's loan and were carried at a cost of \$1.8 million at December 31, 2004. The loan advances have minimum payment threshold points with terms of two years and bear interest at the rate of 12% per annum. These obligations are scheduled to be paid in full by August 2006 and December 2006. Once all funds (including those invested by us) invested in a portfolio financed by Varde have been repaid (with interest) and all servicing costs have been repaid, Varde will begin to receive a residual interest in collections of that portfolio. Depending on the performance of the portfolio, these residual interests may never be paid, they may begin being paid a significant time later than Varde's loan is repaid (i.e., after the funds invested by us are repaid with interest), or, in circumstances where the portfolio performs extremely well, the loan could be repaid early and Varde could conceivably begin to receive its residual interest on or before the date that the loan obligation was originally scheduled to be paid in full.

The amount of remaining available credit under the facility at December 31, 2004 was \$23.3 million. By combining our resources with Varde's, as of March 1, 2005, our subsidiary Matterhorn purchased an additional \$2.0 million portfolio during 2005. Under the credit facility, Varde has a first priority security interest in Matterhorn's assets. There can be no assurance that Varde will advance any new money under the facility, because in each instance Varde must approve of the portfolio(s) we propose to acquire and the terms of the acquisition. We do not have any plans to raise equity capital. Based on our cash position and current financial resources, and assuming our operating results continue to increase at projected levels, we believe we have adequate capital resources to continue our business as presently conducted for the foreseeable future. We plan to continue to use the Varde credit facility to maximize the return on our infrastructure. We will continue to consider other alternatives to increase the volume of accounts we service other than through new portfolio acquisitions using only our cash resources, however, if the economic returns to us seem reasonable.

We do not have any contractual commitments to make capital expenditures, and we have not budgeted any capital expenditures for the coming year. We may from time to time acquire capital assets on an as needed basis. Our most significant capital assets are our dialer and our telephone switch, which we do not anticipate having to replace within the next year.

RECENT ACCOUNTING PRONOUNCEMENTS

We continue to assess the effects of recently issued accounting standards. The impact of all recently adopted and issued accounting standards has been disclosed in the footnotes to our audited Financial Statements, Note 4.

FINANCIAL STATEMENTS

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm.....	24
Consolidated Balance Sheets as of December 31, 2004 and 2003	25
Consolidated Statements of Operations for the years ended December 31, 2004 and 2003.....	26
Consolidated Statements of Members' Equity for the years ended December 31, 2004 and 2003	27
Consolidated Statements of Cash Flows for the years ended December 31, 2004 and 2003.....	28
Notes to Consolidated Financial Statements.....	29-40

[MOORE STEPHENS WURTH FRAZER AND TORBET, LLP LETTERHEAD]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members and Board of Directors
Performance Capital Management, LLC
Anaheim, California

We have audited the accompanying consolidated balance sheets of Performance Capital Management, LLC and its wholly owned subsidiary Matterhorn Financial Services, LLC, as of December 31, 2004, and the related consolidated statements of operations, members' equity, and cash flows for each of the two years in the period ended December 31, 2004. 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 in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits of the consolidated financial statements provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Performance Capital Management, LLC and its wholly owned subsidiary Matterhorn Financial Services, LLC, as of December 31, 2004 and the results of its operations and cash flows for each of the two years in the period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

/s/ MOORE STEPHENS WURTH FRAZER AND TORBET, LLP

March 9, 2005
Orange, California

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
REVENUES:		
Portfolio collections	\$ 9,893,941	\$ 9,440,806
Portfolio sales	<u>4,133,628</u>	<u>553,683</u>
Total revenues	14,027,569	9,994,489
Less portfolio basis recovery	<u>6,514,291</u>	<u>4,442,411</u>
NET REVENUES	<u>7,513,278</u>	<u>5,552,078</u>
OPERATING COSTS AND EXPENSES:		
Salaries and benefits	4,018,263	4,225,772
General and administrative	2,473,231	2,174,931
Depreciation	<u>175,945</u>	<u>201,925</u>
Total operating costs and expenses	<u>6,667,439</u>	<u>6,602,628</u>
INCOME (LOSS) FROM OPERATIONS	<u>845,839</u>	<u>(1,050,550)</u>
OTHER INCOME (EXPENSE):		
Reorganization costs	(52,578)	(52,937)
Interest income	11,034	11,542
Other income	36,819	23,304
Interest expense	<u>(29,817)</u>	<u>-</u>
Total other expense, net	<u>(34,542)</u>	<u>(18,091)</u>
INCOME (LOSS) BEFORE INCOME TAX PROVISION	811,297	(1,068,641)
INCOME TAX PROVISION	<u>20,690</u>	<u>20,678</u>
NET INCOME (LOSS)	\$ <u>790,607</u>	\$ <u>(1,089,319)</u>
NET INCOME (LOSS) PER UNIT BASIC AND DILUTED	\$ <u>1.38</u>	\$ <u>(1.91)</u>

