FORM 10-K

Annual report pursuant to section 13 and 15(d)

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NCO GROUP INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the Fiscal Year ended December 31, 1997

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ___________ to ___________

Commission File No. 0-21639

NCO GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	23-2858652
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
515 Pennsylvania Ave. Ft. Washington, Pennsylvania	19034-3313
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code (215) 793-9300

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, no par value	13,391,584
(Title of Class)	(Number of Shares Outstanding as of March 30, 1998)

Indicate by check mark whether the Registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

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

The aggregate market value of voting stock held by non-affiliates of the Registrant is $240,384,419(1)

Certain portions of the Company's Proxy Statement to be filed in connection with its 1998 Annual Meeting of Shareholders are incorporated by reference in Part I and Part III of this Report. Other documents incorporated by reference are listed in the Exhibit Index.

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(1) The aggregate dollar amount of the voting stock set forth equals the number of shares of the Company's Common Stock outstanding, reduced by the amount of Common Stock held by officers, directors and shareholders owning 10% or more of the Company's Common Stock, multiplied by $25.25, the last reported sale price for the Company's Common Stock on March 30, 1998. The information provided shall in no way be construed as an admission that any officer, director or 10% shareholder in the Company may be deemed an affiliate of the Company or that he is the beneficial owner of the shares reported as being held by him, and any such inference is hereby disclaimed. The information provided herein is included solely for record keeping purposes of the Securities and Exchange Commission.

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All share and per share data have been restated to reflect the three-for-two stock split of the Company's Common Stock paid in December 1997.

PART I

Item 1. Business.

General

NCO Group, Inc. ("NCO" or the "Company") is a leading provider of accounts receivable management and related services utilizing an extensive teleservices infrastructure. The Company develops and implements customized management solutions for clients. The Company provides these services on a national basis from 23 call centers located in 15 states. The Company employs advanced workstations and sophisticated call management systems comprised of predictive dialers, automated call distribution systems, digital switching and customized computer software. Through efficient utilization of technology and intensive management of human resources, the Company has achieved rapid growth in recent years. Since April 1994, the Company has completed twelve acquisitions which have enabled it to increase its penetration of existing markets, establish a presence in certain new markets, offer additional services, and realize significant operating efficiencies. In addition, the Company has leveraged its infrastructure by offering additional services including telemarketing, customer service call centers, market research and other outsourced administrative services. The Company believes that it is currently among the five largest accounts receivable management companies in the United States.

The Company provides its services principally to clients in the financial services, healthcare, education, telecommunications, retail and commercial, utilities and government sectors. In 1997, the Company had over 8,000 clients, including Bell Atlantic Corporation, Mellon Bank, N.A., NationsBank, Citicorp, MCI Communication, Federal Express Corporation, and Airborne Express. No client accounted for more than 4.0% of the Company's actual revenue in 1997. For its accounts receivable management services, the Company generates substantially all of its revenue on a contingency fee basis. The Company seeks to be a low cost provider and as such its fees typically range from 15% to 35% of the amount recovered on behalf of the Company's clients, with an average of approximately 25.5% in 1997. According to the 1996 Top Collection Markets Survey published by the American Collectors Association, Inc. ("ACA"), an industry trade group, the average fees realized by the accounts receivable management companies surveyed were in the range of 30% to 43% depending upon the industries served. For many of its other outsourced teleservices, the Company is paid on a fixed fee basis. While NCO's contracts are relatively short-term, the Company seeks to develop long-term relationships with its clients and works closely with them to provide quality, customized solutions.

Increasingly, companies are outsourcing many non-core functions to focus on revenue generating activities, reduce costs and improve productivity. In particular, many corporations are recognizing the advantages of outsourcing accounts receivable management and other services as a result of numerous factors including: (i) the increasing complexity of such functions; (ii) changing regulations and increased competition in certain industries; and (iii) the development of sophisticated call management systems requiring substantial capital investment, technical capabilities and human resource commitments. Consequently, receivables referred to third parties for management and recovery in the United States have grown substantially from approximately $43.7 billion in 1990 to approximately $116.0 billion in 1996, according to estimates published by the ACA. While significant economies of scale exist for large accounts receivable management companies, the industry remains highly fragmented. Based on information obtained from the ACA, there are currently approximately 6,500 accounts receivable management companies in operation, the majority of which are small, local businesses. Given the financial and competitive constraints facing these small companies and the limited number of liquidity options for the owners of such businesses, the Company believes that the industry will experience consolidation in the future.

The Company strives to be a cost-effective, client service driven provider of accounts receivable management and other related teleservices to companies with substantial outsourcing needs. The Company's business strategy encompasses a number of key elements which management believes are necessary to ensure quality service and to achieve consistently strong financial performance. First, the Company focuses on the efficient utilization of its technology and infrastructure to constantly improve productivity. The Company's teleservices infrastructure enables it to perform large scale accounts receivable management programs cost effectively and to rapidly and efficiently integrate the Company's acquisitions. A second critical component is NCO's commitment to client service. Management believes that the Company's emphasis on designing and implementing customized accounts receivable management programs for its clients provides it with a significant competitive advantage. Third, the Company seeks to be a low cost provider of accounts receivable management services by centralizing all administrative functions and minimizing overhead at all branch locations. Lastly, the Company is targeting larger clients which offer significant cross-selling opportunities and have greater outsourcing requirements.

The Company seeks to continue its rapid expansion through both internal and external growth. The Company intends to continue to take advantage of the fragmented nature of the accounts receivable management industry by making strategic acquisitions. Through selected acquisitions, the Company will seek to serve new geographic markets, expand its presence in its existing markets or add complementary services. In addition, the Company has experienced and expects to continue to experience strong internal growth by continually striving to increase its market share, expand its industry-specific market expertise and develop and offer new value-added services. The Company regularly reviews various strategic acquisition opportunities and periodically engages in discussions regarding such possible acquisitions.

The Company's principal executive offices are located at 515 Pennsylvania Avenue, Fort Washington, Pennsylvania, and its telephone number is (215) 793-9300.

Acquisition History

Since 1994, the Company has completed twelve strategic acquisitions which have expanded its client base and geographic presence, increased its presence in key industries, added complementary services, and substantially increased its revenues and profitability. A key element of the Company's growth strategy is to pursue selected strategic acquisitions to serve new geographic markets or industries, expand its presence in its existing markets and add complementary service applications. The Company regularly reviews various strategic acquisition opportunities and periodically engages in discussions regarding such possible acquisitions.

In March 1998, the Company entered into an agreement with FCA International Ltd. ("FCA") under which NCO or an affiliate, will make a cash tender offer (which is expected to be mailed on or before April 7, 1998) for all of the outstanding common shares of FCA at $9.60 per share, Canadian (equivalent to $6.77 in U.S. dollars based upon an exchange rate of .7053) as of March 24, 1998, the "Date of the Agreement". The acquisition is valued at approximately $68.0 million (U.S. dollars), based upon an exchange rate of .7053, and is subject to the tender of two-thirds of the outstanding common shares, on a fully diluted basis, and customary conditions including normal regulatory approval. FCA's Board of Directors unanimously approved the agreement and has agreed, subject to certain conditions to recommend that shareholders tender their common shares into the offer. Pursuant to the agreement, Fairfax Financial Holdings Limited has agreed, subject to certain conditions, to tender to the bid, the common shares of FCA owned or controlled by it. Fairfax currently owns or controls approximately 2,840,485 common shares, representing approximately 27% of the common shares outstanding on a fully-diluted basis.

A summary of completed acquisitions is as follows:

The Response Center

On February 6, 1998, the Company purchased certain assets of The Response Center ("TRC"), which was an independent division of TeleSpectrum Worldwide, Inc., for $15.0 million in cash, plus an earn-out based on the value of the Company's market research business at December 31, 1998. The Response Center is a full-service custom market research company providing services to the telecommunications, financial services, utilities, healthcare, pharmaceutical and consumer products sectors. Its capabilities include problem conceptualization, program design, data gathering (by telephone, mail, and focus groups), as well as data tabulation, results analysis and consulting. The Response Center, located in Upper Darby, Pennsylvania, and Philadelphia, Pennsylvania, had 1997 revenues of approximately $8.0 million.

Collection Division of American Financial Enterprises, Inc.

On December 31, 1997, effective January 1, 1998, the Company purchased certain assets of the Collection Division of American Financial Enterprises, Inc. ("AFECD") for $1.65 million in cash. AFECD, an accounts receivable management company, will expand NCO's penetration into the governmental and insurance sectors. The Collection Division of American Financial Enterprises had 1997 revenues of approximately $1.7 million.

ADVANTAGE Financial Services, Inc.

On October 1, 1997, the Company purchased all of the outstanding stock of ADVANTAGE Financial Services, Inc. ("AFS") for $2.9 million in cash, a $1.0 million note payable which bears interest payable at a rate of 8.0% per annum with one-half of the principal due in April 1998 and the balance due in January 1999 , and 46,442 shares of the Company's common stock. The acquisition was valued at approximately $5.0 million. AFS, an accounts receivable management company located in Dayton, Ohio and Bristol, Tennessee, will allow NCO further penetration into the medical, telecommunications and commercial sectors. AFS had 1996 revenues of approximately $5.1 million.

Credit Acceptance Corp.

On October 1, 1997, the Company purchased all of the outstanding stock of Credit Acceptance Corp. ("CAC") for $1.8 million in cash. CAC, an accounts receivable management company located in Pittsburgh, Pennsylvania, will provide NCO with further penetration into the healthcare sector. CAC had 1996 revenues of $2.3 million.

Collections Division of CRW Financial, Inc.

On February 2, 1997, NCO purchased certain assets and assumed certain liabilities of the Collections Division of CRW Financial, Inc. ("CRWCD") for $3.75 million in cash, 517,767 shares of Common Stock and warrants to purchase 375,000 shares of Common Stock at an exercise price of $18.417 per share. The purchase price was valued at approximately $12.8 million. CRWCD provided accounts receivable management services principally to the telecommunications, education, financial, government and utility sectors from 14 offices located throughout the United States. In addition, CRWCD had a commercial collections division.

CMS A/R Services

On January 31, 1997, NCO purchased certain assets of CMS A/R Services

("CMSA/R"), a division of CMS Energy Corporation, for $5.1 million in cash. CMSA/R, located in Jackson, Michigan, specializes in providing a wide range of accounts receivable management services to the utility industry, including traditional recovery of delinquent accounts, outsourced administrative services, early stage accounts receivable management and database management services.

Tele-Research Center, Inc.

On January 30, 1997, NCO purchased certain assets of Tele-Research Center, Inc. ("Tele-Research"), for $1.6 million in cash, which increased in January 1998 by an additional $600,000 when certain revenue targets were reached in the period following the acquisition. Tele-Research, located in Philadelphia, Pennsylvania, provided market research, data collection, and other teleservices to market research companies as well as end-users.

Goodyear & Associates, Inc.

On January 22, 1997, NCO purchased all of the outstanding stock of Goodyear & Associates, Inc. ("Goodyear") for $4.5 million in cash and a $900,000 convertible note. The note is convertible into the Company's Common Stock, at any time, at $14.117 per share and bears interest payable monthly at a rate of 8.0% per annum with principal due in January 2002. Goodyear, based in Charlotte, North Carolina, provided accounts receivable management services principally to the telecommunications, education, and utility sectors.

Management Adjustment Bureau, Inc.

On September 5, 1996, NCO purchased all of the outstanding stock of Management Adjustment Bureau, Inc. ("MAB") for $8.0 million in cash and a $1.0 million convertible note. In July 1997, the note was converted into 115,385 shares of the Company's Common Stock which were sold by the holder in the Company's public offering completed in July 1997. MAB, based in Buffalo, New York, provided accounts receivable management services, principally to the education, financial services, telecommunications and utility sectors.

Trans Union Corporation Collections Division

On January 3, 1996, NCO purchased certain assets of the Trans Union Corporation Collections Division ("TCD") for $4.8 million in cash. TCD provided accounts receivable management services, principally to the telecommunications, utility and healthcare sectors from offices in Pennsylvania, Ohio and Kansas.

Eastern Business Services, Inc.

On August 1, 1995, NCO purchased certain assets of Eastern Business Services, Inc. ("Eastern") for $1.6 million in cash and the assumption of a non-interest bearing note payable, with a face amount of $252,000 ($207,000, net of unamortized discount based on an imputed interest rate of 10%), and certain other accounts payable in the amount of $209,000. Eastern, based in Beltsville, Maryland, provided accounts receivable management services, principally to the utility and healthcare sectors.

B. Richard Miller, Inc.

On April 29, 1994, NCO purchased certain assets of B. Richard Miller, Inc. ("BRM") for $1.0 million in cash, the issuance by the Company of a $127,000 promissory note and the issuance of 185,705 shares of Common Stock and an option to acquire 130,322 shares of Common Stock at an exercise price of $1.44 per share (which option was exercised in 1995). In connection with the acquisition, BRM's principal shareholder became an executive officer of the Company. BRM, previously based in Ardmore, Pennsylvania, provided accounts receivable management services, principally to the education industry.

Collectively, the acquisitions of Goodyear, CMSA/R, Tele-Research, and CRWCD are known as the "1Q97 Acquisitions." Collectively, the 1Q97 Acquisitions, CAC and AFS are known as the "1997 Acquisitions." Collectively, the acquisition of AFECD and TRC are known as the "1Q98 Acquisitions."

Financial Impact of Acquisitions

The Company financed the acquisition of AFS, CAC, AFECD and TRC with proceeds of the Company's public offering of stock completed in July 1997 (the "1997 Offering"). The Company financed the acquisitions of Goodyear, CMSA/R, Tele-Research and CRWCD with borrowings of approximately $8.4 million on its revolving credit facility with Mellon Bank, N.A., the net proceeds of the Company's initial public offering (the "IPO") and funds from operations. The borrowings on the revolving credit facility were repaid with a portion of the proceeds from the 1997 Offering. The Company financed the MAB, TCD, Eastern and BRM acquisitions with borrowings from Mellon Bank, N.A. which borrowings were repaid with proceeds from the IPO. In September 1996, the bank increased the Company's revolving credit facility from $7.0 million to $15.0 million to finance the acquisition of MAB. The bank further increased this facility to $25.0 million at an interest rate of LIBOR plus 2.5% in December 1996. The Company granted the bank a warrant to acquire 263,297 shares of Common Stock at a nominal exercise price in consideration for establishing the revolving credit facility for acquisitions, and granted additional warrants to purchase 69,840 shares and 27,750 shares of Common Stock at an exercise price of $8.67 per share in consideration for increasing the revolving credit facility to $15.0 million and to $25.0 million, respectively. An affiliate of the bank has exercised all of these warrants. In March 1998, the bank increased the line of credit to $75.0 million in connection with the proposed cash tender offer for FCA International Ltd., subject to the satisfaction of certain closing conditions.

The acquisitions have been accounted for under the purchase method of accounting for financial reporting purposes. Through December 31, 1997, these acquisitions have created goodwill estimated at $41.8 million which is being amortized over a 15 to 25 year period resulting in amortization expense of approximately $2.1 million annually.

Accounts Receivable Management Services

The Company provides a wide range of accounts receivable management services to its clients utilizing an extensive teleservices infrastructure. Although most of the Company's accounts receivable management services to date have focused on recovery of traditional delinquent accounts, the Company does engage in the recovery of current receivables and early stage delinquencies (generally, accounts which are 90 days or less past due). The Company generates substantially all of its revenue from the recovery of delinquent accounts receivable on a contingency fee basis. In addition, the Company generates revenue from fixed fees for certain accounts receivable management and other related services. Contingency fees typically range from 15% to 35% of the amount recovered on behalf of the Company's clients, but can range from 6% for the management of accounts placed early in the accounts receivable cycle to 50% for accounts which have been serviced extensively by the client or by third-party providers.

Recovery activities typically include the following:

Management Planning. The Company's approach to accounts receivable management for each client is determined by a number of factors including account size and demographics, the client's specific requirements and management's estimate of the collectability of the account. The Company has developed a library of standard processes for accounts receivable management which is based upon its accumulated experience. The Company will integrate these processes with its client's requirements to create a customized recovery solution. In many instances, the approach will evolve and change as the relationship with the client develops and both parties evaluate the most effective means of recovering accounts receivable. The Company's standard approach, which may be tailored to the specialized requirements of its clients, defines and controls the steps that will be undertaken by the Company on behalf of the client and the manner in which data will be reported to the client. Through its systemized approach to accounts receivable management, the Company removes most decision making from the recovery staff and ensures uniform, cost-effective performance.

Once the approach has been defined, the Company electronically or manually transfers pertinent client data into its information system. Once the client's records have been established in the Company's system, the Company commences the recovery process.

Skip Tracing. In cases where the client's customer's telephone number or address is unknown, the Company systematically searches the United States Post Office National Change of Address service, consumer data bases, electronic telephone directories, credit agency reports, tax assessor and voter registration records, motor vehicle registrations, military records and other sources. The geographic expansion of banks, credit card companies, national and regional telecommunications companies and managed healthcare providers along with the mobility of consumers has increased the demand for locating the client's customers. Once the Company has located the client's customer, the notification process can begin.

Account Notification. The Company initiates the recovery process by forwarding an initial letter which is designed to seek payment of the amount due or open a dialogue with the client's customers who cannot afford to pay at the current time. This letter also serves as an official notification to each customer of their rights as required by the federal Fair Debt Collection Practices Act. The Company continues the recovery process with a series of mail and telephone notifications. Telephone representatives remind the client's customer of their obligation, inform them that their account has been placed for collection with the Company and begin a dialogue to develop a payment program.

Credit Reporting. At a client's request, the Company will electronically report delinquent accounts to one or more of the national credit bureaus where it will remain for a period of up to seven years. The denial of future credit often motivates the payment of all past due accounts.