The accompanying notes are an integral part of these consolidated financial statements.
See Report of Independent Registered Public Accounting Firm.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>Member Units</u>	<u>Unreturned Capital</u>	<u>Abandoned Capital</u>	<u>Accumulated Deficit</u>	<u>Total Members' Equity</u>
Balance, December 31, 2002	571,550	\$ 26,116,880	\$ -	\$ (21,237,826)	\$ 4,879,054
Distributions to investors		(471,977)	-	-	(471,977)
Member units returned by investors	(634)	(31,926)	31,926	-	-
Net loss		-	-	(1,089,319)	(1,089,319)
Balance, December 31, 2003	570,916	\$ 25,612,977	\$ 31,926	\$ (22,327,145)	\$ 3,317,758
Distributions to investors		(673,572)	-	-	(673,572)
Distributions forfeited		151,555	-	-	151,555
Cancellation of investor units	(7,055)	(457,318)	457,318	-	-
Net income		-	-	790,607	790,607
Balance, December 31, 2004	<u>563,861</u>	<u>\$ 24,633,642</u>	<u>\$ 489,244</u>	<u>\$ (21,536,538)</u>	<u>\$ 3,586,348</u>

The accompanying notes are an integral part of these consolidated financial statements.
See Report of Independent Registered Public Accounting Firm.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 790,607	\$ (1,089,319)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	175,945	201,925
Loss on disposal of fixed asset	2,333	-
(Increase) decrease in assets:		
Other receivables	(17,002)	33,123
Purchased loan portfolios	(910,146)	1,962,698
Prepaid expenses and other assets	49,675	(66,551)
Increase (decrease) in liabilities:		
Accounts payable	(9,460)	(61,686)
Pre-petition claims	-	(139,737)
Accrued liabilities	60,572	(188,927)
Accrued interest	8,075	-
Income taxes payable	2,500	(800)
Net cash provided by operating activities	<u>153,099</u>	<u>650,726</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	<u>(35,162)</u>	<u>(20,886)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on loans payable	1,702,331	-
Repayment of loans payable	(285,288)	-
Distributions to investors	(673,572)	(471,977)
Distributions forfeited	151,555	-
Net cash provided by (used in) financing activities	<u>895,026</u>	<u>(471,977)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,012,963	157,863
CASH AND CASH EQUIVALENTS, beginning of period	<u>1,029,397</u>	<u>871,534</u>
CASH AND CASH EQUIVALENTS, end of period	\$ <u><u>2,042,360</u></u>	\$ <u><u>1,029,397</u></u>
SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION:		
Income taxes paid	\$ <u><u>18,190</u></u>	\$ <u><u>18,190</u></u>
Interest paid	\$ <u><u>21,742</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these consolidated financial statements.
See Report of Independent Registered Public Accounting Firm.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and description of business

Performance Capital Management, LLC ("PCM LLC") and its wholly-owned subsidiary, Matterhorn Financial Services, LLC ("Matterhorn") (collectively the "Company", unless stated otherwise) are engaged in the business of acquiring assets originated by federal and state banks and other sources, for the purpose of generating income and cash flow from managing, collecting, or selling those assets. These assets consist primarily of non-performing credit card loan portfolios and are purchased and sold as portfolios ("portfolios"). Additionally, some of the loan portfolios are assigned to third party agencies for collection.

Reorganization under bankruptcy

PCM LLC was formed under a Chapter 11 Bankruptcy Reorganization Plan and operating agreement. The plan called for the consolidation of five California limited partnerships and a California Corporation into the new California limited liability company. The five California limited partnerships were formed for the purpose of acquiring investments in or direct ownership of non-performing credit card loan portfolios from financial institutions and other sources. The assets of the five limited partnerships consisted primarily of non-performing credit card loans, as well as cash. In late December 1998, these six entities voluntarily filed bankruptcy petitions, which were later consolidated into one case. PCM LLC was formed on January 14, 2002 and commenced operations upon the confirmation of its Bankruptcy Reorganization Plan ("Reorganization Plan") on February 4, 2002. The entities that were consolidated under the Reorganization Plan are as follows:

Performance Asset Management Fund, Ltd., - (PAM), a California limited partnership, formed in 1991. Units in PAM were sold in a private placement offering. PAM raised \$5,205,000 in gross proceeds from the sale of its partnership units. PAM was not subject to the reporting requirements of the Securities and Exchange Commission.

Performance Asset Management Fund II, Ltd., - (PAMII), a California limited partnership, formed in 1992. Units in PAMII were sold in a private placement offering. PAMII raised \$7,670,000 in gross proceeds from the sale of its partnership units. PAMII was not subject to the reporting requirements of the Securities and Exchange Commission.

Performance Asset Management Fund III, Ltd., - (PAMIII), a California limited partnership, formed in 1992. Units in PAMIII were sold in a private placement offering. PAMIII raised \$9,990,000 in gross proceeds from the sale of its partnership units. PAMIII was a public limited partnership that was subject to the reporting requirements of the Securities and Exchange Commission.

Performance Asset Management Fund IV, Ltd., - (PAMIV), a California limited partnership, formed in 1992. Units in PAMIV were sold in an intrastate offering to residents of California. PAMIV raised \$28,595,000 in gross proceeds from the sale of its partnership units. PAMIV was a public limited partnership that was subject to the reporting requirements of the Securities and Exchange Commission.

Performance Asset Management Fund V, Ltd., - (PAMV), a California limited partnership, formed in 1994. Units in PAMV were sold in a private placement offering. PAMV raised \$5,965,000 in gross proceeds from the sale of its partnership units. PAMV was not subject to the reporting requirements of the Securities and Exchange Commission.

Performance Capital Management, Inc. - (PCM INC), a California corporation incorporated in January 1993. PCM INC identified potential portfolio acquisitions, performed due diligence in conjunction with potential portfolio acquisitions, acquired portfolios, and through joint ventures with the limited partnerships (PAM, PAMII, PAMIII, PAMIV, and PAMV) collected and sold acquired portfolios. The limited partnerships (PAM, PAMII, PAMIII, PAMIV, and PAMV) collectively obtained 98.5% of the outstanding shares of PCM INC. The minority interest of 1.5% was effectively eliminated in the bankruptcy plan.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and description of business (continued)

Pre-petition operations

A total of approximately \$57,450,000 was raised over the period 1991 to 1994 by selling limited partnership interests in PAM, PAMII, PAMIII, PAMIV, and PAMV. Approximately \$8.7 million was deducted for brokerage and organizational expenses. Approximately \$49 million was used to purchase non-performing credit card loan portfolios. These portfolios were typically purchased by the limited partnerships from PCM INC. PCM INC also collected the portfolios under joint venture agreements between itself and the limited partnerships.

In the normal course of business, loan portfolios would be purchased, collections would be made and in some cases the portfolios were sold. PCM INC was in the business of managing these loan portfolios.

PCM INC generally charged a "mark-up" to the limited partnerships for portfolios purchased for the limited partnerships. This markup averaged 35% above the price PCM INC paid for the portfolios on the open market. PCM INC was also contractually entitled to receive 45% of all monies collected on the portfolios.

The following is a summary of the ownership interest of PCM LLC pursuant to the terms of the Reorganization Plan:

<u>Original Fund's Name</u>	<u>Number of Unit Holders</u>	<u>Number of PCM LLC Units</u>	<u>Percentage Interest in PCM LLC</u>
PAM	370	52,050	9
PAMII	459	76,700	13
PAMIII	595	99,900	18
PAMIV	1553	285,950	50
PAMV	327	56,950	10
Totals		<u>571,550</u>	<u>100</u>

The following is a summary of the ownership interest of Performance Capital Management, LLC as of December 31, 2004:

<u>Original Fund's Name</u>	<u>Number of PCM LLC Units</u>	<u>Percentage Interest in PCM LLC</u>
PAM	51,565	9
PAMII	76,101	14
PAMIII	97,759	17
PAMIV	281,925	50
PAMV	56,511	10
Totals	<u>563,861</u>	<u>100</u>

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and description of business (continued)

The Reorganization Plan calls for distributions to be made first to the LLC Members to the extent of and in proportion to their unreturned Capital Contributions; and thereafter to the LLC Members in proportion to their respective percentage ownership interest.

The combination of the Partnerships and PCM INC is summarized as follows (in thousands):

	PAM	PAMII	PAMIII	PAMIV	PAMV	PCM INC	Total
Sale of Limited Partnership Units	\$ 5,205	\$ 7,670	\$ 9,990	\$ 28,595	\$ 5,965	\$ -	\$ 57,425
Distributions to Investors	(3,704)	(4,137)	(3,719)	(6,920)	(829)	-	(19,309)
Unreturned Capital	1,501	3,533	6,271	21,675	5,136	-	38,116
Accumulated Deficit	(288)	(1,333)	(2,424)	(9,330)	(2,561)	(2,302)	(18,238)
Cash and Net Assets Transferred to PCM LLC	\$ 1,213	\$ 2,200	\$ 3,847	\$ 12,345	\$ 2,575	\$ (2,302)	19,878
2002 Distribution to Investors							(12,000)
Net Loss For The Year Ended December 31, 2002							(2,999)
Members' Equity PCM, LLC at December 31, 2002							4,879
2003 Distributions to Investors							(472)
Net Loss For The Year Ended December 31, 2003							(1,089)
Members' Equity PCM, LLC at December 31, 2003							3,318
2004 Distributions to Investors							(674)
Distributions forfeited							152
Net Income For The Year Ended December 31, 2004							790
Members' Equity PCM, LLC at December 31, 2004							<u>\$ 3,586</u>

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and description of business (continued)

PAM III and PAM IV were reporting entities under the Securities Exchange Act of 1934. PAM, PAMII, PAMV, and PCM INC were not reporting entities. It was determined that PCM LLC is a "successor company" under rule 12g-3 of the Securities Exchange Act of 1934, and therefore is subject to the reporting requirements of the Securities Exchange Act of 1934. PCM LLC's LLC units are not publicly traded securities. The Reorganization Plan placed certain restrictions on the transfer of members' interests.

On August 2, 2004, an order of the United States Bankruptcy Court was entered closing the Chapter 11 case. The order acts as a discharge and termination of any and all liabilities and debts of, and claims against, PCM INC, PAM, PAM II, PAM III, PAM IV and PAM V that arose at any time before the confirmation order became effective on February 4, 2002.

Wholly-owned Subsidiary

In July, 2004, the Company completed a credit facility (effective June 10, 2004) with Varde Investment Partners, L.P. ("Varde"), a participant in the debt collection industry, to augment portfolio purchasing capacity using capital provided by Varde. To implement the agreement, PCM LLC created a wholly-owned subsidiary, Matterhorn. The facility provides for up to \$25 million of capital (counting each dollar loaned on a cumulative basis) over a five-year term. Varde is not under any obligation to make a loan to Matterhorn and Varde must agree on the terms for each specific advance under the loan facility. Under the terms of the facility, Varde will receive both interest and a residual amount of any profits on the portfolios acquired with a loan. Portfolios purchased using the facility will be owned by PCM LLC's subsidiary, Matterhorn. Varde has a first priority security interest in Matterhorn's assets securing repayment of its loans.