Litigation Management. When account balances are sufficient, the Company will also coordinate litigation undertaken by a nationwide network of attorneys that the Company utilizes on a routine basis. Typically, account balances must be in excess of $1,000 to warrant litigation and the client is asked to advance legal costs such as filing fees and court costs. Attorneys generally are compensated on a contingency fee basis. The Company's collection support staff manages the Company's attorney relationships and facilitates the transfer of all necessary documentation.

Payment Process. After the Company receives payment from the customer, it either remits the amount received net of its fee to the client or remits the entire amount received to the client and bills the client for its services.

Activity Reports. Clients are provided with a system-generated set of standardized or customized reports that fully describes all account activity and current status. These reports are typically generated monthly, however, the information included in the report and the frequency that the reports are generated can be modified to meet the needs of the client.

Quality Tracking. The Company emphasizes quality control throughout all phases of the accounts receivable management process. Some clients may specify an enhanced level of supervisory review and others may request customized quality reports. Large national credit grantors will typically have exacting performance standards which require sophisticated capabilities such as documented complaint tracking and specialized software to track quality metrics to facilitate the comparison of the Company's performance to that of its peers.

Other Services

The Company selectively provides other related services which complement its traditional accounts receivable management business and which leverage its teleservices infrastructure. The Company believes that the following services will provide additional growth opportunities for the Company.

Market Research. The Company provides full-service custom market research services to the telecommunications, financial services, utilities, healthcare, pharmaceutical and consumer products sectors. Its capabilities include problem conceptualization, program design, data gathering (by telephone, mail, and focus groups), as well as data tabulation, results analysis and consulting.

Telemarketing. The Company provides telemarketing services for clients, including lead generation and qualification, and the actual booking of appointments for a client's sales representatives.

Customer Service Call Center. The Company utilizes its communications and information system infrastructure to supplement or replace the customer service function of its clients. For example, the Company is currently engaged by a large regional utility to provide customer service functions for a segment of the utility's customer base that is delinquent.

Accounts Receivable Outsourcing. The Company complements existing service lines by offering adjunct billing services to clients as an outsourcing option. Additionally, the Company can assist healthcare clients in the billing and management of third party insurance.

Custom Designed Business Applications. The Company has the ability to provide outsourced administrative and other back-office responsibilities currently conducted by its clients. For example, the Company was engaged by United Healthcare, a national health insurer, to assume all administrative operations for its COBRA and individual conversion coverage, including all responsibility for premium billing and payment processing, customer service call center and policy fulfillment.

Operations

Technology and Infrastructure. Over the past five years, the Company has made a substantial investment in its call management systems such as predictive dialers, automated call distribution systems, digital switching and customized computer software. As a result, the Company believes it is able to address accounts receivable management activities more reliably and more efficiently than many other accounts receivable management companies. The Company's systems also permit network access to enable clients to electronically communicate with NCO and monitor operational activity on a real-time basis.

NCO provides its accounts receivable management services through the operation of 23 state-of-the-art call centers which are electronically linked through a national wide area network. The Company utilizes two computer platform systems. One system consists of two Unix-based NCR 4300 computers which are linked via network servers to 873 workstations and which provide necessary redundancy (either computer can operate the system in the event of the failure of the other) and excess capacity for future growth. The other system consists of three Unix-based Hewlett-Packard computers which are linked via network servers to 479 workstations. The computers are linked via network servers to the Company's 1352 workstations, which consist of personal computers and terminals that are linked to the microcomputers, but do not necessarily have separate processors.

The Company utilizes 20 predictive dialer locations with 542 stations to address its low balance, high volume accounts. These systems scan the Company's database and simultaneously initiate calls on all available telephone lines and determine if a live connection is made. Upon determining that a live connection has been made, the computer immediately switches the call to an available representative and instantaneously displays the associated account record on the representative's workstation. Calls that reach other signals, such as a busy signal, telephone company intercept or no answer, are tagged for statistical analysis and placed in priority recall queues or multiple-pass calling cycles. The system also automates virtually all record keeping and follow-up activities including letter and report generation. The Company's automated method of operations dramatically improves the productivity of the Company's collection staff.

The Company employs a 20 person MIS staff led by a Vice President, Chief Information Officer. The Company maintains disaster recovery contingency plans and has implemented procedures to protect the loss of data against power loss, fire and other casualty. The Company has implemented a security system to protect the integrity and confidentiality of its computer system and data and maintains comprehensive business interruption and critical systems insurance on its telecommunications and computer systems.

Quality Assurance and Client Service. The Company's reputation for quality service is critical to acquiring and retaining clients. Therefore, the Company and its clients monitor the Company's representatives for strict compliance with the clients' specifications and the Company's policies. The Company regularly measures the quality of its services by capturing and reviewing such information as the amount of time spent talking with clients' customers, level of customer complaints and operating performance. In order to provide ongoing improvement to the Company's telephone representatives' performance and to assure compliance with the Company's policies and standards, quality assurance personnel monitor each telephone representative on a frequent basis and provide ongoing training to the representative based on this review. The Company's information systems enable it to provide clients with reports on a real-time basis as to the status of their accounts and clients can choose to network with the Company's computer system to access such information directly.

The Company maintains a client service department to promptly address client issues and questions and alert senior executives of potential problems that require their attention. In addition to addressing specific issues, a team of client service representatives will contact accounts on a regular basis in order to establish a close client rapport, determine the client's overall level of satisfaction and identify practical methods of improving the client's satisfaction.

Client Relationships

The Company's client base currently includes over 8,000 companies in the financial services, healthcare, retail and commercial, education, telecommunications, utilities and government sectors. The Company's 10 largest clients in 1997 accounted for approximately 21.7% of the Company's revenue on a pro forma basis assuming that the 1997 Acquisitions had occurred on January 1, 1997. In 1997, no client accounted for more than 4.0% of total revenue (on an actual or a pro forma basis). In 1997, the Company on a pro forma basis derived 50.1% of its referrals from financial institutions (which includes banking and insurance sectors), 19.7% from healthcare organizations, 10.6% from retail and commercial entities, 7.5% from educational organizations, 6.1% from telecommunications companies, 3.6% from utilities, and 2.3% from government entities.

The following table sets forth a list of certain of the Company's key clients:

Financial Services	Healthcare	Retail and Commercial
First Union Corporation	Catholic Healthcare Initiatives	Airborne Freight Corporation
Mellon Bank Corporation	Hutchinson Hospital Corporation	Emery Worldwide
NationsBank Corporation	Kaiser Permanente	Federal Express Corporation
The Progressive Corporation	Medical Center of Delaware	The Bon Ton Stores, Inc.
United Healthcare Corporation	Reimbursement Technologies, Inc.	

Education	Telecommunications	Government and Utilities
California Student Aid Commission	Bell Atlantic Corporation	Commonwealth Edison Company
Pennsylvania State University	BellSouth Corporation	Massachusetts Department of Revenue
Pennsylvania Higher Education Assistance Agency	Frontier Cellular	New York State Electric & Gas Corporation
Rutgers University	MCI Communication	PECO Energy Company
University of Pennsylvania	Sprint Corporation	City of Philadelphia

The Company enters into contracts with most of its clients which define, among other things, fee arrangements, scope of services and termination provisions. Clients may usually terminate such contracts on 30 or 60 days notice. In the event of termination, however, clients typically do not withdraw accounts referred to the Company prior to the date of termination, thus providing the Company with an ongoing stream of revenue from such accounts which diminish over time. Under the terms of the Company's contracts, clients are not required to place accounts with the Company but do so on a discretionary basis.

Sales and Marketing

The Company utilizes a focused and highly professional direct selling effort in which sales representatives personally cultivate relationships with prospects and existing clients. The Company's sales effort consists of a 31 person direct sales force. Each sales representative is charged with identifying leads, qualifying prospects and closing sales. When appropriate, Company operating personnel will join in the sales effort to provide detailed information and advice regarding the Company's operational capabilities. Sales and operating personnel also work together to take advantage of potential cross-selling opportunities. The Company supplements its direct sales effort with print media and attendance at trade shows.

Many of the Company's prospective clients issue requests-for-proposals ("RFPs") as part of the contract award process. The Company has on staff a technical writer for the purpose of preparing detailed, professional responses to RFPs.

Personnel and Training

The Company's success in recruiting, hiring and training a large number of employees is critical to its ability to provide high quality accounts receivable management, customer support and teleservices programs to its clients. The Company seeks to hire personnel with previous experience in accounts receivable management or as a telephone representative. NCO generally offers competitive compensation and benefits and offers promotion opportunities within the Company.

All Company personnel receive a comprehensive training course that consists of a combination of classroom and practical experience. Prior to customer contact, new employees receive one week of training in the Company's operating systems, procedures and telephone techniques and instruction in applicable federal and state regulatory requirements. Company personnel also receive a wide variety of continuing professional education consisting of both classroom and role playing sessions.

As of December 31, 1997, the Company had a total of 1,325 full-time employees and 493 part-time employees, of which 1,447 were telephone representatives. None of the Company's employees is represented by a labor union. The Company believes that its relations with its employees are good.

Competition

The accounts receivable management industry is highly competitive. The Company competes with approximately 6,500 providers, including large national corporations such as Outsourcing Solutions, Inc., GC Services, Inc., and Equifax, as well as many regional and local firms. Many of the Company's competitors have substantially greater resources, offer more diversified services and operate in broader geographic areas than the Company. In addition, the accounts receivable management services offered by the Company, in many instances, are performed in-house. Moreover, many larger clients retain multiple accounts receivable management and recovery providers which exposes the Company to continuous competition in order to remain a preferred vendor. The Company believes that the primary competitive factors in obtaining and retaining clients are the ability to provide customized solutions to a client's requirements, personalized service, sophisticated call and information systems and price. The Company also competes with other firms, such as SITEL Corporation, APAC TeleServices, Inc. and Teletech Holdings, Inc., in providing teleservices.

Regulation

The accounts receivable management industry is regulated both at the federal and state level. The federal Fair Debt Collection Practices Act (the "FDCPA") regulates any person who regularly collects or attempts to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. The FDCPA establishes specific guidelines and procedures which debt collectors must follow in communicating with consumer debtors, including the time, place and manner of such communications. Further, it prohibits harassment or abuse by debt collectors, including the threat of violence or criminal prosecution, obscene language or repeated telephone calls made with the intent to abuse or harass. The FDCPA also places restrictions on communications with individuals other than consumer debtors in connection with the collection of any consumer debt and sets forth specific procedures to be followed when communicating with such third parties for purposes of obtaining location information about the consumer. Additionally, the FDCPA contains various notice and disclosure requirements and prohibits unfair or misleading representations by debt collectors. The Company is also subject to the Fair Credit Reporting Act which regulates the consumer credit reporting industry and which may impose liability on the Company to the extent that the adverse credit information reported on a consumer to a credit bureau is false or inaccurate. The accounts receivable management business is also subject to state regulation. Some states require that the Company be licensed as a debt collection company. Management believes that the Company currently holds applicable licenses from all states where required.

With respect to the other teleservices offered by the Company, including telemarketing, the federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994 (the "TCFAPA") broadly authorizes the Federal Trade Commission (the "FTC") to issue regulations prohibiting misrepresentations in telemarketing sales. The FTC's telemarketing sales rules prohibit misrepresentations of the cost, terms, restrictions, performance or duration of products or services offered by telephone solicitation and specifically address other perceived telemarketing abuses in the offering of prizes and the sale of business opportunities or investments. The federal Telephone Consumer Protection Act of 1991 (the "TCPA") limits the hours during which telemarketers may call consumers and prohibits the use of automated telephone dialing equipment to call certain telephone numbers. A number of states also regulate telemarketing. For example, some states have enacted restrictions similar to the federal TCPA. From time to time, Congress and the states consider legislation that would further regulate the Company's telemarketing operations and the Company cannot predict whether additional legislation will be enacted and, if enacted, what effect it would have on the telemarketing industry and the Company's business.

Several of the industries served by the Company are also subject to varying degrees of government regulation. Although compliance with these regulations is generally the responsibility of the Company's clients, the Company could be subject to a variety of enforcement or private actions for its failure or the failure of its clients to comply with such regulations.

The Company devotes significant and continuous efforts, through training of personnel and monitoring of compliance, to ensure that it is in compliance with all federal and state regulatory requirements. The Company believes that it is in material compliance with all such regulatory requirements.

Investment Considerations

Certain statements included in this Annual Report on Form 10-K, including, without limitation, statements regarding the anticipated growth in the amount of accounts receivable placed for third-party management, the continuation of trends favoring outsourcing of other administrative functions, the Company's objective to grow through strategic acquisitions and its ability to realize operating efficiencies upon the completion of recent acquisitions and other acquisitions that may occur in the future, the Company's ability to expand its service offerings, the anticipated changes in revenues from acquired companies, trends in the Company's future operating performance and statements as to the Company's or management's beliefs, expectations and opinions, are forward-looking statements. The factors discussed below, and elsewhere in this Annual Report on Form 10-K, could cause actual results and developments to be materially different from those expressed in or implied by such statements. Accordingly, in addition to the other information contained, or incorporated by reference, in this Annual Report on Form 10-K, the following factors should be considered carefully in evaluating an investment in the Company's Common Stock.

Risks Associated with Recent Acquisitions

The businesses acquired in the first quarter of 1998 had combined revenues of $9.7 million in 1997 compared to the Company's revenue of $85.3 million in 1997 ($103.5 million on a pro forma basis assuming that the 1997 Acquisitions and the 1Q98 Acquisitions had occurred on January 1, 1997. The Company is currently in the process of integrating the acquisition of AFS, CAC, and the 1Q98 Acquisitions as well as completing the integration of the 1Q97 Acquisitions. Such integration will likely place significant demands on the Company's management and infrastructure. There can be no assurance that businesses acquired in the 1997 Acquisitions or the 1Q98 Acquisitions will be successfully integrated with that of the Company, that the Company will be able to realize operating efficiencies or eliminate redundant costs or that their businesses will be operated profitably. Further, there can be no assurance that clients of the acquired businesses will continue to do business with the Company or that the Company will be able to retain key employees.

Risks Associated with Rapid Growth

The Company has experienced rapid growth over the past several years which has placed significant demands on its administrative, operational and financial resources. The Company seeks to continue such rapid growth which could place additional demands on its resources. Future internal growth will depend on a number of factors, including the effective and timely initiation and development of client relationships, the Company's ability to maintain the quality of services it provides to its clients and the recruitment, motivation and retention of qualified personnel. Sustaining growth will also require the implementation of enhancements to its operational and financial systems and will require additional management, operational and financial resources. There can be no assurance that the Company will be able to manage its expanding operations effectively or that it will be able to maintain or accelerate its growth, and any failure to do so could have a materially adverse effect on the Company's business, results of operations and financial condition. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Associated with Future Acquisitions

A primary element of the Company's growth strategy is to continue to pursue strategic acquisitions that expand and complement the Company's business. The Company regularly reviews various strategic acquisition opportunities and periodically engages in discussions regarding such possible acquisitions. Currently the Company is not a party to any agreements, understandings, arrangements or negotiations regarding any material acquisitions except as noted regarding the agreement with FCA International Ltd. under which NCO or an affiliate, will make a cash tender offer for all of the outstanding common shares of FCA. However, as the result of the Company's process of regularly reviewing acquisition prospects, negotiations may occur from time to time if appropriate opportunities arise. There can be no assurance that the Company will be able to identify additional acquisition candidates on terms favorable to the Company or in a timely manner, enter into acceptable agreements or close any such transactions. There can also be no assurance that the Company will be able to continue its acquisition strategy, and any failure to do so could have a materially adverse effect on the Company's business, financial condition, results of operations and ability to sustain growth. In addition, the Company believes that it will compete for attractive acquisition candidates with other larger companies, consolidators or investors in the accounts receivable management industry. Increased competition for such acquisition candidates could have the effect of increasing the cost to the Company of pursuing this growth strategy or could reduce the number of attractive candidates to be acquired. Future acquisitions could divert management's attention from the daily operations of the Company and otherwise require additional management, operational and financial resources. Moreover, there is no assurance that the Company will successfully integrate future acquisitions into its business or operate such acquired businesses profitably. Acquisitions also may involve a number of additional risks including: adverse short-term effects on the Company's operating results; dependence on retaining key personnel; amortization of acquired intangible assets; and risks associated with unanticipated problems, liabilities or contingencies. See "Item 1 - Business - Growth Strategy."

The Company may require additional debt or equity financing to fund any future acquisitions, which may not be available on terms favorable to the Company, if at all. To the extent the Company uses its capital stock for all or a portion of the consideration to be paid for future acquisitions, dilution may be experienced by existing shareholders. In the event that the Company's capital stock does not maintain sufficient value or potential acquisition candidates are unwilling to accept the Company's capital stock as consideration for the sale of their businesses, the Company may be required to utilize more of its cash resources, if available, in order to continue its acquisition program. If the Company does not have sufficient cash resources or is not able to use its capital stock as consideration for acquisitions, its growth through acquisitions could be limited. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Risks related to FCA Tender offer

In March 1998, the Company entered into an agreement with FCA International Ltd. ("FCA") under which NCO or an affiliate, will make a cash tender offer (which is expected to be mailed on or before April 7, 1998) for all of the outstanding common shares of FCA at $9.60 per share, Canadian (equivalent to $6.77 in U.S. dollars based upon an exchange rate of .7053). The acquisition is valued at approximately $68.0 million [USD], based upon an exchange rate of .7053, and is subject to the tender of two-thirds of the outstanding common shares, on a fully diluted basis, and customary conditions including normal regulatory approvals. There can be no assurance that the FCA tender offer will be successful. The Company will be required to borrow some or all of the proceeds to pay for the FCA tender offer. In the event that the Company is successful in the acquisition of FCA, the integration of FCA could divert management's attention from the daily operation of the Company, require additional management, operational and financial resources, and place significant demands on the Company's management and infrastructure. There can be no assurance that if acquired, FCA's operations can be successfully integrated with that of the Company, that the Company will be able to realize operating efficiencies or eliminate redundant costs, or that its business will be operated profitably. Further, there can be no assurance that clients of FCA will continue to do business with the Company, or that the Company will be able to retain key employees.