Note 2 - Basis of presentation

Reporting entity

PCM LLC is a successor entity of six companies emerging from bankruptcy (see Note 1). The accompanying balance sheets, statements of operations, members' equity, and cash flows include balances and transactions since the emergence from bankruptcy. Matterhorn was consolidated in the financial statements as a wholly-owned subsidiary starting in the third quarter of 2004.

Fresh start accounting

Statement of Position 90-7 issued by the American Institute of Certified Public Accountants ("SOP 90-7") addresses accounting for companies in reorganization under the bankruptcy code. For certain entities, SOP 90-7 requires "fresh start accounting" which records a revaluation of assets to fair values and an adjustment of liabilities to present values.

SOP 90-7 also requires the following procedures for entities that adopt fresh start accounting:

1. The reorganization value of the entity should be allocated to the entity's assets following FAS 141;
2. Liabilities other than deferred taxes should be stated at present values of amounts to be paid using current interest rates;
3. Deferred taxes should be presented in conformity with generally accepted accounting principles. Benefits realized from preconfirmation net operating loss carryforwards should reduce reorganization value in excess of amounts allocable to identifiable assets and other intangibles until exhausted and be reported as a direct addition to paid-in capital thereafter;

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Basis of presentation (continued)

4. Changes in accounting principles that will be required for the emerging entity within the twelve months following the adoption of fresh start accounting should be adopted at the same time fresh start accounting is adopted.

SOP 90-7 also requires the following disclosure in the initial financial statements after fresh start accounting has been adopted:

1. Adjustments to the historical amounts of individual assets and liabilities;
2. The amount of debt forgiveness;
3. The amount of prior retained earnings or deficit eliminated; and
4. Other important matters in determining reorganization value.

Management reviewed these requirements and determined that fresh start accounting was not applicable because assets exceeded liabilities prior to confirmation of the plan and existing limited partners retained a majority interest in the successor entity.

For entities that do not meet the requirements for fresh start accounting, SOP 90-7 requires that liabilities compromised by a confirmed bankruptcy plan be stated at present value of amounts to be paid, using current interest rates. Debt forgiveness, if any, should be reported as an extraordinary item.

As part of the Reorganization Plan, no debt forgiveness existed and all liabilities subject to compromise were presented on the face of the balance sheet as pre-petition claims with disclosures required by SOP 90-7 presented in Note 10. These claims have been paid or settled by December 31, 2003.

Transfer of assets to successor company

Assets were transferred at historical carrying values and liabilities were assumed as required by the bankruptcy confirmation plan.

Note 3 - Summary of significant accounting policies

Use of estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 timing and amount of collection of future cash flows from non-performing credit card loan portfolios. Among other things, the estimated future cash flows of the portfolios are used to recognize impairment in the purchased loan portfolios. Management reviews the estimate of future collections, and it is reasonably possible that these estimates may change based on actual results and other factors. A change could be material to the financial statements.

Purchased Loan Portfolios

Purchased loan portfolios consisted primarily of non-performing credit card accounts. For substantially all the Company's acquired portfolios, future cash flows cannot be reasonably estimated in order to record an accretable yield consistently. Therefore, the Company utilizes the cost recovery method as required by AICPA Practice Bulletin 6. Application of the cost recovery method requires that any amounts received be applied first against the recorded amount of the portfolios; when that amount has been reduced to zero, any additional amounts received are recognized as net revenue. Acquired portfolios are initially recorded at their respective costs, and no accretable yield is recorded on the accompanying balance sheets.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Summary of significant accounting policies (continued)

The Company provides a valuation allowance for acquired loan portfolios when the present value of expected future cash flows do not exceed the carrying values of the portfolios.

Over the life of the portfolio, the Company's management continues to review the carrying values of each loan for impairment. If net present value of expected future cash flows fall below the carrying value of the related portfolio, the valuation allowance is adjusted accordingly.

Cash and cash equivalents

The Company defines cash equivalents as cash, money market investments, and overnight deposits with original maturities of less than three months. Cash equivalents are valued at cost, which approximates market. The Company maintains cash balances, which exceeded federally insured limits by approximately \$1.8 million as of December 31, 2004. The Company has not experienced any losses in such accounts. Management believes it is not exposed to any significant risks on cash in bank accounts.

Property and equipment

Property and equipment are carried at cost and depreciation is computed over the estimated useful lives of the assets ranging from 3 to 7 years. The Company uses the straight-line method of depreciation. Property and equipment transferred under the reorganization plan were transferred at net book value. Depreciation is computed on the remaining useful life at the time of transfer.

The related cost and accumulated depreciation of assets retired or otherwise disposed of are removed from the accounts and the resultant gain or loss is reflected in earnings. Maintenance and repairs are expensed currently while major betterments are capitalized.

Long-term assets of the Company are reviewed annually as to whether their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. Management also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2004, management expects these assets to be fully recoverable.

Revenue recognition

Revenue is accounted for using the cost recovery method of accounting in accordance with Practice Bulletin No. 6, "Amortization of Discounts on Certain Acquired Loans". Under the cost recovery method of accounting, all cash receipts relating to individual loan portfolios are applied first to recover the cost of the portfolios, prior to recognizing any revenue. Cash receipts in excess of cost of purchased loan portfolios are then recognized as net revenue.