Fluctuations in Quarterly Operating Results

The Company has experienced and expects to continue to experience quarterly variations in revenue and net income as a result of many factors, including the timing of clients' accounts receivable management programs, the commencement of new contracts, the termination of existing contracts, costs to support growth by acquisition or otherwise, the effect of the change of business mix on margins and the timing of additional selling, general and administrative expenses to support new business. In connection with certain customer contracts, the Company could incur costs in periods prior to recognizing revenue under those contracts which may adversely affect the Company's operating results in a particular quarter. The Company's planned operating expenditures are based on revenue forecasts, and if revenues are below expectations in any given quarter, operating results would likely be materially adversely affected. While the effects of seasonality on the Company's business historically have been obscured by its rapid growth, the Company's business tends to be slower in the third and fourth quarters of the year due to the summer and holiday seasons. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company's quarterly operating results could also be affected by the costs and timing of completion and integration of acquisitions.

Dependence on Key Personnel

The Company is highly dependent upon the continued services and experience of its senior management team, including Michael J. Barrist, Chairman of the Board, President and Chief Executive Officer. The loss of the services of Mr. Barrist or other members of its senior management could have a materially adverse effect on the Company. The Company has five-year employment contracts with Mr. Barrist and certain other key executives. In addition, the Company has a $2.0 million key person life insurance policy on Mr. Barrist. See "Management" contained in, and incorporated by reference to, the Company's Proxy Statement relating to the 1998 Annual Meeting of Shareholders.

Dependence on Certain Sectors; Contract Risks

Most of the Company's revenues are derived from clients in the financial services, healthcare, retail and commercial, education, telecommunications, utilities and government sectors. A significant downturn in any of these sectors or any trends to reduce or eliminate the use of third-party accounts receivable management services could have a materially adverse impact on the Company's business, results of operations and financial condition. The Company enters into contracts with most of its clients which define, among other things, fee arrangements, scope of services and termination provisions. Clients may usually terminate such contracts on 30 or 60 days notice. Accordingly, there can be no assurance that existing clients will continue to use the Company's services at historical levels, if at all. Under the terms of these contracts, clients are not required to place accounts with the Company but do so on a discretionary basis. In addition, substantially all of the Company's contracts are on a contingent fee basis where the Company recognizes revenues only as accounts are recovered. See "Item 1 - Business."

Competition

The accounts receivable management industry is highly competitive. The Company competes with approximately 6,500 providers, including large national corporations such as Outsourcing Solutions, Inc., GC Services, Inc., and Equifax, as well as many regional and local firms. Many of the Company's competitors have substantially greater resources, offer more diversified services and operate in broader geographic areas than the Company. In addition, the accounts receivable management services offered by the Company, in many instances, are performed in-house. Moreover, many larger clients retain multiple accounts receivable management providers which exposes the Company to continuous competition in order to remain a preferred vendor. There can be no assurance that outsourcing of the accounts receivable management function will continue or that the Company's clients which currently outsource such services will not bring them in-house. The Company also competes with other firms, such as SITEL Corporation, APAC Teleservices, Inc. and TeleTech Holdings, Inc., in providing teleservices. As a result of these factors, there can be no assurance that competition from existing or potential competitors will not have a materially adverse effect on the Company's results of operations. See "Item 1 - Business Competition."

Risk of Business Interruption; Reliance on Computer and Telecommunications Infrastructure

The Company's success is dependent in large part on its continued investment in sophisticated telecommunications and computer systems, including predictive dialers, automated call distribution systems and digital switching. The Company has invested significantly in technology in an effort to remain competitive and anticipates that it will be necessary to continue to do so in the future. Moreover, computer and telecommunication technologies are evolving rapidly and are characterized by short product life cycles, which require the Company to anticipate technological developments. There can be no assurance that the Company will be successful in anticipating, managing or adopting such technological changes on a timely basis or that the Company will have the capital resources available to invest in new technologies. In addition, the Company's business is highly dependent on its computer and telecommunications equipment and software systems, the temporary or permanent loss of which, through casualty or operating malfunction, could have a materially adverse effect on the Company's business. The Company's business is materially dependent on service provided by various local and long distance telephone companies. A significant increase in the cost of telephone services that is not recoverable through an increase in the price of the Company's services, or any significant interruption in telephone services, could have a materially adverse impact on the Company. See "Item 1 - Business - Operations."

Risks Associated with Year 2000

NCO has initiated a program to evaluate and address the impact of the year 2000 on its information systems in order to insure that its network, computer systems and software will manage and manipulate data involving the transition of dates from 1999 to 2000 without functional or data abnormality and without inaccurate results related to such data. Based on information known at this time about the Company's systems, management does not expect year 2000 compliance costs to have a material adverse impact on the Company's business or results of operations. No assurance can be given, however, that unanticipated or undiscovered year 2000 compliance problems will not have a material adverse effect on the Company's business or results of operations. In addition, if the

Company's clients or significant suppliers and contractors do not successfully achieve year 2000 compliance, the Company's business and results of operations could be adversely affected.

Dependence on Labor Force

The accounts receivable management industry is very labor intensive and experiences high personnel turnover. Many of the Company's employees receive modest hourly wages and a portion of these employees are employed on a part-time basis. A higher turnover rate among the Company's employees would increase the Company's recruiting and training costs and could adversely impact the quality of services the Company provides to its clients. If the Company were unable to recruit and retain a sufficient number of employees, it would be forced to limit its growth or possibly curtail its operations. Growth in the Company's business will require it to recruit and train qualified personnel at an accelerated rate from time to time. There can be no assurance that the Company will be able to continue to hire, train and retain a sufficient number of qualified employees. Additionally, an increase in hourly wages, costs of employee benefits or employment taxes also could materially adversely affect the Company. See "Item 1 - Business - Personnel and Training."

Government Regulation

The accounts receivable management and telemarketing industries are regulated under various federal and state statutes. In particular, the Company is subject to the federal Fair Debt Collection Practices Act which establishes specific guidelines and procedures which debt collectors must follow in communicating with consumer debtors, including the time, place and manner of such communications. The Company is also subject to the Fair Credit Reporting Act which regulates the consumer credit reporting industry and which may impose liability on the Company to the extent that the adverse credit information reported on a consumer to a credit bureau is false or inaccurate. The accounts receivable management business is also subject to state regulation, and some states require that the Company be licensed as a debt collection company. With respect to the other teleservices offered by the Company, including telemarketing, the federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994 broadly authorizes the Federal Trade Commission (the "FTC") to issue regulations prohibiting misrepresentations in telemarketing sales. The FTC's telemarketing sales rules prohibit misrepresentations of the cost, terms, restrictions, performance or duration of products or services offered by telephone solicitation and specifically address other perceived telemarketing abuses in the offering of prizes and the sale of business opportunities or investments. The federal Telephone Consumer Protection Act of 1991 (the "TCPA") limits the hours during which telemarketers may call consumers and prohibits the use of automated telephone dialing equipment to call certain telephone numbers. A number of states also regulate telemarketing and some states have enacted restrictions similar to the federal TCPA. The failure to comply with applicable statutes and regulations could have a materially adverse effect on the Company. There can be no assurance that additional federal or state legislation, or changes in regulatory implementation, would not limit the activities of the Company in the future or significantly increase the cost of regulatory compliance.

Several of the industries served by the Company are also subject to varying degrees of government regulation. Although compliance with these regulations is generally the responsibility of the Company's clients, the Company could be subject to a variety of enforcement or private actions for its failure or the failure of its clients to comply with such regulations. See "Business-Government Regulation."

Control by Principal Shareholders

Michael J. Barrist beneficially owns approximately 19.9% of the Common Stock, and together with the other executive officers of the Company, beneficially owns approximately 33.3%. As a result of such voting concentration, Mr. Barrist, together with other executive officers of the Company, would likely be able to effectively control most matters requiring approval by the Company's shareholders, including the election of directors. Such voting concentration may have the effect of delaying, deferring or preventing a change in control of the Company. See "Management" and "Beneficial Ownership of Common Stock" contained in, and incorporated by reference to, the Company's Proxy Statement relating to the 1998 Annual Meeting of Shareholders.

Possible Volatility of Stock Price

The Company's Common Stock is listed on the Nasdaq National Market. Numerous factors, including announcements of fluctuations in the Company's or its competitors' operating results and market conditions for accounts receivable management, telemarketing industry or business services stocks in general, the timing and announcement of acquisitions by the Company or its competitors or government regulatory action, could have a significant impact on the future price of the Common Stock. In addition, the stock market in recent years has experienced significant price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the market price of the Common Stock.

Shares Eligible for Future Sale

Sales of the Company's Common Stock in the public market could adversely affect the market price of the Company's Common Stock and could impair the Company's future ability to raise capital through the sale of equity securities. As of March 30, 1998, the Company had 13,391,584 shares of Common Stock outstanding. Of these shares, a total of 8,968,254 shares are freely tradable without restriction or further registration under the Securities Act of 1933 (the "Securities Act"). The remaining 4,423,330 shares are "restricted securities," as that term is defined in Rule 144 under the Securities Act, and may be sold only in accordance with an exemption from registration, such as the exemption provided by Rule 144. The Company also has outstanding a $900,000 Convertible Note convertible into 63,755 shares of Common Stock at any time on or before January 22, 2002 issued in connection with the Goodyear acquisition and a warrant to purchase 375,000 shares issued in connection with the CRWCD acquisition, exercisable at anytime on or before January 31, 2002. The holders of the convertible notes and the warrants are entitled to certain demand and/or piggy-back registration rights. The earn-out payable in connection with the TRC acquisition provides, among other things, that the seller may elect to be paid the earn-out in the form of a convertible note, convertible into NCO Common Stock at a price equal to $3.00 above NCO's trailing thirty day average closing per share price. In addition, the Company has reserved approximately 1,051,841 shares of Common Stock reserved for issuance to its employees, directors, consultants and advisors under the Company's 1995 Stock Option Plan, 1996 Stock Option Plan and Non-Employee Director Stock Option Plan. As of March 30, 1998, options to purchase an aggregate of 923,650 shares of Common Stock are outstanding under all such plans.

Anti-Takeover Provisions

The Company's Amended and Restated Articles of Incorporation (the "Articles") and Bylaws (the "Bylaws") contain provisions which may be deemed to be "anti-takeover" in nature in that such provisions may deter, discourage or make more difficult the assumption of control of the Company by another corporation or person through a tender offer, merger, proxy contest or similar transaction. The Articles permit the Board of Directors to establish the rights, preferences, privileges and restrictions of, and to issue, up to 5,000,000 shares of Preferred Stock without shareholder approval. The Company's Bylaws also provide for the staggered election of directors to serve for one-, two- and three-year terms, and for successive three-year terms thereafter, subject to removal only for cause upon the vote of not less than 65% of the shares of Common Stock represented at a shareholders' meeting. Certain provisions of the Articles and Bylaws may not be amended except by a similar 65% vote. In addition, the Company is subject to certain anti-takeover provisions of the Pennsylvania Business Corporation Law.

Item 2. Properties.

The Company currently operates 23 leased facilities. The chart below summarizes the Company's call center facilities as of December 31, 1997:

Location of Facility	Approximate Square Footage
Fort Washington, PA	82,000
Aurora, CO	4,800
Bristol, TN	4,000
Buffalo, NY	30,000
Charlotte, NC	14,993
Cleveland, OH	6,948
Columbia, SC	10,500
Dayton, OH	13,060
Fort Washington, PA	12,300
Honolulu, HI	2,878
Hutchinson, KS	900
Jackson, MI	754
New Orleans, LA	6,920

Odenton, MD	13,336
Philadelphia, PA	4,720
Philadelphia, PA	5,700
Pittsburgh, PA	3,600
Richardson, TX	6,109
San Diego, CA	3,151
Tulsa, OK	13,907
Wichita, KS	10,000

In the 1Q98 Acquisitions, the Company acquired two additional processing centers in Philadelphia, Pennsylvania, and a processing center and headquarters for the market research operations in Upper Darby, Pennsylvania.

The leases of these facilities expire between 1998 and 2010, and most contain renewal options. In addition, the Company leases sales offices in Austin, Texas; Boston, MA; Jericho, NY; Las Vegas, NV; Little Rock, AK; McAllen, TX; Stafford, TX; Tucson, AZ.

The Company believes that its facilities are adequate for its current operations, but additional facilities may be required to support growth. The Company believes that suitable additional or alternative space will be available as needed on commercially reasonable terms. In addition, the Company intends to close or consolidate certain offices acquired in the 1997 Acquisitions.

Prior to July 1997, the Company leased space in four buildings in Blue Bell, Pennsylvania from three limited partnerships of which Messrs. Barrist, Piola and Miller and Mr. Barrist's mother, are limited partners and Michael J. Barrist is the sole shareholder of the corporate general partners, pursuant to leases expiring between 1998 and 2000. These leases were terminated with the Company's move to its new Corporate Headquarters. See "Management - Certain Transactions - Leases" contained in, and incorporated by reference to, the Company's Proxy Statement relating to the 1998 Annual Meeting of Shareholders.

Item 3. Legal Proceedings.

The Company is involved in legal proceedings from time to time in the ordinary course of its business. Management believes that none of these legal proceedings will have a materially adverse effect on the financial condition or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 4.1 Executive Officers of the Registrant who are not Directors.

<TABLE>
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Name	Age	Position
<S>	<C>	<C>
Steven L. Winokur......................	38	Executive Vice President, Finance, Chief Financial Officer and Treasurer
Joseph C. McGowan......................	45	Executive Vice President and Chief Operating Officer

</TABLE>

Steven L. Winokur joined the Company in December 1995 as Vice President, Finance, Chief Financial Officer and Treasurer and became Executive Vice President in September 1997. Prior to that, Mr. Winokur acted as a part-time consultant to the Company since 1986. From February 1992 to December 1995, Mr. Winokur was the principal of Winokur & Associates, a certified public accounting firm. From March 1981 to February 1992, Mr. Winokur was a partner with Gross & Company, a certified public accounting firm, where he most recently served as Administrative Partner. Mr. Winokur is a certified public accountant.

Joseph C. McGowan joined the Company in 1990 as Vice President, Operations and became Executive Vice President and Chief Operating Officer in September 1997. Prior to joining the Company, Mr. McGowan was Assistant Manager of the Collections Department at Philadelphia Gas Works, a public utility, since 1975.

PART II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters.

Following the Company's IPO of Common Stock on November 6, 1996, the Company's Common Stock has been listed on the Nasdaq National Market under the symbol "NCOG." The following table sets forth, for the fiscal quarters indicated, the high and low closing sale prices for the Common Stock, as reported by Nasdaq, adjusted to reflect a three-for-two stock split paid in December 1997.

		High	Low
1996			
	Fourth Quarter (from November 6)	$13	$11
1997			
	First Quarter	18 15/16	11 3/16
	Second Quarter	22 1/2	12 3/16
	Third Quarter	26 1/2	20 9/16
	Fourth Quarter	28 5/16	21

As of March 30, 1998, the Company's Common Stock was held by approximately 49 holders of record. Based on information obtained from the Company's transfer agent, the Company believes that the number of beneficial owners of its Common Stock is in excess of 1000.

Dividend Policy

Prior to September 1996, the Company was treated for federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code of 1986, as amended (the "Code"), and under Pennsylvania law. As a result of the Company's status as an S Corporation, the Company's shareholders, rather than the Company, were taxed directly on the earnings of the Company for federal and certain state income tax purposes, whether or not such earnings were distributed. The Company made cash distributions to the then current shareholders aggregating $1.1 million and $876,838 in respect of the Company's S Corporation earnings for 1995 and 1996 (through September 3, 1996), respectively. On September 3, 1996 (the "Termination Date"), the Company terminated its status as an S Corporation and thereupon became subject to federal and state income taxes at applicable C Corporation rates. In November 1996, the Company paid to shareholders of record as of the Termination Date a distribution of $3,246,851 representing the Company's undistributed S Corporation earnings through the Termination Date.

The Company does not anticipate paying cash dividends on its Common Stock in the foreseeable future. In addition, the Company's Revolving Credit Agreement prohibits the Company from paying cash dividends without the lender's prior consent. The Company currently intends to retain future earnings to finance its operations and fund the growth of its business. Any payment of future dividends will be at the discretion of the Board of Directors of the Company and will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to the payment of dividends and other factors that the Company's Board of Directors deems relevant.

Sales of Unregistered Securities during 1997

Set forth below is information concerning certain issuances of Common Stock during 1997 which were not registered under the Securities Act and which have not been previously reported.

From June to December 1997, the Company granted options to certain executive officers and key employees under the 1996 Stock Option Plan on the dates and at the exercise prices set forth below. Generally, options will become exercisable in equal one-third installments beginning on the first anniversary of the date of grant. All of the options were issued in connection with such employee's employment with the Company and no cash or other consideration was received by the Company in exchange for such options. The options were issued in reliance upon the exemption from the registration requirements provided by Section 4(2) of the Securities Act.

Date Issued	Options Granted	Exercise Price
September 1997	37,200	$23.334
December 1997	148,825	$24.50

In June 1997, the Company issued options pursuant to the 1996 Non-Employee Director Stock Option Plan to purchase 3,000 shares of Common Stock to each of Eric S. Siegel and Alan F. Wise. These options were granted at an exercise price of $19.416 per share. The options were issued in reliance upon the exemption from the registration requirements provided by Section 4(2) of the

Securities Act.