Loan portfolio sales occur after the initial portfolio analysis is performed and the loan portfolio is acquired. Portions of portfolios sold typically do not meet the Company's targeted collection characteristics. Loan portfolios sold are valued at the lower of cost or market.

Proceeds from strategic sales of purchased loan portfolios are recorded as revenue when received.

Income taxes

PCM LLC is treated as a partnership for Federal income tax purposes and does not incur Federal income taxes. Instead, its earnings and losses are included in the personal returns of its members.

PCM LLC is also treated as a partnership for state income tax purposes. The State of California imposes an annual corporation filing fee and an annual limited liability company fee.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Summary of significant accounting policies (continued)

Members' Equity

Members' Equity includes voting LLC units held by members and non-voting LLC units held by one economic interest owner. As of December 31, 2004, PCM LLC had 540,139 voting LLC units (547,194 LLC units as of December 31, 2003) and 23,722 non-voting LLC units (23,722 LLC units as of December 31, 2003). Abandoned capital represents LLC units that are either voluntarily returned to the Company by a member or LLC units that are redeemed and cancelled following a procedure authorized by PCM LLC's plan of reorganization to eliminate the interests of members the Company has not been able to locate. At December 31, 2004, the Company cancelled 7,055 member units and took back approximately \$152,000 of related unclaimed distributions under the procedure authorized in the reorganization plan. The \$152,000 of unclaimed distributions was treated as an addition to Members' Equity. The total amount of abandoned unreturned capital relating to the 7,055 member units was \$457,318.

Note 4 - Recent accounting pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," effective February 1, 2003. Interpretation No. 46 requires the primary beneficiary of a variable interest entity ("VIE") to consolidate the VIE under certain circumstances. Interpretation No. 46 is effective for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, Interpretation No. 46 must be applied for the first interim or annual period beginning after December 15, 2003. The Company currently believes it has no arrangements that would be subject to this interpretation.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," effective July 1, 2003. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities entered into after June 30, 2003, under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company has applied the provisions of SFAS No. 149 prospectively upon adoption. The Company currently believes it has no arrangements that would be subject to this pronouncement.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," effective July 1, 2003. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of this statement did not have a significant impact on the financial condition or results of operations of the Company.

In December 2003, the FASB revised Statement of Financial Accounting Standards No 132 (revised 2003), "Employer's Disclosure about Pensions and Other Post Retirement Benefits," ("SFAS No. 132(R)"). SFAS No. 132(R) amends SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement retains the disclosure requirements contained in SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which it replaces. It also requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The adoption of this statement did not have a significant impact on the financial condition or results of operations of the Company.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs". SFAS No. 151 amends the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) under the guidance in ARB No. 43, Chapter 4, "Inventory Pricing". Paragraph 5 of ARB No. 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Recent accounting pronouncements (continued)

that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not expect adoption of SFAS No. 151 to have a material impact, if any, on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions". The FASB issued this statement as a result of the guidance provided in AICPA Statement of Position (SOP) 04-2, "Accounting for Real Estate Time-Sharing Transactions". SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS No. 66, "Accounting for Sales of Real Estate", for real estate time-sharing transactions. SFAS No. 152 amends Statement No. 66 to reference the guidance provided in SOP 04-2. SFAS No. 152 also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects", to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing transactions. SFAS No. 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. Management does not expect adoption of SFAS No. 152 to have a material impact, if any, on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment to Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. Management does not expect adoption of SFAS No. 153 to have a material impact, if any, on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment". SFAS 123(R) amends SFAS No. 123, "Accounting for Stock-Based Compensation", and APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123(R) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. SFAS No. 123(R) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the company's shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of a company's shares or other equity instruments. This statement is effective (1) for public companies qualifying as SEC small business issuers, as of the first interim period or fiscal year beginning after December 15, 2005, or (2) for all other public companies, as of the first interim period or fiscal year beginning after June 15, 2005, or (3) for all nonpublic entities, as of the first fiscal year beginning after December 15, 2005. Management does not expect adoption of SFAS No. 153 to have a material impact, if any, on the Company's financial position or results of operations.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Fair value of financial instruments

The estimated fair value and the methods and assumptions used to estimate the fair values of the financial instruments of the Company as of December 31, 2004 and 2003 are as follows. The carrying amount of cash and cash equivalents, restricted cash and liabilities approximate their fair values. The fair value of purchased loan portfolios was determined based on both market pricing and discounted expected cash flows. The discount rate is based on an acceptable rate of return adjusted for the risk inherent in the loan portfolios. The discount rate utilized at December 31, 2004 and 2003 was 20%. The estimated fair value of loan portfolios was \$19,200,000 and \$15,300,000 at December 31, 2004 and 2003, respectively.

Note 6 - Purchased loan portfolios

The Company acquires portfolios of non-performing credit card loans from federal and state banks and other sources. These loans are acquired at a substantial discount from the actual outstanding balance. The aggregate outstanding contractual loan balances at December 31, 2004 and 2003 totaled approximately \$641 million and \$1.1 billion, respectively.

The Company initially records acquired loans at cost. To the extent that the cost of a particular loan portfolio exceeds the net present value of estimated future cash flows expected to be collected, a valuation allowance is recognized in the amount of such impairment.

The carrying amount of loans included in the accompanying balance sheets are as follows as of December 31:

	<u>2004</u>	<u>2003</u>
Unrecovered cost balance,		
beginning of period	\$ 7,619,515	\$ 9,517,146
Valuation allowance,		
beginning of period	<u>(5,538,019)</u>	<u>(5,472,952)</u>
Net balance, beginning of period	2,081,496	4,044,194
Net portfolio activity	910,146	(1,962,698)
Net balance, end of period	\$ <u><u>2,991,642</u></u>	\$ <u><u>2,081,496</u></u>

The activity in the loan portfolios in the accompanying financial statements is as follows:

	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2003
Purchased loan portfolios	\$ 7,424,437	\$ 2,479,713
Collections on loan portfolios	(9,893,941)	(9,440,806)
Sales of loan portfolios	(4,133,628)	(553,683)
Revenue recognized on collections	6,571,015	5,550,695
Revenue recognized on sales	986,232	66,450
Increase in valuation allowance due to portfolio impairment	<u>(43,969)</u>	<u>(65,067)</u>
Net portfolio activity	\$ <u><u>910,146</u></u>	\$ <u><u>(1,962,698)</u></u>

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Purchased loan portfolios (continued)

The valuation allowance related to the loan portfolios at December 31, 2004 and 2003 are as follows:

	December 31, 2004	December 31, 2003
Valuation allowance, beginning of period	\$ 5,538,019	\$ 5,472,952
Increase in valuation allowance due to portfolio impairment	43,969	65,067
Decrease in valuation allowance	(5,569,988)	---
Valuation allowance, end of period	\$ <u>12,000</u>	\$ <u>5,538,019</u>

A review during the fourth quarter by management of the portfolio valuation allowance showed that the allowance for certain portfolios had become fully utilized. It was determined that the original portfolio assets were approaching or had reached the end of their producing life. An adjustment was made at year end to reduce the valuation of the original portfolio asset by the offsetting valuation allowances that had been carried by the Company. This caused the amount of valuation allowance to decrease since it was offset by the original portfolio asset. This adjustment of offsetting the original portfolio asset against the valuation allowance had no effect on net income, members' equity or cash flows.

Note 7 - Other receivables

Other receivables consist of collections on portfolios received by a third party collection agency.

Note 8 - Notes payable

The Company has entered into an agreement for a credit facility with Varde Investment Partners, L.P. ("Varde"), that provides for up to \$25 million of capital (counting each dollar loaned on a cumulative basis) over a five-year term ending in July 2009. At December 31, 2004, PCM LLC's wholly-owned subsidiary Matterhorn owed approximately \$1.4 million under the facility in connection with its purchase of certain charged-off loan portfolios. The total amount borrowed to date is approximately \$1.7 million. The loan has minimum payment threshold points. Each advance has a term of two years and bears interest at the rate of 12% per annum. These obligations are scheduled to be paid in full by August 2006 and December 2006 with principal payments of approximately \$428,000 due in 2005 and approximately \$989,000 due in 2006. Once all funds (including those invested by the Company) invested in a portfolio financed by Varde have been repaid (with interest) and all servicing costs have been repaid, Varde will begin to receive a residual interest in collections of that portfolio. Depending on the performance of the portfolio, these residual interests may never be paid, they may begin being paid a significant time later than Varde's loan is repaid (i.e., after the funds invested by the Company are repaid with interest), or, in circumstances where the portfolio performs extremely well, the loan could be repaid early and Varde could conceivably begin to receive its residual interest on or before the date that the loan obligation was originally scheduled to be paid in full. Varde has a first priority security interest in all the assets of Matterhorn, securing repayment of its loans and payment of its residual interest. PCM LLC, our parent operating company, has guaranteed certain of Matterhorn's operational obligations under the loan documents. The amount of remaining available credit under the facility at December 31, 2004 was approximately \$23.3 million. The assets of Matterhorn that provide security for Varde's loan were carried at a cost of approximately \$1.8 million at December 31, 2004.

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9- Property and equipment

Property and equipment is as follows as of December 31:

	<u>2004</u>		<u>2003</u>
Office furniture and equipment	\$ 284,171	\$	273,835
Computer equipment	494,223		482,729
Leasehold improvements	<u>36,982</u>		<u>36,982</u>
Totals	815,376		793,546
Less accumulated depreciation	<u>560,568</u>		<u>395,622</u>
Property and equipment, net	\$ <u>254,808</u>	\$	\$ <u>397,924</u>

Depreciation expense for the years ended December 31, 2004 and December 31, 2003 amounted to \$175,945 and \$201,925 respectively.

Note 10 - Pre-petition claims

Under the Reorganization Plan, PCM LLC was required to pay certain allowed pre-petition claims and professional fees totaling approximately \$1.4 million, of which \$139,737 remained outstanding at December 31, 2002. At December 31, 2003 all of these claims had been paid or settled.

Note 11 - Commitments and contingencies

Lease commitments

The Company currently leases office space in Anaheim, California under a non-cancelable five year operating lease. Under the lease agreement, PCM LLC must pay a basic monthly rental charge plus a portion of the building's common area expenses.

Future minimum lease commitments as of December 31, 2004 are as follows:

<u>Year ending</u>	
<u>December 31,</u>	
2005	\$314,000
2006	295,000
Thereafter	-

Rental expense for the years ended December 31, 2004 and December 31, 2003 amounted to approximately \$319,000 and \$311,000 respectively. The Company is obligated under a five year equipment lease, expiring in 2009, for minimum payments of \$4,800 per year.