Item 6. Selected Financial Data.

SELECTED FINANCIAL AND OPERATING DATA
(Dollars in thousands, except per share data)

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	1993	1994	1995	1996	1997	
					Actual	Pro Forma (1)(2)
Statement of Income Data:						
Revenue	$ 7,445	$ 8,578	$ 12,733	30,760	$ 85,283	$ 103,460
Operating costs and expenses:						
Payroll and related expenses	4,123	4,558	6,797	14,651	42,502	51,996
Selling, general and administrative expenses	2,391	2,674	4,042	10,033	27,947	33,844
Depreciation and amortization expenses	141	215	348	1,254	3,368	4,344
Income from operations	790	1,131	1,546	4,822	11,466	13,276
other income (expense)	11	(45)	(180)	(575)	388	748
Income before income taxes	801	1,086	1,366	4,247	11,854	14,024
Provision for income taxes (3)	320	434	546	1,706	4,780	5,652
Net income (3)	481	$ 652	$ 820	$ 2,541	$ 7,074	$ 8,372
Net income per share - basic (3)			$ 0.12 (4)	$ 0.34 (4)	$ 0.59	$ 0.67
Weighted average shares outstanding - basic (3)			7,093,359 (4)	7,630,104 (4)	11,941,144	12,514,297
Net income per share - diluted (3)			$ 0.12 (4)	$ 0.34 (4)	$ 0.57	$ 0.64
Weighted average shares outstanding - diluted (3)			7,093,359 (4)	7,657,691 (4)	12,560,493	13,090,305
Selected Operating Data:						
Total value of accounts referred	$ 199,108	$ 281,387	$ 431,927	$ 1,173,342	$ 3,989,810	$ 4,152,699
Average fee	20.2%	22.5%	22.4%	25.2%	25.5%	25.6%

</TABLE>

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	December 31,				
	1993	1994	1995	1996	1997
Balance Sheet Data:					
Cash and cash equivalents	$ 562	$ 526	$ 805	$ 12,058	$ 29,539
Working capital	445	473	812	13,629	36,440
Total assets	1,990	3,359	6,644	35,826	101,636
Long-term debt, net of current portion	59	732	2,593	1,091	1,437
Shareholders' equity	876	1,423	2,051	30,647	89,334

</TABLE>

(1) Assumes that the 1997 Acquisitions and the AFECD and TRC acquisitions occurred on January 1, 1997.

(2) Gives effect to: (i) the reduction of certain redundant operating costs and expenses that were immediately identifiable at the time of the acquisitions; (ii) the increase in amortization expense as if the acquisitions had occurred on January 1, 1997 and the elimination of deprecation and amortization expense

related to assets revalued or not acquired by NCO as part of the acquisitions; (iii) the elimination of interest expense associated with acquisition related debt to be repaid with proceeds of the IPO and the 1997 Offering; (iv) the issuance of 517,767 shares of Common Stock and warrants exercisable for 375,000 shares of Common Stock in connection with the acquisition of CRWCD; (v) the issuance of 1,425,753 shares of Common Stock at the public offering price in the 1997 Offering of $19.67 per share which, net of the underwriting discount and estimated offering expenses payable by the Company, would be sufficient to repay acquisition related debt of $8.4 million and to fund the acquisitions of the AFECD and TRC acquisitions; and (vi) the issuance of 46,442 shares of Common stock issued in connection with the acquisition of AFS.

(3) Prior to September 3, 1996, the Company operated as an S Corporation for income tax purposes and accordingly was not subject to federal or state income taxes prior to such date. Accordingly, the historical financial statements do not include a provision for federal and state income taxes for such periods. A pro forma provision for income taxes, pro forma net income and pro forma net income per share have been computed as if the Company had been fully subject to federal and state income taxes for all periods presented. See Note 9 to Consolidated Financial Statements.

(4) Assumes that the Company issued 374,637 shares of Common Stock at $8.67 per share to fund the distribution of undistributed S Corporation earnings of $3.2 million through September 3, 1996, the termination date of the Company S Corporation status, to existing shareholders of the Company.

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

Results of Operations:

The following table sets forth income statement data on an historical and pro forma basis as a percentage of revenue:

<TABLE>
<CAPTION>

	Years Ended December 31,					
	1993	1994	1995	1996	1997	
					Actual	Pro Forma
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:						
Payroll and related expenses	55.4	53.1	53.4	47.6	49.8	48.8
Selling, general and administrative expenses	32.1	31.2	31.7	32.6	32.8	33.3
Depreciation and amortization expense	1.9	2.5	2.7	4.1	4.0	4.1
Total operating costs and expenses	89.4	86.8	87.8	84.3	86.6	86.2
Income from operations	10.6	13.2	12.2	15.7	13.4	13.8
Other income (expense):	0.1	(0.5)	(1.4)	(1.9)	0.5	0.3
Income before provision for income taxes	10.7	12.7	10.8	13.8	13.9	14.1
Provision for income taxes(1)	4.3	5.1	4.3	2.0	5.6	5.6
Pro forma net income	6.4%	7.6%	6.5%	11.8%	8.3%	8.5%

</TABLE>

(1) The Company was taxed as an S Corporation prior to September 3, 1996. Accordingly, pro forma provisions for income taxes and pro forma net income have

been provided as if the Company had been subject to income taxes in all periods presented.

Pro Forma Compared to Actual Results of Operations

Pro forma operating data for 1997 assume that the 1997 Acquisitions and the 1Q98 Acquisitions were consummated on January 1, 1997. Pro forma adjustments have been made to reflect the elimination of certain expenses that were immediately identifiable at the time of the acquisitions. For instance, pro forma adjustments to 1997 include the elimination of approximately 155 redundant administrative and collection personnel, the reduction of the salaries of the principal shareholders of Goodyear and AFS, the closing or consolidation of five existing call centers, as well as the downsizing of four call centers into customer service locations. At the time of the acquisitions, the acquired companies had higher cost structures than that of the Company's core business. The Company intends to continue to leverage its infrastructure to realize additional operating efficiencies in order to bring the cost structure of the acquired companies in line with NCO's current operating results. These other costs savings include: (i) further reduction in payroll and related expenses relating primarily to redundant collections and administrative personnel; (ii) further reductions in facilities costs; and (iii) reduction of certain expenses such as telephone, mailing and data processing. Management believes it will

realize these cost savings with respect to the acquired companies, although no assurances can be given that such cost savings will be realized. Due to the higher cost structures of the acquired business and the fact that all expected expense savings are not reflected in pro forma adjustments, certain pro forma operating percentages compare unfavorably to actual operating percentages for the periods under consideration.

Year ended December 31, 1997 Compared to Year ended December 31, 1996

Revenue. Revenue increased $54.5 million or 177.2% to $85.3 million for 1997 from $30.8 million in 1996. Of this income, $13.8 million of revenue was attributable to the MAB acquisition completed in September 1996 and $37.1 million of revenue was attributable to the 1997 Acquisitions. The addition of new clients and growth in business from existing clients represented $8.6 million of the increase in revenue. Revenue from other related services, which became an area of focus in 1996, increased $4.6 million to $6.1 million in 1997 from $1.5 million in 1996.

Payroll and related expenses. Payroll and related expenses increased $27.9 million to $42.5 million for 1997 from $14.7 million in 1996, and increased as a percentage of revenue to 49.8% from 47.6%. Payroll and related expenses increased as a percentage of revenue primarily as a result of the businesses acquired in the MAB acquisition and the 1Q97 Acquisitions having a higher cost structure than that of the Company. This increase was partially offset by spreading the cost of management and administrative personnel over a larger revenue base. In addition, in the fourth quarter of 1997 there was $339,000 of additional payroll expense attributable to a contract with the United States Department of Education which did not have any corresponding revenue. Without these costs, payroll as a percentage of revenue would have been 49.4% for 1997 compared with 47.6% in 1996.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $17.9 million to $27.9 million for 1997 from $10.0 million in 1996, and increased as a percentage of revenue to 32.8% from 32.6%. Selling, general and administrative costs attributable to the United States Department of Education contract were $274,000. Without these costs, selling, general and administrative costs as a percentage of revenue would have been 32.4% for 1997 compared with 32.6% in 1996. Also, the business acquired in the 1997 Acquisitions had a higher cost structure than that of the Company and, as a result of the acquisitions, the Company has continued to experience increased costs as a result of changes in business mix which require the increased use of national databases and credit reporting services. These increases were offset by operating efficiencies obtained by spreading selling, general and administrative expenses over a larger revenue base.

Depreciation and amortization. Depreciation and amortization increased to $3.4 million for 1997 from $1.3 million in 1996. Of this increase, $1.8 million was a result of the MAB acquisition and the 1997 Acquisitions. The remaining $260,000 consisted of amortization of deferred financing charges and depreciation resulting from capital expenditures incurred in the normal course of business.

Other income (expense). Interest expense decreased to $591,000 for 1997 from $818,000 in 1996. Although the Company's revolving credit facility had been repaid with a portion of the net proceeds from the IPO, the Company borrowed $8.4 million on its revolving credit facility to partially finance the 1Q97 Acquisitions, and issued a $900,000 convertible note payable in connection with the Goodyear acquisition in January 1997. The revolving credit facility was repaid with a portion of the proceeds from the Company's public offering completed in July 1997 (the "1997 Offering"). In addition, the $1.0 million convertible note payable issued in connection with the MAB acquisition in September 1996 was converted to Common Stock in connection with the 1997 Offering. Interest and investment income increased $778,000 to $1.0 million for 1997 from the comparable period in 1996. This increase was primarily attributable to the investment of funds remaining from the 1997 Offering, as well as an increase in operating funds and funds held in trust for clients. As a result of the disposal of certain fixed assets in the move of the Company's corporate headquarters in July 1997, the Company incurred a loss on the disposal of fixed assets in the amount of $41,000.

Income tax expense. Income tax expense for 1997 was $4.8 million or 40.3% of income before taxes, and was computed after giving effect to non-deductible goodwill expenses resulting from certain of the acquired companies. In 1996, the Company was an S Corporation until September 1, 1996 and, accordingly, there was no provision for income taxes until that time. The pro forma provision for income taxes of $1.7 million for 1996 was computed utilizing an assumed rate of 40.0% after giving effect to non-deductible goodwill.

Net income. Net income in 1997 increased to $7.1 million for 1997 from the pro forma net income of $2.5 million in 1996, a 178.4% increase.

Year ended December 31, 1996 Compared to Year ended December 31, 1995

Revenue. Revenue increased $18.0 million or 141.6% to $30.8 million in 1996 from $12.7 million in 1995. Of this increase, $5.0 million was attributable to the MAB acquisition completed in September 1996, $6.8 million was attributable to the TCD acquisition completed in January 1996, and $1.3 million was attributable to a full year of revenue from the Eastern acquisition in 1996 versus three months in 1995. Additionally, $4.8 million of increase was due to internal growth from the addition of new clients and a growth in business from existing clients. Of this internal growth, $2.9 million of the increase was due to a full twelve months of revenue in 1996 from a contract awarded to the Company by a government agency in April 1995. Revenue from other related services, which became an area of focus in 1996, increased $1.2 million to $1.5 million in 1996 from $259,000 in 1995.

Payroll and related expenses. Payroll and related expenses increased $7.9 million to $14.7 million in 1996 from $6.8 million in 1995, but decreased as a percentage of revenue to 47.6% from 53.5%. The decrease in payroll and related expenses as a percentage of revenue was primarily the result of spreading the relatively fixed costs of management and administrative personnel over a larger revenue base and the increased utilization of "on-line" computer services and other outside services, as well as eliminating redundant administrative staff following the TCD and Eastern acquisitions. These efficiencies were offset in part by higher payroll and related expenses of MAB as a percentage of its revenue. The effect of MAB was minimal due to only four months of the operations of MAB being included in the income statements.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $6.0 million to $10.0 million in 1996, from $4.0 million in 1995, and increased as a percentage of revenue to 32.6% from 31.7%. A large percentage of the increase was due to the increased costs associated with litigation management services performed by the Company on behalf of its clients in states where the laws are more conducive to the utilization of the legal process for recovery of delinquent accounts. In addition, the Company experienced increased costs as a result of a change in business mix which required the increased use of national data bases and credit reporting services. These increases were offset in part by operating efficiencies resulting from the TCD acquisition.

Depreciation and amortization. Depreciation and amortization increased to $1.3 million in 1996 from $348,000 in 1995. Of this increase, $605,000 was a result of the MAB, TCD and Eastern acquisitions. The remaining $301,000 consisted of amortization of deferred financing charges and depreciation resulting from capital expenditures incurred in the ordinary course of business.

Other income (expense). Interest expense increased to $818,000 in 1996 from $180,000 in 1995, primarily due to increased borrowings associated with the acquisitions of MAB, TCD and Eastern. Also included in other income (expense) for 1995 was a loss from the disposal of assets of $49,000.

Pro forma provision for income taxes. The pro forma provision for income taxes of $1.7 million and $546,000 in 1996 and 1995, respectively, was computed using an assume tax rate of 40.0% after giving effect to non-deductible goodwill from certain of the acquired companies.

Pro forma net income. Pro forma net income increased to $2.5 million in 1996 from $820,000 in 1995, a 210.0% increase.

Quarterly Results

The following table sets forth selected actual historical financial data for the calendar quarters of 1996 and 1997. This quarterly information is unaudited but has been prepared on a basis consistent with the Company's audited financial statements presented elsewhere herein and, in the Company's opinion, includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period.
<TABLE>
<CAPTION>

	Quarter Ended							
	1996				1997			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	(dollars in thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue	$6,044	$6,499	$7,715	$10,502	$18,077	$21,162	$21,739	$24,306
Income from operations	915	1,156	1,183	1,569	2,383	3,039	3,112	2,932
Net income	760	1,001	968	906	1,307	1,717	2,082	1,968

</TABLE>

<TABLE>
<CAPTION>

	Quarter ended							
	1996				1997			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	(dollars in thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income from operations	15.1%	17.8%	15.3%	14.9%	13.2%	14.4%	14.3%	12.1%
Net income	12.6%	15.4%	12.5%	8.6%	7.2%	8.1%	9.6%	8.1%

</TABLE>

The Company has experienced and expects to continue to experience quarterly variations in revenue and operating income as a result of many factors, including the timing of clients' accounts receivable management programs, the commencement of new contracts, the termination of existing contracts, costs to support growth by acquisition or otherwise, the effect of the change of business mix on margins and the timing of additional selling, general and administrative expenses to support new business. In connection with certain contracts, the Company could incur costs in periods prior to recognizing revenue under those contracts. The Company's planned operating expenditures are based on revenue forecasts, and if revenues are below expectation in any given quarter, operating results would likely be materially adversely affected. While the effects of seasonality on the Company's business have historically been obscured by its rapid growth, the Company's business tends to be slower in the third and fourth quarter of the year due to the summer and the holiday seasons.

The Company's quarterly operating results could also be affected by the costs and timing of completion and integration of acquisitions. In the fourth quarter of 1996, income from operations and net income as a percentage of revenue were lower than in prior quarters of 1996 largely as a result of the higher payroll and related expenses of MAB as compared to the Company's core business. Similarly, in the first quarter of 1997, the Company's operating and net margins were adversely affected by the higher cost structures of MAB and the 1Q97 Acquisitions as compared to the Company's core business.

Liquidity and Capital Resources

In July 1997, the Company completed the 1997 Offering selling 4,312,500 shares of common stock at a price to the public of $19.67 per share, including 2,166,000 shares issued by the Company, 650,369 shares and 562,500 over-allotment shares sold by existing shareholders, 75,480 shares acquired by employees through the exercise of stock options, 225,000 shares acquired by the Company's bank (Mellon Bank, N.A.) through the exercise of stock warrants, 115,385 shares acquired through the conversion of the Company's convertible note, and 517,767 shares acquired by CRW Financial, Inc. in connection with the acquisition by NCO of CRWCD. The proceeds of the Offering, after underwriting discounts and expenses, were approximately $40.4 million.

In November 1996, the Company completed its IPO selling 4,312,500 shares of its Common Stock at a price of $8.67 per share, including 3,750,000 shares issued by the Company, and 562,500 over-allotment shares sold by existing shareholders. The net proceeds to the Company were $28.8 million.

The Company's primary sources of cash have historically been cash flow from operations, bank borrowings and, in 1996 and 1997, the net proceeds from the IPO and the 1997 Offering, respectively. Cash has been used for acquisitions, distributions to shareholders, purchases of equipment and working capital to support the Company's growth.

Cash provided by operating activities was $6.7 million in 1997 and $2.8 million in 1996. The increase in cash provided by operations was primarily due to the increase in net income to $7.0 million in 1997 compared to $3.6 million in 1996, and the increase in non-cash charges, primarily depreciation and amortization, to $3.4 million in 1997 compared to $1.3 million in 1996. These increases were offset by a $3.9 million increase in accounts receivable in 1997 compared to a $1.8 million increase in 1996 and a $262,000 increase in accounts payable and accrued expenses in 1997 compared to a $222,000 increase in the comparable period in 1996. Approximately $1.0 million of accounts payable and accrued expenses in acquired companies were reduced in order to bring the balances in line with NCO's payment policies.

Cash provided by operating activities was $2.8 million in 1996 and $2.0 million in 1995. The increase in cash provided by operations was primarily due to the increase in net income to $3.6 million in 1996 compared to $1.4 million in 1995, and the increase in non-cash charges, primarily depreciation and amortization, to $1.3 million in 1996 compared to $348,000 in 1995. These increases were offset by a $1.8 million increase in accounts receivable in 1996 compared to a $572,000 increase in 1995 and a $222,000 increase in accounts payable and accrued expenses in 1996 compared to an $858,000 increase in 1995.

Cash used in investing activities was $29.2 million in 1997 compared to $13.3 million for 1996. The increase was primarily due to the 1Q97 and 1997 Acquisitions versus the acquisition of TCD and MAB in 1996. In January 1997, the Company purchased substantially all of the assets of CMS A/R for $5.1 million in cash, certain assets of TeleResearch for $1.6 million in cash, and all of the outstanding stock of Goodyear for $4.5 million in cash and a $900,000 convertible Note. The Note is convertible into an aggregate of 63,755 shares of Common Stock at any time and bears interest payable monthly at a rate of 8.0% per annum with principal due in January 2002. In February 1997, NCO purchased substantially all of the assets of CRWCD for $3.75 million in cash, 517,767 shares of Common Stock (which were sold in the 1997 Offering) and warrants for 375,000 shares of Common Stock. The Company financed the cash portion of the purchase price for the 1Q97 Acquisitions with borrowings of $7.4 million under its Credit Agreement and financed the balance with proceeds of its IPO and existing working capital. During March 1997, the Company borrowed an additional $1.0 million under the Credit Agreement to pay certain accounts payable assumed as part of the CRWCD acquisition. On October 1, 1997, the Company purchased the outstanding stock of ADVANTAGE Financial Services, Inc. and related companies ("AFS") for $2.9 million in cash, 46,442 shares of common stock and $1.0 million in notes payable. The acquisition was valued at approximately $5.0 million. On October 1, 1997, the Company purchased the outstanding stock of Credit Acceptance Corp. ("CAC") for $1.8 million in cash. The cash portion of the AFS and CAC acquisitions were financed with a portion of the proceeds of the 1997 Offering. In addition, the Company has accrued $1.1 million of acquisition related expenses. The 1997 Acquisitions collectively resulted in goodwill of $37.0 million.

Cash used in investing activities was $13.3 million in 1996 compared to $2.1 in 1995. The increase was primarily due to the acquisitions of MAB and TCD in 1996. In September 1996, the Company purchased all the outstanding stock of MAB for $8.0 million in cash and the issuance of a $1.0 million, five-year convertible note to the principal shareholder of MAB. The note is convertible into the Common Stock of the company at the initial public offering price of $8.67 per share, and bears interest payable monthly at a rate of 8.0% per annum. In January 1996, the Company purchased all the assets of TCD for $4.8 million in cash. In August 1995, the Company purchased certain assets of Eastern for $1.6

million in cash and the assumption of a non-interest bearing note payable of $252,000 and certain other accounts payable in the amount of $209,000. The Company financed the cash portion of these acquisitions with bank borrowings. The 1996 acquisitions collectively resulted in goodwill of $14.0 million.

In addition to equipment financed under operating leases, capital expenditures were $298,000, $976,000 and $3.4 million in 1995, 1996 and 1997, respectively.

Cash provided by financing activities was $39.9 million in 1997 compared to $21.8 million in 1996. Net proceeds of $40.4 million from the 1997 offering was the Company's primary source of cash from financing activities which was used for acquisitions and to repay outstanding indebtedness.

Cash provided by financing activities was $21.8 million in 1996 compared to $280,000 in 1995. Bank borrowings had been the Company's primary source of cash from financing activities and were used for acquisitions and, along with cash provided by operations, for distributions to shareholders. The Company raised net proceeds of approximately $28.8 million in the IPO of which $15.0 million was used to repay outstanding indebtedness under the Credit Agreement and approximately $3.2 million was used to pay undistributed S Corporation earnings. Total distributions to shareholders were $4.1 million in 1996 and $1.1 million in 1995.

In July 1995, the Company entered into a revolving credit agreement with Mellon Bank, N.A. which provided for borrowings up to $7.0 million at an interest rate equal to prime plus 1.375%, which was subsequently increased to $15.0 million in September 1996, to be utilized for working capital and strategic acquisitions. Subsequent to the IPO, Mellon Bank, N.A. increased the revolving credit facility to $25.0 million and decreased the rate of interest to 2.5% over LIBOR. In December 1996, Mellon Bank N.A. reduced the interest rate to 1.5% over LIBOR. Outstanding borrowings under the Credit Agreement at December 31, 1995 were $2.5 million. There were no outstanding borrowings as of December 31, 1996 or 1997. The revolving credit line is collateralized by substantially all the assets of the Company and includes certain financial covenants such as maintaining minimum working capital and net worth requirements and includes restrictions on, among other things, capital expenditures and distributions to shareholders. In March 1998, the bank increased the line of credit to $75.0 million in connection with the proposed acquisition of FCA International Ltd.

In connection with entering into the original Credit Agreement, the Company recorded deferred charges of approximately $135,000 relating primarily to bank and legal fees. The Company also issued a warrant to the bank exercisable for an aggregate of 263,297 shares of the Company's Common Stock. The warrant expires on July 31, 2005 and is exercisable for nominal consideration. In connection with the increase of the line of credit available under the Credit Agreement in September 1996 and December 1996, the Company recorded deferred charges of $261,000 primarily relating to bank charges and legal fees. In addition, the Company issued additional warrants to the bank for an aggregate of 97,590 shares of Common Stock exercisable at $8.67 per share. The warrants have been capitalized on the balance sheet as a deferred charge and are being amortized over the four-year life of the credit facility. In July 1997, the bank exercised 225,000 warrants for Common Stock which was sold in the 1997 offering. The remainder of the warrants were exercised in January 1998.

In March 1998, the Company entered into an agreement with FCA International Ltd. under which NCO or an affiliate, will make a cash tender offer (which is expected to be mailed on or before April 7, 1998) for all of the outstanding common shares of FCA at $9.60 per share, Canadian, or $6.77 in U.S. dollars. The acquisition is valued at approximately $68.0 million [USD], based upon an exchange rate of .7053 and is subject to the tender of two-thirds of the outstanding common shares, on a fully diluted basis, and after customary conditions, including normal regulatory approval. FCA's Board of Directors unanimously approved the agreement and has agreed, subject to certain conditions, to recommend that shareholders tender their common shares into the offer. Pursuant to the agreement, Fairfax Financial Holdings Limited has agreed, subject to certain conditions, to tender to the bid, the common shares of FCA owned or controlled by it. Fairfax currently owns or controls approximately 2,840,485 common shares, representing approximately 27% of the common shares outstanding on a fully-diluted basis.

The Company believes that funds generated from operations, together with existing cash, the net proceeds from the Offering and available borrowings under its Credit Agreement will be sufficient to finance its current operations and planned capital expenditure requirements and internal growth at least through December 31, 1998. In addition, the Company believes it will have sufficient funds to make selected acquisitions. However, the Company could require additional debt or equity financing if it were to make any significant acquisitions for cash.

Year 2000 System Modifications

NCO has initiated a program to evaluate and address the impact of the year 2000 on its information systems in order to insure that its network and software will manage and manipulate data involving the transition of dates from 1999 to 2000 without functional or data abnormality and without inaccurate results related to such data. This program includes steps to: (a) identify software vendors areas that require date code remediation; (b) establish timelines for availability of corrective software releases; (c) implement the fix to a test environment and test the remediated product, (d) integrate the updated software to NCO's production environment, (e) communicate and work with clients to implement year 2000 compliant data exchange formats, and (f) provide management with assurance of a seamless transition to the year 2000. The identification phase is substantially complete and delivery of the final software updates are scheduled for the third quarter of 1998. Management expects to complete the major portion of testing and acceptance procedures in 1998. The Company will continue to coordinate the year 2000 compliance effort throughout the balance of 1998 and into 1999 to synchronize data exchange formats with clients.

For the years 1998 and 1999, the Company expects to incur total pre-tax expenses of approximately $200,000 to $250,000, per year. These costs are associated with both internal and external staffing resources for the necessary planning, coordination, remediation, testing, and other expenses to prepare its systems for the year 2000. However, a portion of these expenses will not be incremental, but rather represent a redeployment of existing information technology resources. Management does not expect substantial additional license fee costs associated directly with year 2000 compliance because the Company's software vendors are incorporating necessary modifications as part of their normal system maintenance. The majority of the costs will be incurred through the modification and testing of electronic data interchange formats with the Company's clients. The cost of planning and initial remediation incurred through 1997 has not been significant.

Recent Accounting Pronouncements:

In June 1997, the Financial Accounting Standard Board issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and display of comprehensive income, requiring its components to be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt this standard in the first quarter of 1998. Management believes that the adoption of SFAS No. 130 will have not have a material impact on its consolidated results of operations, financial condition or cash flows.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting financial information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customer. The Company is required to disclose this information for the first time it publishes its 1998 annual report. Management is in the process of evaluating the segment disclosures for purposes of reporting under SFAS No. 131. Management has not determined what impact the adoption of SFAS. No. 131 will have on the consolidated results of operations, financial condition or cash flows.

Forward Looking Statements

Certain statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as elsewhere in this Annual Report on Form 10-K, including, without limitation, statements regarding the anticipated growth in the amount of accounts receivable placed for third-party management, the continuation of trends favoring outsourcing of other administrative functions, the Company's objective to grow through strategic acquisitions and its ability to realize operating efficiencies upon the completion of recent acquisitions and other acquisitions that may occur in the future, the Company's ability to expand its service offerings, the anticipated changes in revenues from acquired companies, trends in the Company's future operating performance and statements as to the Company's or management's beliefs, expectations and opinions, are forward-looking statements, and the actual results and developments may be materially different from those expressed in or implied by such statements. See Item 1. - "Business - Investment Considerations."

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable

Item 8. Financial Statements and Supplementary Data.

The financial statements, financial statement schedules and related documents that are filed with this Report are listed in Item 14(a) of this Report on Form 10-K and begin on page F-1.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Incorporated by reference from the Company's Proxy Statement relating to the 1998 Annual Meeting of Shareholders to be filed pursuant to General Instruction G(3) to Form 10-K, except information concerning certain executive officers of the Company which is set forth in Section 4.1 hereof.

Item 11. Executive Compensation.

Incorporated by reference from the Company's Proxy Statement relating to the 1998 Annual Meeting of Shareholders to be filed pursuant to General Instruction G(3) to Form 10-K.

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

Incorporated by reference from the Company's Proxy Statement relating to the 1998 Annual Meeting of Shareholders to be filed pursuant to General Instruction G(3) to Form 10-K.

Item 13. Certain Relationships and Related Transactions.

Incorporated by reference from the Company's Proxy Statement relating to the 1998 Annual Meeting of Shareholders to be filed pursuant to General Instruction G(3) to Form 10-K.

PART IV

Item 14. Exhibits, Financial Statements and Reports on Form 8-K.

(a). Documents filed as part of this report:

1. List of Consolidated Financial Statements. The following consolidated financial statements and the notes thereto of NCO Group, Inc., which are attached hereto beginning on page F-1, have been included in this Report on Form 10-K:

Report of Independent Accountants
Consolidated Balance Sheets as of December 31, 1996 and 1997
Consolidated Statements of Income for each of the three years in the period ended December 31, 1997
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1997
Consolidated Statements of Shareholders' Equity for each of the years in the period ended December 31, 1997
Notes to Consolidated Financial Statements

2. List of Financial Statement Schedules. Not applicable.

3. List of Exhibits filed pursuant to Item 601 of Regulation S-K. The following exhibits are incorporated by reference in, or filed with, this Report on Form 10-K. Management contracts and compensatory plans, contracts and arrangements are indicated by "*":

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
3.1(1)	The Company's amended and restated Articles of Incorporation.
3.2(1)	The Company's amended and restated Bylaws.
4.1	Specimen of Common Stock Certificate.
*10.1(1)	Employment Agreement, dated September 1, 1996, between the Company and Bernard R. Miller.
*10.2(1)	Employment Agreement, dated September 1, 1996, between the Company and Michael J. Barrist.
*10.3(1)	Employment Agreement, dated September 1, 1996, between the Company and Charles C. Piola, Jr.
*10.4(1)	Employment Agreement, dated September 1, 1996, between the Company and Joseph C. McGowan.
*10.5(1)	Employment Agreement, dated September 1, 1996, between the Company and Steven L. Winokur.

</TABLE>

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
*10.6(1)	Agreements of Lease dated May 9, 1995, as amended, between the Company and 1710-20 Sentry East Associates, L.P., relating to the offices located at 1710 Walton Road, Blue Bell, Pennsylvania.
10.7(1)	Agreements of Lease dated July 1, 1993 between the Company and 1740 Sentry East Associates, L.P., relating to the offices located at 1740 Walton Road, Blue Bell, Pennsylvania.
10.8(1)	Lease Agreement by and between The Uniland Partnership, L.P. and Management Adjustment Bureau, Inc., as amended by First Amendment to Lease, dated December 10, 1994, as further amended by Second Amendment to Lease, dated December 10, 1994.
10.9(1)	Software License Agreement and Software Purchase Agreement by and between the Company and CRSoftware, Inc., relating to computer software (CRS Credit Bureau Reporting Software) and computer hardware.
*10.10(1)	Amended and Restated 1995 Stock Option Plan.
*10.11(1)	1996 Stock Option Plan.
*10.12(1)	1996 Non-Employee Director Stock Option Plan.
10.13(1)	Amended and Restated Credit Agreement by and among the Company, its subsidiaries and Mellon Bank, N.A., dated September 5, 1996.
10.14(1)	Amended and Restated Security Agreement, dated September 5, 1996, by and among the Company, its subsidiaries and Mellon Bank, N.A.
10.15(1)	Warrant Agreement, dated July 28, 1995, by and between the Company and Mellon Bank, N.A. and Amendment dated September 5, 1996.
10.16(1)	Warrant Agreement, dated September 5, 1996, by and between the Company and Mellon Bank, N.A.
10.17	Second Amended and Restated Registration Rights Agreement, dated December 13, 1996, by and between the Company and Mellon Bank, N.A.
10.18	First Amendment dated December 13, 1996 to Amended and Restated Credit Agreement by and among the Company, its subsidiaries and Mellon Bank, N.A., dated September 5, 1996.
10.19	Second 1996 Warrant Agreement, dated December 13, 1996, by and between the Company and APT Holdings Corporation, an affiliate of Mellon Bank, N.A.
10.20(1)	Stock Pledge Agreement, dated as of September 5, 1996 made by NCO Group, Inc. in favor of Mellon Bank, N.A.
10.21(1)	Convertible Note dated September 1, 1996, made by the Company in the principal amount of $1,000,000, as partial payment of the purchase price for the acquisition of MAB.

</TABLE>

<TABLE>
<CAPTION>

Exhibit No.	Description

<S> <C>

10.22(1)	Distribution and Tax Indemnification Agreement
10.23(1)	Irrevocable Proxy Agreement by and between Michael J. Barrist and Annette H. Barrist.
10.24(1)	Common Stock Purchase Warrant for 263,297 shares issued to APT Holdings Corporation, an affiliate of Mellon Bank, N.A.
10.25(1)	1996 Common Stock Purchase Warrant for 69,840 shares issued to APT Holdings Corporation, an affiliate of Mellon Bank, N.A.
10.26	Second 1996 Common Stock Purchase Warrant for 27,750 shares issued to APT Holdings Corporation, an affiliate of Mellon Bank, N.A.
10.27(1)	Indemnification Agreement by and between NCO Financial Systems, Inc., Management Adjustment Bureau, Inc. and Craig Costanzo.
10.28(1)	Stock Purchase Agreement, by and among the Company, and Craig Costanzo and Andrew J. Boyuka, as Trustee of the Susan E. Costanzo Grantor Trust and Christopher A. Costanzo Grantor Trust, relating to the acquisition of MAB. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.
10.29(1)	Asset Purchase Agreement dated December 8, 1995 by and between the Company and Trans Union Corporation. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.
10.30(2)	Stock Purchase Agreement, dated January 22, 1997, by and among NCO and the majority shareholders of Goodyear. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.
10.31(2)	Stock Purchase Agreement, dated January 22, 1997, by and among NCO and the minority shareholders of Goodyear. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.
10.32(2)	Non-negotiable Subordinated Convertible Promissory Note dated January 22, 1997, made by the Company in the principal amount of $900,000, as partial payment of the purchase price for the acquisition of Goodyear.
10.33(3)	Asset Purchase Agreement, dated January 30, 1997, by and among NCO, Tele-Research, Strategic Information, Inc. and the Tele-Research shareholders. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.

</TABLE>

<TABLE>
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Exhibit No.	Description
<S>	<C>
10.34(4)	Asset Purchase Agreement, dated January 21, 1997, by and among NCO, and CMS A/R Services. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.
10.35(4)	Asset Acquisition Agreement, dated February 2, 1997, by and among CRW Financial Systems, Inc. ("CRW"), Kaplan & Kaplan, Inc., NCO, CRWF Acquisition, Inc., and K&K Acquisition, Inc. dated February 2, 1997. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.
10.34(4)	Asset Purchase Agreement, dated January 21, 1997, by and among NCO, and CMS A/R Services. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedule upon request.
10.36(4)	Non-Transferable Common Stock Purchase Warrant dated February 2, 1997 issued to CRW.
10.37(4)	Registration Rights Agreement dated February 2, 1997 between NCO and CRW.
10.38(4)	Nondisclosure, Nonsolicitation, Noncompetition and Standstill Agreement dated February 2, 1997 between Jonathan P. Robinson and NCO.
10.39(4)	Nondisclosure, Nonsolicitation, Noncompetition and Standstill Agreement dated February 2, 1997 between J. Brian O'Neill and NCO.
10.40(5)	Asset Acquisition Agreement by and among The Response Center Division of TeleSpectrum Worldwide, Inc., , and NCO dated January 16, 1998. NCO will furnish to the Securities and Exchange Commission a copy of any omitted schedules upon request.
10.41	Lease dated March 18, 1997 between Indiana Avenue Associates, L.P. and the Company related to the lease of Fort Washington corporate headquarters.
21.1	Subsidiaries of the Registrant.