Note 12 - Earnings per member unit

Basic and diluted earnings per member unit are calculated based on the weighted average number of member units issued and outstanding (570,916 for the year ended December 31, 2004 and 571,392 for the year ended December 31, 2003).

PERFORMANCE CAPITAL MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - Employee benefit plans

The Company has a defined contribution plan covering all eligible full-time employees of PCM LLC (the Plan Sponsor) who are currently employed by the Company and have completed six months of service from the time of enrollment. The Plan was established by the Plan Sponsor to provide retirement income for its employees and is subject to the provisions of the Employee Retirement Income Security Act of 1974 as amended (ERISA).

The Plan is a contributory plan whereby participants may contribute a percentage of pre-tax annual compensation as outlined in the Plan agreement and as limited by Federal statute. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. The Plan Sponsor does not make matching contributions.

Note 14 - Subsequent events

On February 25, 2005, Matterhorn borrowed approximately \$1.7 million under the Varde credit facility in connection with our purchase of a charged-off loan portfolio. This obligation has a two year term expiring in February 2007 and bears interest at a rate of 12% per annum.

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING
AND FINANCIAL DISCLOSURE**

None.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the name and position of each of our directors and executive officers as of April 15, 2005.

<u>Name</u>	<u>Position</u>
Larisa Gadd	Co-Chairperson of the Board
Lester T. Bishop	Co-Chairperson of the Board / Nominee
Larry C. Smith	Director / Nominee
David Barnhizer	Director / Nominee
Rodney Woodworth	Director
Sanford Lakoff	Director / Nominee
Donald W. Rutherford	Director
David J. Caldwell	Chief Operations Officer
Edward M. Rucker	Accounting Manager
Darren S. Bard	Chief Information Officer
William D. Constantino	Chief Officer of Legal Affairs

The following information with respect to the principal occupation or employment, other affiliations and business experience during the last five years of our directors and executive officers has been furnished to us by each director and executive officer.

Larisa Gadd. For a period of 16 years ending in 2004, Ms. Gadd was a business partner at Scenic Express, Inc., in Los Angeles. Scenic Express fabricates theatrical scenery for stage and screen. Ms. Gadd was also working on obtaining a doctorate degree in Natural Health and Healing from Clayton College of Natural Health. From 1987 to 1988, Ms. Gadd was an instructor at Chaffey College in Alta Loma in the area of Social Sciences. She received a B.S. degree in Psychology and English from the California State University, Fullerton in 1984 and a M.A. degree in Organizational and Applied Social Psychology from Claremont Graduate School in 1986.

Lester T. Bishop. Mr. Bishop has taught kindergarten through 12th grade students for the past 20 years. At the same time, Mr. Bishop owned solely and in partnership with others a number of privately held businesses, including Whitiok Day Camp, Good Time Promotions, Mall Munchies, Park Riviera Motel, and Imperial Executive Suites. He has also owned and managed both residential and commercial real estate. Mr. Bishop received a B.A. degree in Education from the University of California, Los Angeles in 1960 and a M.A. degree from the California State University, Los Angeles in Educational Administration in 1965 with advanced credentials in reading, counseling and teacher effectiveness.

Larry C. Smith. Mr. Smith retired in 1994. Prior to retirement, from 1987 to 1994, Mr. Smith was a Senior Systems Engineering Manager at TRW Space Systems. In that position, Mr. Smith managed the systems engineering teams in support of classified satellite space systems development and new satellite system studies. Mr. Smith is a registered U.S. Patent Agent and holds three patents. Mr. Smith received a B.S. degree in Engineering from the University of Washington in 1959 and completed four years of graduate studies at the University of California, Los Angeles in Control Systems and Electronics.

David Barnhizer. Mr. Barnhizer is currently Professor of Law at Cleveland State University College of Law and has held that position since 1972. He teaches or has taught courses dealing primarily with business and environmental law. From 1997 to 1998, he was a Strategic Consultant to the Government of Mongolia to the Mongolian Action Programme for the 21st Century. During that same period, he was also a consultant on sustainable economic development and the creation of a Central American trade zone to the U.N. Development Program. From

1995 to 1997, he was a member of the Board of Editors for the Journal of Legal Education. Mr. Barnhizer has published nine books / manuals and approximately 30 professional articles. He received a Bachelor of Arts degree from Muskingum College in 1966, a Juris Doctor degree from Ohio State University College of Law in 1969, and a Master of Law degree from Harvard Law School in 1972.

Rodney Woodworth. Mr. Woodworth retired in 1998. From 1988 to 1998, Mr. Woodworth was the Senior Vice President of Operations at Zimmerman Holdings, Inc., which is in the business of buying troubled manufacturing businesses, turning them around, growing them and then selling them. Prior to working at Zimmerman Holdings, Inc., he was the Senior Vice President of Fairchild Industries and President of its Commercial and Industrial Products Group. Mr. Woodworth is an alumni of the Stanford Graduate Business School and received a B.S. degree in Mechanical Engineering from the California State Polytechnical University, San Luis Obispo in 1960.