23.1	Consent of Coopers and Lybrand LLP
27.1	Financial Data Schedules.

</TABLE>

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(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-11745), as amended, filed with the Securities Exchange Commission on September 11, 1996.

(2) Incorporated by reference to the Company's Current Report on Form 8-K (File No. 0-21639) filed with the Securities Exchange Commission on February 6, 1997.

(3) Incorporated by reference to the Company's Current Report on Form 8-K/A (File No. 0-21639) filed with the Securities Exchange Commission on February 18, 1997.

(4) Incorporated by reference to the Company's Current Report on Form 8-K (File No. 0-21639) filed with the Securities Exchange Commission on February 18, 1997.

(5) Incorporated by reference to the Company's Current Report on Form 8-K (File No. 0-21639) filed with the Securities Exchange Commission on February 25, 1998.

(b). Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended December 31, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

NCO GROUP, INC.

Date: March 31, 1998

By: /s/ Michael J. Barrist

Michael J. Barrist, Chairman of the Board, President and Chief Executive Officer

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

<TABLE>
<CAPTION>

SIGNATURE	TITLE(S)	DATE
<S>	<C>	<C>
/s/ Michael J. Barrist ----------------------------- Michael J. Barrist	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 31, 1998
/s/ Charles C. Piola ----------------------------- Charles C. Piola	Executive Vice President and Director	March 31, 1998
/s/ Steven L. Winokur ----------------------------- Steven L. Winokur	Executive Vice President, Finance, Chief Financial Officer and Treasurer (principal financial and accounting officer)	March 31, 1998

/s/ Bernard R. Miller ---------------------------- Bernard R. Miller	Senior Vice President, Development and Director	March 31, 1998
/s/ Eric S. Siegel ---------------------------- Eric S. Siegel	Director	March 31, 1998
/s/Allen F. Wise ---------------------------- Allen F. Wise	Director	March 31, 1998

</TABLE>

<TABLE>
<CAPTION>

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
NCO Group, Inc.
Fort Washington, Pennsylvania

We have audited the accompanying consolidated balance sheets of NCO Group, Inc. as of December 31, 1996 and 1997 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NCO Group, Inc. as of December 31, 1996 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
2400 Eleven Penn Center
Philadelphia, Pennsylvania
March 6, 1998

Part 1 - Financial Information
Item 1 - Financial Statements
<TABLE>
<CAPTION>

NCO GROUP, INC.
Consolidated Balance Sheets

ASSETS	December 31, 1996	December 31, 1997
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 12,058,798	$ 29,539,103
Accounts receivable, trade, net of allowance for doubtful accounts of $79,000 and $365,000, respectively	4,701,364	13,441,513
Other current assets	499,815	2,357,184
Total current assets	17,259,977	45,337,800
Funds held in trust for clients		
Property and equipment, net	2,830,062	7,469,388
Other assets:		
Intangibles, net of accumulated amortization	14,673,155	45,881,276
Deferred taxes	70,760	-
Deferred financing costs	684,390	521,691
Deposits on acquisitions	-	1,650,000
Other assets	308,011	775,872
Total other assets	15,736,316	48,828,839
Total assets	$ 35,826,355	$ 101,636,027
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current portion	$ 46,946	$ 560,073
Capitalized lease obligations, current portion	62,131	113,578
Corporate taxes payable	216,709	285,756
Accounts payable	657,647	1,913,270
Accrued expenses	1,044,536	3,074,182
Accrued compensation and related expenses	1,376,982	2,844,025
Unearned revenue, net of related costs	225,817	107,388
Total current liabilities	3,630,768	8,898,272
Funds held in trust for clients		
Long-term liabilities:		
Long term debt, net of current portion	1,091,901	1,437,293
Capitalized lease obligations, net of current portion	385,683	247,775
Deferred taxes	-	1,691,304
Unearned revenue, net of related costs	70,385	27,039
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized, no shares issued and outstanding		
Common stock, no par value, 37,500,000 shares authorized, 10,070,171 and 13,216,244 shares issued and outstanding, respectively	29,362,326	80,248,636
Unexercised warrants	396,054	1,122,546
Retained earnings	889,238	7,963,162
Total shareholders' equity	30,647,618	89,334,344
Total liabilities and shareholders' equity	$ 35,826,355	$ 101,636,027

The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

NCO GROUP, INC.
Consolidated Statements of Income

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1995	1996	1997
<S>	<C>	<C>	<C>
Revenue	$ 12,732,597	$ 30,760,452	$ 85,283,668
Operating costs and expenses:			
Payroll and related expenses	6,797,338	14,651,384	42,502,175
Selling, general and administrative expenses	4,042,342	10,032,216	27,947,017
Depreciation and amortization expense	347,503	1,253,867	3,368,528
Total operating costs and expenses	11,187,183	25,937,467	73,817,720
Income from operations	1,545,414	4,822,985	11,465,948
Other income (expense):			
Interest and investment income	49,473	242,380	1,019,901
Interest expense	(180,205)	(817,951)	(591,382)
Loss on disposal of fixed assets	(49,082)	--	(40,506)
	(179,814)	(575,571)	388,013
Income before provision for income taxes	1,365,600	4,247,414	11,853,961
Income tax expense	--	612,748	4,780,037
Net income	$ 1,365,600	$ 3,634,666	$ 7,073,924
	Pro Forma		
Historical income before income taxes	$ 1,365,600	$ 4,247,414	
Pro forma provision for income taxes	546,000	1,706,485	
Pro forma net income	$ 819,600	$ 2,540,929	
Net income per share - basic	$ 0.12	$ 0.34	$ 0.59
Weighted average shares outstanding - basic	7,093,359	7,630,104	11,941,144
Net income per share - diluted	$ 0.12	$ 0.34	$ 0.57
Weighted average shares outstanding - diluted	7,093,359	7,657,691	12,560,493

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

</TABLE>

NCO GROUP, INC.
Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1995	1996	1997
<S>	<C>	<C>	<C>

Cash flows from operating activities:			
Net income	$ 1,365,600	$ 3,634,666	$ 7,073,924
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	199,123	465,785	1,311,181
Amortization of intangibles	221,813	707,050	1,882,492
Amortization of deferred financing costs	32,443	81,031	174,855
Loss on disposal of equipment	49,082	-	40,506
Gain on sales of securities	2,877	(70,481)	-
Provision for doubtful accounts	3,808	55,845	285,851
Deferred taxes	-	(154,684)	1,762,064
Changes in assets and liabilities, net of acquisitions:			-
Accounts receivable, trade	(571,611)	(1,825,307)	(3,976,740)
Other current assets	14,052	(312,743)	(1,530,329)
Other assets	(105,037)	(8,903)	(13,151)
Accounts payable	161,601	422,694	(1,356,286)
Corporate taxes payable	-	216,709	68,353
Accrued expenses	187,353	(788,709)	782,967
Accrued compensation and related costs	555,398	598,997	404,958
Unearned revenue	(46,718)	(227,548)	(161,775)
Net cash provided by operating activities	2,069,784	2,794,402	6,748,870
Cash flows from investing activities:			
Notes receivable	(36,000)	155,856	-
Purchase of property and equipment	(298,076)	(976,080)	(3,368,430)
Purchase of securities	(107,643)	(78,307)	-
Proceeds from sale of securities	99,256	406,937	-
Net cash paid for acquisitions	(1,729,244)	(12,857,223)	(25,850,074)
Net cash used in investing activities	(2,071,707)	(13,348,817)	(29,218,504)
Cash flows from financing activities:			
Repayment of notes payable	(1,067,117)	(303,138)	(465,588)
Borrowings under credit agreement	2,450,000	12,550,000	8,350,000
Repayment under credit agreement	-	(15,000,000)	(8,350,000)
Payment of fees to acquire new debt	(134,163)	(222,383)	(12,157)
Issuance of common stock	105,127	32,500,000	43,274,926
Costs related to issuance of common stock	-	(3,675,000)	(2,847,242)
Decrease in notes receivable, shareholders	-	82,873	-
Distributions to shareholders	(1,073,392)	(4,123,689)	-
Net cash provided by financing activities	280,455	21,808,663	39,949,939
Net increase in cash and cash equivalents	278,532	11,254,248	17,480,305
Cash and cash equivalents at beginning of period	526,018	804,550	12,058,798
Cash and cash equivalents at end of period	$ 804,550	$ 12,058,798	$ 29,539,103

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

</TABLE>

NCO GROUP, INC.
Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 1995, 1996 and 1997

<TABLE>
<CAPTION>

	Number of Shares	Amount	Unexercised Warrants	Retained Earnings
<S> <C>	<C>	<C>	<C>	<C>
Balance, January 1, 1995	6,189,849	$ 349,326	$ -	$ 1,086,053
Issuance of common stock	130,322	188,000	-	-
Warrants issued	-	-	177,294	-
Note repayments	-	-	-	-
Net income	-	-	-	1,365,600
Distributions to shareholders	-	-	-	(1,073,392)
Change in unrealized gains on securities	-	-	-	-
Balance, December 31, 1995	6,320,171	537,326	177,294	1,378,261

Issuance of common stock	3,750,000	28,825,000	-	-
Warrants issued	-	-	218,760	-
Note repayments	-	-	-	-
Net income	-	-	-	3,634,666
Distributions to shareholders	-	-	-	(4,123,689)
Balance, December 31, 1996	10,070,171	29,362,326	396,054	889,238
Issuance of common stock	3,146,073	50,886,310	(148,508)	-
Warrants issued	-	-	875,000	-
Net income	-	-	-	7,073,924
Balance, December 31, 1997	13,216,244	$ 80,248,636	$ 1,122,546	$ 7,963,162

</TABLE>
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<S> <C>	Unrealized Gains (Losses) on Securities <C>	Notes Receivable Shareholder <C>	Total <C>
Balance, January 1, 1995	$ (12,695)	$ -	$ 1,422,684
Issuance of common stock	-	(135,888)	52,112
Warrants issued	-	-	177,294
Note repayments	-	53,015	53,015
Net income	-	-	1,365,600
Distributions to shareholders	-	-	(1,073,392)
Change in unrealized gains on securities	54,034	-	54,034
Balance, December 31, 1995	41,339	(82,873)	2,051,347
Issuance of common stock	-	-	28,825,000
Warrants issued	-	-	218,760
Note repayments	-	82,873	82,873
Net income	-	-	3,634,666
Distributions to shareholders	(41,339)	-	(4,165,028)
Balance, December 31, 1996	-	-	30,647,618
Issuance of common stock	-	-	50,737,802
Warrants issued	-	-	875,000
Net income	-	-	7,073,924
Balance, December 31, 1997	$ -	$ -	$ 89,334,344

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

</TABLE>

NCO GROUP, INC.
Notes to Consolidated Financial Statements

1. Nature of operations:

NCO Group, Inc. (the "Company") is a leading provider of accounts receivable management and related services utilizing an extensive teleservices infrastructure. The Company's client base is comprised of companies located throughout the United States in the following sectors: financial services, healthcare, retail and commercial, education, telecommunications, utilities and government entities.

Effective September 3, 1996, the shareholders of NCO Financial Systems, Inc. contributed each of their shares of common stock in exchange for one share of common stock of the Company, a recently formed corporation. In September 1996, the Company also effected a 46.56-for-one stock split and increased the number of authorized shares to 5,000,000 shares of preferred stock and 25,000,000 shares of common stock. In December 1997, the Company effected a three-for-two stock split and increased the authorized shares of common stock to 37,500,000. All per share and related amounts have been adjusted to reflect the stock exchange and stock splits.

On November 13, 1996, the Company completed its initial public offering (the "IPO"), selling 4,312,500 shares of common stock including 562,500 over-allotment shares sold by existing shareholders at a price to the public of $8.67 per share. The IPO raised net proceeds of approximately $28.8 million for the Company. A director of the Company received compensation of $240,000 for services rendered in connection with the IPO.

In July 1997, the Company completed a public offering (the "1997 Offering") selling 4,312,500 shares of common stock at a price to the public of $19.67 per share, including 2,166,000 shares issued by the Company, 1,212,869 (562,500 of which were over-allotment shares) sold by existing shareholders, 75,480 shares acquired by employees through the exercise of stock options, 225,000 shares acquired by the Company's bank (Mellon Bank, N.A.) through the exercise of stock warrants, 115,385 shares acquired through the conversion of the Company's convertible note issued in connection with the acquisition of Management Adjustment Bureau Inc. ("MAB") in September 1996, and 517,767 shares acquired by CRW Financial, Inc. in connection with the acquisition by NCO of the Collection Division of CRW Financial, Inc. ("CRWCD"). The net proceeds of the 1997 Offering, after underwriting discounts and expenses, were approximately $40.4 million.

2. Summary of significant accounting policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of NCO Group, Inc. and its wholly-owned subsidiaries after elimination of significant intercompany accounts and transactions.

Revenue Recognition:

The Company generates revenues from contingency fees and contractual services. Contingency fee revenue is recognized upon collection of funds on behalf of clients. Contractual services revenue is deferred and recognized as services are performed.

Property and Depreciation:

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful life of each class of assets using the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. When property is sold or retired, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss on the transaction is included in the statement of income.

2. Summary of significant accounting policies, continued:

Property and Depreciation (continued):

Financial Accounting Standards SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," which was effective for the Company beginning January 1, 1996, requires that long-lived assets and certain identifiable intangibles be reviewed for impairment, based on the estimated future cash flows, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Income Taxes:

The Company had elected to be taxed as an S Corporation under the Internal Revenue Code and the Pennsylvania Tax Code. While this election was in effect, no provision was made for income taxes by the Company since all income was taxed directly to the shareholders of the Company.

The Company terminated its S Corporation status on September 3, 1996 and adopted Statement of Financial Accounting Standards SFAS No. 109, "Accounting for Income Taxes." This standard requires an asset and liability approach that takes into account changes in tax rates when valuing the deferred tax amounts to be reported on the balance sheet. Upon termination of the S Corporation status, the Company recorded an estimated net deferred tax asset. The net deferred tax asset resulted primarily from differences in the treatment of unearned revenue and acquired account inventory.

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. These financial instruments potentially subject the Company to concentrations of credit risk.

At December 31, 1996 and 1997, the Company had cash and cash equivalents in excess of federally insured limits of approximately $1,045,605 and $25,717,894, respectively. The Company's cash deposits have been placed with a large national bank to minimize risk.

Credit Policy:

The Company has two types of arrangements under which it collects its contingency fee revenue. For certain clients the Company remits funds collected on behalf of the client, net of the related contingency fees while, for other clients, the Company remits gross funds collected on behalf of clients, and bills the client separately for its contingency fees. Management carefully monitors its client relationships in order to minimize its credit risk and generally does not require collateral. In the event of collection delays from clients, management may at its discretion change from the gross remittance method to the net remittance method.

Deferred Financing Costs:

Deferred financing costs relate to debt issuance costs incurred which are capitalized and amortized over the term of the debt.

2. Summary of significant accounting policies, continued:

Intangibles:

Intangibles consists primarily of goodwill and also includes acquisition costs and non-compete covenants. Goodwill represents the excess of purchase price over the fair market value of the net assets of the acquired businesses based on their respective fair values at the date of acquisition. Goodwill is amortized on a straight-line basis over 15 to 25 years. Such allocation has been based on estimates which may be revised at a later date. The recoverability of goodwill is periodically reviewed by the Company. In making such determination with respect to goodwill, the Company evaluates the operating results of the underlying business which gave rise to such amount. Accumulated amortization at December 31, 1996 and 1997 totaled $762,612 and $2,610,595, respectively.

Estimates Utilized in the Preparation of Financial Statements:

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

Earnings Per Share:

All earnings per share computations and presentations are in accordance with SFAS No. 128, "Earnings per Share."

Reclassifications:

Certain amounts for December 31, 1995 and 1996 and the years then ended have been reclassified for comparative purposes.

3. Acquisitions:

On August 1, 1995, the Company purchased certain assets of Eastern Business Services, Inc. ("Eastern") for approximately $2.04 million comprised of $1.63 million in cash and $416,000 of liabilities assumed. The purchase price was allocated primarily based upon the estimated fair market values of the acquired assets and liabilities, resulting in goodwill of $1.8 million.

On January 3, 1996 the Company purchased certain assets of Trans Union Corporation Collections Division ("TCD") for $4.75 million in cash. The purchase price was allocated based upon the estimated fair market values of the acquired assets, resulting in goodwill of $3.7 million.

On September 5, 1996 the Company purchased the outstanding stock of Management Adjustment Bureau, Inc. ("MAB") for $9.0 million comprised of $8.0 million in cash and a $1.0 million convertible note. The purchase price was allocated based upon the estimated fair market values of the acquired assets and liabilities, resulting in goodwill of $8.5 million.

On January 22, 1997 the Company purchased the outstanding stock of Goodyear & Associates, Inc. ("Goodyear") for $5.4 million comprised of $4.5 million in cash and a $900,000 convertible note. The purchase price was allocated based upon the estimated fair market values of the acquired assets and liabilities, resulting in goodwill of $4.9 million.

On January 30, 1997 the Company purchased substantially all the assets of Tele-Research Center, Inc. ("Tele-Research") for $1.6 million in cash, which was increased in January 1998 by an additional $600,000 when certain revenue targets were reached in the period following the acquisition. The purchase price was allocated based upon the estimated fair market values of the acquired assets, resulting in goodwill of $1.6 million.

3. Acquisitions (continued):

On January 31, 1997 the Company purchased certain assets of the CMS A/R Services ("CMSA/R"), the Collection Division of CMS Energy Corporation, for $5.1 million in cash. The purchase price was allocated based upon the estimated fair market values of the acquired assets, resulting in goodwill of $3.24 million.

On February 2, 1997 the Company purchased certain assets and assumed certain liabilities of the Collections Division of CRW Financial, Inc. for $3.75 million in cash, 517,767 shares of common stock and warrants for 375,000 shares of common stock. The acquisition was valued at approximately $12.8 million. The purchase price was allocated based upon the estimated fair market values of the acquired assets and liabilities, resulting in goodwill of $10.24 million.

On October 1, 1997 the Company purchased the outstanding stock of ADVANTAGE Financial Services, Inc. and related companies ("AFS") for $2.9 million in cash, 46,442 shares of common stock and $1.0 million in notes payable. The acquisition was valued at approximately $5.0 million. The purchase price was allocated based upon the estimated fair market values of the acquired assets and liabilities, resulting in goodwill of $5.1 million.

On October 1, 1997 the Company purchased the outstanding stock of Credit Acceptance Corp. ("CAC") for $1.8 million in cash. The purchase price was allocated based upon the estimated fair market values of the acquired assets and liabilities, resulting in goodwill of $1.8 million.

The following summarizes unaudited pro forma results of operations for the years ended December 31, 1996 and 1997, assuming the above acquisitions occurred as of the beginning of the respective periods. The pro forma information is provided for informational purposes only. It is based on historical information, and does not necessarily reflect the actual results that would have occurred, nor is it indicative of future results of operations of the consolidated entities:

	1996	1997
Revenue	$87,293,957	$93,905,262
Net income	$3,159,555	$6,932,900
Earnings per share-basic	$0.30	$0.58

Earnings per share-diluted	$0.29	$0.55

On December 31, 1997, effective January 1, 1998, the Company purchased certain assets of American Financial Enterprises, Inc. Collections Division ("AFECD") for $1.7 million in cash. Cash paid for the acquisition of AFECD is included on the Consolidated Balance Sheet at December 31, 1997 under the caption "Deposits on acquisitions."

On February 6, 1998, the Company purchased certain assets of The Response Center ("TRC"), which was an independent division of TeleSpectrum Worldwide, Inc., for $15.0 million plus an earn-out based on the value of the Company's market research business at December 31, 1998.

4. Marketable securities:

In 1995 and 1996, the Company classified all of its securities as "available-for-sale" and recorded them at fair value and unrealized gains and losses as a separate component of shareholders' equity.

Proceeds from the sale of investment securities were $99,256 in 1995. Proceeds from the sale of investment securities were $406,937 in 1996. As of December 31, 1996, there were no gross unrealized gains or losses because all available-for-sale securities were distributed as part of the undistributed S Corporation earnings and all gains and losses were recognized accordingly.

4. Marketable securities (continued):

Investment income, included in interest and investment income on the Consolidated Statements of Income, from available-for-sale securities as of December 31, 1995 and 1996 consisted of:

	1995	1996
Realized gain on the sales of securities	$12,217	$ 86,509
Realized loss on the sales of securities	(15,094)	(12,186)
Interest income	7,035	33,577
Dividend income	5,892	6,816
	$ 10,050	$114,716

5. Funds held in trust for clients:

In the course of the Company's regular business activities as an accounts receivable management company, the Company receives clients' funds arising from the collection of accounts placed with the Company. These funds are placed in segregated cash accounts and are generally remitted to clients within 30 days. Funds held in trust for clients of $3,835,409 and $14,898,194 at December 31, 1996 and 1997 have been shown net of their offsetting liability for financial statement presentation.

6. Property and equipment:

At December 31, 1996 and 1997, property and equipment, at cost, consists of the following:

	1996	1997
Computer equipment	$2,461,211	$7,161,209
Furniture and fixtures	1,095,134	2,063,232
Leased assets	324,414	324,414
	3,880,759	9,548,855
Less accumulated depreciation	1,050,697	2,079,467
	$2,830,062	$7,469,388

Depreciation charged to operations amounted to $199,123, $465,785, and $1,311,181 for the years ended 1995, 1996 and 1997, respectively. The

Company had not entered into any capital lease transactions for the year ended December 31, 1997.

7. Cash value, life insurance:

The cash value of certain split-dollar life insurance policies is included under the caption "Other assets" on the consolidated balance sheets. The insurance policies, which were purchased in 1997, separately insure: (i) the joint lives of Michael J. Barrist and his spouse; and (ii) the joint lives of Charles C. Piola Jr. and his spouse. Under the terms of the split-dollar agreement, the Company will pay the premiums for certain survivorship life insurance policies on the lives of Mr. and Mrs. Barrist and Mr. and Mrs. Charles C. Piola with an aggregate face value of $50.0 million and $30.0 million, respectively, only to the extent that the premiums are in excess of the cost of the term insurance coverage. While the proceeds of the policies are payable to the beneficiaries designated by the respective executives, the Company has an interest in the insurance benefits equal to the cumulative amount of premiums it has paid and is not responsible to pay any premiums in excess of the cash surrender value of the respective policies.

8. Long-term debt:

	1996	1997
Non-interest bearing note; $99,750 remaining face amount, payable in monthly installments of $5,250 through July 1999 (less unamortized discount based on imputed interest rate of 10%)	$ 138,847	$ 91,900
Vehicle loan - from acquired company payable in monthly installments of $339 through May 1999	-	5,467
Subordinated seller note payable, 8.00% due September 2001, converted to common stock in the 1997 Offering	1,000,000	-
Subordinated seller notes payable, 8.00%, $500,000 due on April 1998 and January 1999	-	1,000,000
Subordinated seller note payable, 8.00% due February 2002, convertible to common stock at $14.117 per share	-	900,000
Less current portion	(46,946)	(560,073)
	$1,091,901	$1,437,294

The following summarizes the Company's required debt payments for the next five years:

1998	$560,073
1999	537,294
2000	-
2001	-
2002	900,000

In July 1995, the Company entered into a $7.0 million revolving credit agreement. The line of credit is collateralized by substantially all the assets of the Company. In September 1996, the credit agreement was increased to $15.0 million and the bank received a warrant for 69,840 shares, exercisable at $8.67 per share. In December 1996, the bank increased the credit agreement to $25.0 million and received a warrant to purchase an additional 27,750 shares, exercisable at $8.67 per share. The credit agreement currently bears interest at LIBOR plus 1.5% on outstanding borrowings, and a 3/8% charge on the unused portion of the credit agreement. The revolving credit agreement contains, among other provisions, requirements for maintaining defined levels of working capital, net worth, capital expenditures, various financial ratios and restrictions on dividends. In July 1997, the bank exercised 225,000 warrants for Common Stock which was sold in the 1997 offering. The remainder of the warrants were exercised in January 1998.

At December 31, 1996 and 1997, there were no borrowings outstanding on the credit agreement.

9. Income taxes:

A summary of the components of the tax provision at December 31, 1996 and 1997 is as follows:

	1996	1997
Currently payable:		
Federal	$620,133	$2,535,009
State	147,299	482,964
Deferred:		
Federal	500	1,752,184
State	125	9,880
Provision for income taxes (excluding effect of change in tax status)	768,057	4,780,037
Effect of accounting change:		
Federal	124,247	-
State	31,062	-
Total provision	$612,748	$4,780,037

Deferred tax assets (liabilities) at December 31, 1996 and 1997 consist of the following:

	1996	1997
Deferred tax assets:		
Amortization	$ 90,083	$ -
Contractual revenue recognition	65,333	25,238
Accrued expenses	38,878	103,199
	194,294	128,437
Deferred tax liabilities:		
Amortization	-	1,709,982
Depreciation	39,610	109,759
Accrual basis conversion	83,924	-
	123,534	1,819,741
Net deferred tax asset (liability)	$ 70,760	$(1,691,304)

A reconciliation of the U.S. statutory income tax rate to the effective rate (excluding the effect of the change in tax status) is as follows:

U.S. statutory income tax rate	34%	34%
Income allocable to S Corporation	(27%)	-
Non-deductible goodwill and other expenses	5%	2%
State taxes, net of federal	2%	4%
Effective tax rate	14%	40%

10. Employee benefit plans:

The Company has a savings plan under Section 401(k) of the Internal Revenue Code (the "Plan"). The Plan allows all eligible employees to defer up to 20% of their income on a pretax basis through contributions to the Plan. The Company will match 25% of employee contributions for an amount up to 6% of each employee's base salary. The charge to operations for the matching contributions was $30,027, $71,800, and $178,950, for 1995, 1996 and 1997, respectively.

11. Supplemental cash flow information:

The following are supplemental disclosures of cash flow information:

	1995	1996	1997
Cash paid for interest	$ 157,379	$ 817,950	$ 569,122
Cash paid for income taxes	-	600,000	4,153,970
Noncash investing and financing activities:			
Fair value of assets acquired	2,145,578	4,081,005	8,706,137
Property acquired under capital leases	-	348,586	-
Value of fixed assets traded for new fixed assets	-	-	238,117
Liabilities assumed from acquisitions	416,334	2,005,749	4,149,741
Note receivable, shareholder	82,873	-	-
Convertible note payable, issued for acquisition	-	1,000,000	900,000
Notes payable, issued for acquisition	-	-	1,000,000
Convertible note payable, converted to Common Stock	-	-	1,000,000
Common stock issued for acquisitions	-	-	9,310,118
Warrants issued with debt	177,294	218,760	-
Warrants issued for acquisitions	-	-	875,000
Warrants exercised	-	-	148,508

12. Leases:

The Company leases certain equipment under agreements which are classified as capital leases. The equipment leases have original terms ranging from 36 to 120 months and have purchase options at the end of the original lease term.

The Company also leases certain equipment under non-cancelable operating leases. Future minimum payments, by year and in the aggregate, under noncancelable capital leases and operating leases with initial or remaining terms of one year or more consist of the following at December 31, 1997:

1998	$ 4,299,000
1999	3,668,000
2000	2,686,000
2001	2,082,000
2002	1,547,000
Thereafter	7,749,000
	$22,031,000

12. Leases (continued):

Rent expense was $463,916, $1,073,914 and $2,696,819 for the years ended December 31, 1995, 1996, and 1997, respectively. The related party office lease expense, which terminated in July 1997, was $385,217, $489,926 and $231,636, for 1995, 1996, and 1997, respectively. The total amount of base rent payments is being charged to expense on the straight-line method over the term of the lease.

13. Earnings per share:

Basic earnings per share were computed by dividing the net income (including pro forma income taxes where applicable) for the years ended December 31, 1995, 1996 and 1997 by the pro forma weighted average number of shares outstanding. Pro forma net income amounts are used for 1995 and 1996 because the historical net income does not include the impact of federal and state income taxes as if the Company had been subject to income taxes. Diluted earnings per share were computed by dividing the net income (including pro forma income taxes where applicable), adjusted for the effects of interest expense attributable to convertible debt, for the years ended December 31, 1995, 1996 and 1997 by the weighted average number of shares outstanding including common equivalent shares. All outstanding options, warrants and convertible securities have been utilized in calculating diluted net income per share, using the initial public offering price of $8.67 per share for periods prior to the IPO, only when their effect would be dilutive. For 1996, the pro forma weighted average number of shares outstanding have also been adjusted to include the number of shares of common stock (375,000 shares) that the Company would have needed to issue at the initial public offering price of $8.67 per share to finance the distribution of undistributed S Corporation earnings through the date on which the Company terminated its S Corporation status.

The reconciliation of basic to diluted earnings per share ("EPS) consists of the following (dollars in thousands except EPS amounts (1995 and 1996 are pro forma for taxes):

<TABLE>
<CAPTION>

	1995		1996		1997	
	Shares	EPS	Shares	EPS	Shares	EPS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic	7,093	$ 0.12	7,630	0.34	11,941	$ 0.59
Dilutive effect of warrants	-	-	-	-	96	-
Dilutive effect of options	-	-	-	-	403	(0.02)
Dilutive effect of convertible notes	-	-	28	-	120	-
Diluted	7,093	$ 0.12	7,658	$0.34	12,560	$ 0.57

</TABLE>

14. Stock options:

In June 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan"). In September 1996, the Company adopted the 1996 Stock Option Plan (the "1996 Plan") and the 1996 Non-Employee Director Stock Option Plan (the "Director Plan" and collectively with the 1995 Plan and the 1996 Plan, the "Plans"). The 1995 and 1996 plan, as amended, authorized 332,589 and 717,422 shares, respectively, of incentive or non-qualified stock options. The Director Plan, as amended, authorized 150,000 shares. The maximum exercise period is ten years after the date of grant. A summary of stock option activity since inception of the plans is as follows:

14. Stock options (continued):

	Number of Options	Weighted Average Option Price Per Share
Outstanding at January 1, 1995	-	$ -
Granted	216,086	1.82
Outstanding at December 31, 1995	216,086	1.82
Granted	442,371	9.25
Outstanding at December 31, 1996	658,457	6.80
Granted	424,075	20.28
Exercised	(50,320)	4.20
Forfeited	(36,022)	10.72
Outstanding at December 31, 1997	996,190	$13.05

Shares exercisable at December 31, 1997	241,201	$ 6.16

The following table summarizes information about fixed stock options outstanding as of December 31, 1997:

Range of Exercise Prices	Stock Options Outstanding: Shares	Stock Options Outstanding: Weighted Average Remaining Life	Stock Options Outstanding: Weighted Average Exercise Price	Stock Options Exercisable: Shares	Stock Options Exercisable: Weighted Average Exercise Price
$ 1.82	151,490	7.41 years	$ 1.82	100,993	$ 1.82
$ 8.66 to $12.09	420,625	8.79 years	$ 9.29	140,208	$ 9.29
$15.00 to $19.42	238,050	9.24 years	$16.75	-	$ -
$23.33 to $25.00	186,025	9.92 years	$24.53	-	$ -
	996,190	8.90 years		241,201	

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards SFAS No. 123, "Accounting for Stock-Based Compensation". In accordance with the provisions of SFAS 123 the Company applies APB Opinion 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost based on the fair value of the options granted at grant date. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date in accordance with provisions of SFAS 123, net income and earnings per share for 1996 and 1995 would have been reduced to the unaudited pro forma amounts indicated in the following table:

	1995	1996	1997
Net income - as reported	$819,600	$2,540,929	$7,073,924
Net income - pro forma	$812,023	$2,483,138	$6,633,961
Basic:			
Earnings per share - as reported	$0.12	$ 0.34	$0.59
Earnings per share - pro forma	$.012	$0.33	$0.55
Diluted:			
Earnings per share - as reported	$.012	$0.34	$0.59
Earnings per share - pro forma	$0.12	$0.32	$0.53

14. Stock options (continued):

The estimated weighted-average grant-date fair value of the options granted during the year ended December 31, 1997 was $7.17. All options granted were at the market price of the stock on the grant date. For valuation purposes, the Company utilized the Black-Scholes option pricing model the following assumptions on a weighted average basis:

	1995	1996	1997
Risk-free interest rate	6.6%	6.32%	6.19%
Expected life in years	3.25	3.25	3.25
Volatility factor	0.00	32.16	40.42
Dividend yield	None	None	None
Forfeiture rate	5.0%	5.0%	5.0%

15. Fair value of financial instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount reported in the balance sheet approximates fair value because of the short maturity of these instruments.

Debt: The Company's non-seller-financed debt is primarily variable in nature and based on the prime rate, and accordingly, the carrying amount of debt instruments approximates fair value. Seller-financed debt arising from the MAB and the Goodyear acquisitions consists of two notes payable which contain a conversion option allowing the holder to convert the debt into shares of common stock at a price of $8.67 and $14.117 per share, respectively. Valuation of these subordinated notes assumes a required rate of return of 13.25% and 10.19%, respectively. For valuation of the option to convert the notes into 115,385 and 63,755 shares of Common Stock, respectively, the Company utilized the Black-Scholes option pricing model and assumed a risk-free interest rate of 6.48% at December 31, 1996 and 5.50% at December 31, 1997, an expected life of three years, a 35.00% volatility factor at December 31, 1996 and a 37.1% volatility factor at December 31, 1997, and no expected dividends. The note issued in connection with the MAB acquisition was converted into Common Stock in July 1997.

The estimated fair value of the Company's financial instruments are as follows at December 31:

<TABLE>
<CAPTION>

	1996		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial Assets:				
Cash and cash equivalents	$12,058,798	$12,058,798	$29,539,103	$29,539,103
Financial Liabilities:				
Non-interest bearing note payable	138,847	138,847	91,900	91,900
Subordinated seller notes payable	-	-	1,000,000	1,000,000
Subordinated seller notes payable, convertible	1,000,000	1,491,016	900,000	1,682,737

</TABLE>

16. Quarterly Financial Information (unaudited):

The following table sets forth selected actual unaudited historical financial data for the calendar quarters of 1995 and 1996. This quarterly information is unaudited but has been prepared on a basis consistent with the Company's audited financial statements presented elsewhere herein and, in the Company's opinion, includes all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period.

16. Quarterly Financial Information (unaudited) (continued):

<TABLE>
<CAPTION>

Quarters Ended

	1996				1997			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue	$6,044	$6,499	$7,715	$10,502	$18,077	$21,162	$21,739	$24,306
Income from operations	915	1,156	1,183	1,569	2,383	3,039	3,112	2,932
Net income	760	1,001	968	906	1,307	1,717	2,082	1,968

</TABLE>

17. Commitments and Contingencies:

The Company is party, from time to time, to various legal proceedings incidental to its business. In the opinion of management none of these items individually or in the aggregate would have a significant effect on the financial position, result of operations, cash flows, or liquidity of the Company.

18. Other Recent Accounting Pronouncements:

In June 1997, the Financial Accounting Standard Board issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and display of comprehensive income, requiring its components to be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt this standard in the first quarter of 1998. Management believes that the adoption of SFAS No. 130 will have not have a material impact on consolidated results of operations, financial condition or cash flows.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting financial information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customer. The Company is required to disclose this information for the first time it publishes its 1998 annual report. Management is in the process of evaluating the segment disclosures for purposes of reporting under SFAS No. 131. The Company has not yet determined the effect that the adoption of SFAS. No. 131 will have on the consolidated results of operations, financial condition or cash flows.