Sanford Lakoff. Mr. Lakoff is Research Professor of Political Science Emeritus at the University of California, San Diego. He has taught at UCSD since 1974, when he was appointed Founding Chair of the Department of Political Science. Mr. Lakoff has written or edited eleven books and published approximately 50 scholarly articles as well as contributing to entries in the Dictionary of the History of Ideas, the Encyclopedia of Democracy, the Encyclopedia of U.S. Foreign Relations, and the Encyclopedia of Nationalism. He received a B.A. degree from Brandeis University in 1953. In 1959, he received his Ph.D. from Harvard University.

Donald W. Rutherford. Mr. Rutherford is a limited partner with Tatum CFO Partners, LLP in Orange County, California, which he joined in January 2000. Since joining Tatum, Mr. Rutherford has served as Chief Administrative Officer for a \$100 million manufacturer and direct marketer of promotional products, as CFO of Aspeon, Inc., a public technology products company, as CFO of LifePoint, Inc., a public medical device company, and as interim CFO of Composite Technology Corporation, a public developer of innovative applications of composite materials. From 1995 to 1999, Mr. Rutherford served as Chief Financial Officer of USGT Resources Inc., a natural gas marketer and asset manager. As a key member of the management team, he had assisted the company from its starting stages and was responsible for staffing and developing and implementing systems and obtaining financing and credit to support a 300% growth over a four-year period to \$500 million in sales. Mr. Rutherford obtained his Chartered Accountant degree from the Institute of Chartered Accountants in Canada in 1965 after obtaining a degree in industrial engineering from University of Toronto in 1962.

David J. Caldwell. Mr. Caldwell is a business operations professional with over 20 years of experience in the consumer credit card industry. Before becoming Chief Operations Officer of Performance Capital Management, LLC on February 4, 2002, Mr. Caldwell was Chief Operating Officer of Performance Capital Management, Inc., one of the predecessor companies to Performance Capital Management, LLC, from January 1998 to February 2002. As Chief Operating Officer, Mr. Caldwell is responsible for the operational activities of Performance Capital Management, LLC, including management of a collection center and the sales and acquisitions of charged-off portfolios as well as the day-to-day operations of the business. From 1975 to 1998, Mr. Caldwell worked in various capacities at General Electric Capital Corporation, including Vice President of Recovery Operations for the General Electric Capital Services division from March 1997 to January 1998 and Vice President of Cardholder Operations for the Consumer Card Services division of General Electric Capital Corporation from May 1994 to March 1997. As Vice President of Recovery Operations, he was responsible for the successful operation of the Retailer Financial Services Recovery Operation, including management of the recovery call center, bankruptcy collections, payment processing unit, mailroom, facilities, petition processing, legal, probate, compliance, outside attorney collections, skip tracing, and interface with 12 outlying business centers. As Vice President of Cardholder Operations, he was responsible for the successful operation of the G.E. Rewards Mastercard call center, including managing over 500,000 incoming calls per month, leading a workforce of 215 people, and overseeing a financial budget of \$5 million. Mr. Caldwell received a B.S. degree in Business Administration from Western Michigan University in 1975.

Edward M. Rucker. Before becoming the Accounting Manager of Performance Capital Management, LLC on February 4, 2002, Mr. Rucker was the Accounting Manager of Performance Capital Management, Inc., one of the predecessor companies to Performance Capital Management, LLC, from October 2001 to February 2002. As Accounting Manager, Mr. Rucker has overall responsibility for preparing the company's accounting records and financial statements. From 1995 to August 2001, Mr. Rucker was Controller and the Chief Financial Officer of Pickard Construction, Inc., a construction firm performing as general contractor for major national firms. In that

position, Mr. Rucker was responsible for the entire accounting and related financial functions of the firm. Mr. Rucker is a Certified Public Accountant. Mr. Rucker received a B.S. degree in Accounting from the California State University, Los Angeles in 1968.

Darren S. Bard. Before becoming Chief Information Officer of Performance Capital Management, LLC on February 4, 2002, Mr. Bard was Chief Information Officer of Performance Capital Management, Inc., one of the predecessor companies to Performance Capital Management, LLC, from April 1998 to February 2002. As Chief Information Officer, Mr. Bard manages the Information Technology and Acquisitions/Sales Support Departments. Prior to becoming an officer of Performance Capital Management, Inc., from April 1996 to April 1998, Mr. Bard worked as Site Production Planning/Operations Manager at General Electric Capital Corporation. Mr. Bard received a B.A. degree in psychology from The Ohio State University in 1991.

William D. Constantino. Mr. Constantino has served as the Chief Officer of Legal Affairs of Performance Capital Management, LLC since it was formed in January 2002. Prior to that date, from July 2000 to January 2002, he served as Chief Legal Compliance Officer of Performance Capital Management, Inc., one of the predecessor companies to Performance Capital Management, LLC. As in-house counsel to Performance Capital Management, LLC, Mr. Constantino is responsible for ensuring that all collection procedures comply with federal and state consumer protection laws, assisting with the negotiation and purchase of portfolios, and is the general legal resource for day-to-day corporate operations. From January 1999 to July 2000, Mr. Constantino practiced law as a sole practitioner focusing on all aspects of insolvency law, including commercial and consumer collections, bankruptcy law, and civil litigation. From January 1982 to December 1998, he was managing partner in the Law Offices of Leibowitz and Constantino. That firm focused on insolvency law and consumer protection law. Mr. Constantino received a B.S. degree in Business Administration from the State University of New York, Albany in 1972 and a Juris Doctor degree from Western State University School of Law in 1979.