OFFICE SPACE LEASE

for

515 WEST PENNSYLVANIA AVENUE,
FORT WASHINGTON PENNSYLVANIA

by and between

INDIANA AVENUE ASSOCIATES, L.P.
a Pennsylvania limited Partnership
(as Landlord)

and

NCO GROUP, INC.
a Pennsylvania corporation
(as Tenant)

Date: _______, 1997

THIS LEASE (the "Lease") is made as of March 18, 1997 between INDIANA AVENUE ASSOCIATES, L.P., a Pennsylvania limited partnership (herein referred to as "Landlord") whose address is 443 South Gulph Road, King of Prussia, Pennsylvania 19406 and NCO GROUP, INC., a Pennsylvania corporation (herein referred to as "Tenant") whose address is 1740 Walton Road, Blue Bell, Pennsylvania, 19422.

PREAMBLE

BASIC LEASE PROVISIONS AND DEFINITIONS

In addition to other terms elsewhere defined in this Lease, the following terms whenever used in this Lease shall have only the meanings set forth in this section, unless such meanings are expressly modified, limited or expanded elsewhere herein.

1. ADDITIONAL RENT shall mean all sums in addition to Fixed Basic Rent payable by Tenant to Landlord pursuant to the provisions of the Lease.

2. BROKER(S) shall mean Kelley - Pitcairn, Inc..

3. BUILDING shall mean 515 West Pennsylvania Avenue, Fort Washington, Montgomery County, Pennsylvania.

4. COMMENCEMENT DATE is July 1, 1997 provided Landlord shall deliver the Premises with all Landlord Work substantially completed and in broom clean condition, free of debris, furniture and equipment (unless specified by Tenant) ready for the construction of Tenant Improvements on or before June 15, 1997. Tenant shall have the right from June 15, 1997 through July 1, 1997 to occupy the Premises for the construction of Tenant Improvements and the installation of furniture, equipment and fixtures (the "Beneficial Use Period"). There will be no Fixed Basic Rent or Additional Rent for the Beneficial Use Period. Upon Tenant's occupancy of the Premises, Tenant shall execute a Commencement Date Agreement substantially in the form attached hereto as Exhibit E.

5 DEMISED PREMISES OR PREMISES shall be approximately 82,000 gross rentable square feet as shown on Exhibit A hereto.

6 EXHIBITS shall be the following, attached to this Lease and incorporated herein and made a part hereof:

Rider A	Renewal Option
Rider B	Lease Termination Fee and Commencement Date Penalty
Exhibit A	Location of Premises
Exhibit B	Plans and Specifications for Landlord's Work
Exhibit B-1	List of Approved General Contractors
Exhibit C	Rules and Regulations
Exhibit D	Tenant Estoppel Certificate
Exhibit E	Commencement Date Agreement
Exhibit F	HVAC Service Contract Specifications

7. EXPIRATION DATE shall be the day before the twelfth (12th) calendar year anniversary of the Commencement Date.

8. FIXED BASIC RENT shall mean except for the Fixed Basic Rent during the Renewal Option periods set forth on Rider A: Twelve Million Six Hundred Sixty Nine Thousand and 00/100 Dollars ($12,669,000.00), net of electric, calculated and payable as follows:

	Years 1 - 5	Years 6 - 12
Per Rentable Square Foot	$13.50	$14.50
Yearly Rate:	$1,107,000.00	$1,189,000.00
Monthly Installment:	$92,250.00	$99,083.33

9. ADDITIONAL RENT shall mean any and all sums other than Fixed Basic Rent which may be due from time to time from Tenant to Landlord or to third parties pursuant to the terms of the Lease.

10. OFFICE BUILDING AREA is as set forth on Exhibit A

11. PERMITTED USE shall be general office use and for no other purpose.

12. PROPORTIONATE SHARE shall mean one hundred percent (100%).

13. SECURITY DEPOSIT shall mean one (1) month Fixed Basic Rent in the amount of Ninety Two Thousand Two Hundred Fifty and 00/100 Dollars ($92,250.00).

14. TERM shall mean twelve (12) years from the Commencement Date.

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For and in consideration of the covenants herein contained, and upon the terms and conditions herein set forth, Landlord and Tenant, intending to be legally bound, agree as follows:

1. Definitions. The definitions set forth in the preceding Preamble shall apply to the same capitalized terms appearing in this Lease Agreement. Additional definitions are contained in Section 43 and throughout this Lease.

2. Premises. Landlord hereby demises and leases the Premises to Tenant for Tenant's sole and exclusive use and Tenant hereby leases and takes the Premises from Landlord for the Term (as defined in Section 4) and upon the terms, covenants, conditions, and provisions set forth in this Lease Agreement, including the Preamble (this "Lease").

3. Landlord's Work.

a) Landlords Work. Landlord, at Landlord's sole cost and expense, shall cause to be completed upon the Premises and the Property, the work (collectively, the "Landlord's Work"), all in a good and workmanlike manner and in accordance with the Plans and Specifications attached hereto as Exhibit B. The Landlord shall use a general contractor from a list of general contractors which have been approved by Tenant as set forth on Exhibit B-1 to perform the Landlord's Work. Landlord, as part of the Landlord's Work, shall replace the existing roof of the Building and obtain a warranty for not less than fifteen (15) years from the date of installation of same. In addition, Landlord shall recoat and restripe the existing parking lot every seven (7) years in such a manner as to provide no less than the number of parking spaces existing as of the Commencement Date. Landlord shall obtain a warranty for not less than one (1) year from its general contractor for the Landlord's Work as well as a warranty for the HVAC system which is being replaced in accordance with the Landlord's Work. Landlord shall assign, without recourse, any and all of its rights under the warranty it obtains from its general contractor as well as the roof and HVAC warranties to Tenant. Within ten (10) days of the

Commencement Date, Tenant shall deliver a complete and final punchlist to Landlord which punchlist items shall be completed by Landlord within forty five (45) days of receipt thereof. Except as expressly provided on Exhibit B hereto, Landlord shall not be obligated to perform any alteration, improvement or addition to the Premises or the Property and all such further alterations, improvements or additions or to the Premises shall be made at Tenant's sole cost and expense and made only in accordance with Section 13 hereof.

4. Term. The term of this Lease shall commence on the Commencement Date. Following the Commencement Date, the term of this Lease, unless sooner terminated as expressly provided in this Lease, shall continue until the date of expiration of the term specified as the Term of Lease in the Preamble plus the number of days which remain in the calendar month in which such term expires (the "Term"). Notwithstanding the foregoing, Tenant shall have the one time right to terminate this Lease as if such termination date were the date of termination set forth in the Preamble subject to the following conditions: (i) Landlord has received one hundred and twenty (120) months of Fixed Basic Rent and Additional Rent; (ii) Tenant gives Landlord in writing at least six (6) months prior notice of such termination; and (iii) Tenant reimburses Landlord for all costs of (x) unamortized tenant improvements completed in accordance with section 3 of this Lease; and (y) unamortized brokerage commissions and bonuses paid by Landlord on account of this Lease.

5. Use of Premises. Tenant shall occupy the Premises throughout the Term and shall use the same for, and only for, the Permitted Use specified in the Preamble. The Building is designed to normal building standards for floor-loading capacity. Tenant shall not use the Premises in such ways which, in Landlord's judgment, exceed such load limits.

6. Rent. Unless otherwise specifically requested by Landlord at any time, Fixed Basic Rent, Additional Rent and any other rent or other sums due under this Lease (hereunder collectively referred to as "Rent") shall be paid and delivered to Landlord, in the amounts, time and manner more particularly provided in this Lease.

a. Fixed Basic Rent. Tenant shall pay, throughout the Term, Fixed Basic Rent in the amount specified on the Preamble (or in the Renewal Option, if applicable), without notice or demand and without setoff or deduction, in equal monthly installments equal to one-twelfth of the Fixed Basic Rent (specified as Monthly Installments in the Preamble or in the Renewal Option), in advance, on the first day of each calendar month during the Term. If the Commencement Date falls on a day other than the first day of a calendar month, the Fixed Basic Rent shall be apportioned on a per diem basis for the period between the Commencement Date and the first day of the first full calendar month in the Term and such apportioned sum shall be paid on the Commencement Date.

b. Additional Rent. Tenant shall pay to Landlord or Landlord's designated property management affiliate throughout the Term as Additional Rent a management fee of $10,000.00 per year, payable in equal and consecutive monthly installments of $833.33, on the first day of each calendar month of the Term. The scope of the management services to be provided by Landlord or Landlord's designated property management affiliate shall be set forth in a writing to be signed by Landlord and Tenant which shall be incorporated in and become a part of this Lease. All operating expenses, utilities and taxes shall be paid by Tenant directly to the vendor or service provider selected by Tenant or the applicable taxing authority as more fully set forth in this Lease.

c. Independent Covenant; Survival. Tenant's covenant to pay the Rent is independent of any other covenant, agreement, term or condition of this Lease. Without limitation of any obligation of Tenant under this Lease which shall survive the expiration of the Term, the obligation of Tenant to pay the Rent shall survive the expiration of the Term.

7. Taxes.

a) Real Property Taxes. Tenant shall pay all Real Property Taxes applicable to the Premises directly to the applicable taxing authority during the term of this Lease. All such payments shall be made at least ten (10) days prior to the delinquency date of such payment. Tenant shall promptly furnish Landlord with satisfactory evidence that all Real Property Taxes have been paid. If any Real Estate Taxes paid by Tenant shall cover any period of time prior to or after the expiration of the term hereof, Tenant's share of such Real Property taxes shall be equitably prorated to cover only the period of time within the fiscal year applicable to such Real Property Taxes during which this Lease shall be in effect, and Landlord shall reimburse Tenant to the extent required within thirty (30) days of the expiration of the Term. If Tenant shall fail to pay any Real Property Taxes, Landlord shall have the right to pay the same, in which event Tenant shall repay such amount to Landlord with Tenant's next rent installment together with interest at the rate applicable hereunder for sums overdue after any applicable notice or grace period. For purposes of this Lease, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Premises by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Landlord in the Premises or in the real property of which the Premises are a part, as against Landlord's right to rent or other income therefrom, and as against Landlord's business of leasing the Premises. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy assessment or charge hereinabove included within the definition of "Real Property Taxes", or (ii) the nature of which was hereinbefore included within the definition of "Real Property Taxes", or (iii) which is added to a tax or charge hereinbefore included within the definition of "Real Property Taxes" by reason of such transfer, (iv) which is imposed by reason of this transaction, any modifications or changes hereto or any transfers hereof, or (v) any fee assessed or charged by any third party in connection with any assessment appeal or Real Property Taxes valuation adjustment which actually results in a reduction of the Real Property Taxes.

b. Personal Property Taxes. Tenant shall pay directly to the applicable taxing authority prior to delinquency all taxes, if any, assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere. When possible, Tenant shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Landlord. In the event any of Tenant's personal property shall be assessed with Landlord's real property, Tenant shall pay to Landlord the taxes attributable to Tenant's property within ten (10) days after receipt of a written statement setting forth the taxes applicable to Tenant's property.

8. Insurance.

a) Liability. Tenant, at Tenant's sole cost and expense, shall maintain and keep insurance in effect throughout the Term against liability for bodily injury (including death) and property damage in or about the Premises or the Property under a policy of comprehensive general public liability insurance, with such limits as to each as may be reasonably required by Landlord from time to time, but not less than $2,000,000.00 for each person and $5,000,000.00 in the aggregate for bodily injury (including death) to more than one (1) person and $2,000,000.00 for property damage. The policies of comprehensive general public liability insurance shall name Landlord and Tenant (and if requested, any mortgagee of Landlord) as the insured parties to the extent of their respective interests. Each such policy shall provide that it shall not be cancelable without at least thirty (30) days prior written notice to Landlord and to any mortgagee named in an endorsement thereto and shall be issued by an insurer and in a form satisfactory to Landlord. At least ten (10) days prior to the Commencement Date, and thereafter upon Landlord's request, a certificate of insurance shall be delivered to Landlord proving compliance with the foregoing requirements. If Tenant shall fail, refuse or neglect to obtain or to maintain any insurance that it is required to provide or to furnish Landlord with satisfactory evidence of coverage on any such policy upon demand, Landlord, after three (3) days prior written notice to Tenant, shall have the right to purchase such insurance. All payments made by Landlord for such insurance shall be recoverable by Landlord from Tenant, together with interest thereon, as Additional Rent promptly upon demand. Notwithstanding anything contained herein to the contrary, Tenant may self-insure all of its personal property situated within the Premises against property damage and destruction.

b) Waiver of Subrogation. The parties to this Lease each release the other, to the extent of the releasing party's insurance coverage, from any and all liability for any loss or damage covered by such insurance which may be inflicted upon the property of such party even if such loss or damage shall be brought about by the fault or negligence of the other party, its agents or employees. If any policy does not permit such a release of liability and a waiver of subrogation, and if the party to benefit therefrom requests that such a waiver be obtained, the other party agrees to use its best efforts to obtain an endorsement to its insurance policies permitting such waiver of subrogation if it is available. If an additional premium is charged for such waiver, the party benefiting therefrom agrees to pay the amount of such additional premium promptly upon demand. In the event a party is unable to obtain such a waiver, it shall immediately notify the other party of its inability. In the absence of such notifications, each party shall be deemed to have obtained such waiver of subrogation.

c) Increase of Premiums. Tenant will not do anything or fail to do anything or permit anything to be done which will cause the cost of Landlord's insurance to increase or which will prevent Landlord from procuring insurance (including but not limited to public liability insurance) from companies, and in a form, satisfactory to Landlord. If any breach of this subsection (c) by Tenant shall cause the rate of fire or other insurance to be increased, Tenant shall pay the amount of such increase as Additional Rent promptly upon demand. If Tenant does anything or fails to do anything or permits anything to be done for which insurance cannot be obtained, Landlord may terminate this Lease upon written notice to Tenant.

9. Repairs and Maintenance.

a) Tenant shall, throughout the Term and at Tenant's sole cost and expense keep in good order, condition and repair the Premises and every part thereof, structural and nonstructural (whether or not such portion of the Premises requiring repair or the means of repairing the same are reasonably or readily accessible to Tenant, and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements or the age of such portion of the Premises) including, without limitation, all plumbing, heating, air conditioning, ventilating, electrical, lighting facilities and equipment within the Premises, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass and skylights located within the Premises, and all landscaping, driveways, parking lots, fences and signs located on the Premises and sidewalks and parkways adjacent to the Premises. Tenant shall pay directly to a mutually acceptable HVAC contractor for standard scheduled maintenance of the Building's HVAC system(s). Tenant and Landlord shall jointly select a mutually acceptable and qualified HVAC maintenance contractor by July 1, 1997 to perform the HVAC maintenance services set forth on Exhibit F. Notwithstanding the foregoing, Landlord shall be responsible, at its sole cost and expense, for all costs incurred for repairs and replacements to decks, exterior walls, existing windows (at the time of execution of this Lease) slabs, foundations, roof, parking lot or other site infrastructure elements which are considered capital improvements or replacements under Generally Accepted Accounting Principles.

b) Notwithstanding the foregoing, repairs and replacements to the Premises and the Property arising out of or caused by Tenant's use, manner of use or occupancy of the Premises, by Tenant's installation of alterations, additions, improvements, trade fixtures or equipment in or upon the Premises or by any act or omission of Tenant or any employee, agent, contractor or invitee of Tenant shall be made at Tenant's sole cost and expense and Tenant shall pay Landlord the actual cost of any such repair or replacement, as Additional Rent, upon demand.

c) In the event that Tenant fails to perform or satisfy any maintenance or repair obligation arising under this Section 9, Landlord, upon five (5) days prior written notice, by United States mail return receipt requested or by reputable national overnight delivery service, shall have the right, but not the obligation to perform said services. Any monies reasonably expended by Landlord in connection with performance of Tenant's obligations in this Section 9 shall, upon notice (as provided herein) constitute Additional Rent payable by Tenant to Landlord.

10. Utilities and Services.

a) Tenant shall pay for all electricity, water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon and shall have all such utilities provided to the Premises in the Tenant's name.

b) Landlord shall not be liable for any damages to Tenant resulting from the quality, quantity, failure, unavailability or disruption of any services beyond the reasonable control of Landlord unless directly caused by the negligence of Landlord, its representatives or agents and the same shall not constitute a termination of this Lease or an actual or constructive eviction or entitle Tenant to an abatement of rent. In the event that (i) twenty-five percent (25%) or more of the Premises becomes untenantable solely as a result of the negligence of Landlord, its representatives or agents and (ii) such condition (a "Basic Services Failure") continues for a period in excess of three (3) consecutive days, Tenant shall receive a full abatement of Rent due under this Lease Agreement for the Premises (or such portion of the Premises rendered untenantable because of a Basic Services Failure) until such service is restored.

11. Governmental Regulations.

a) Landlord and Tenant shall comply with all laws, ordinances, notices, orders, rules, regulations and requirements of all federal, state and municipal government or any department, commission, board of officer thereof, or of the National Board of Fire Underwriters or any other body exercising similar functions, relating to the Premises or to the use or manner of use of the Property. Tenant shall not knowingly do or commit, or suffer to be done or committed anywhere in the Building, any act or thing contrary to any of the laws, ordinances, regulations and requirements referred to in this Section. Tenant shall give Landlord prompt written notice of any accident in the Premises and of any breakage, defect or failure in any of the systems or equipment servicing the Premises or any portion of the Premises.

b) Tenant shall pay a pro rata share of capital improvements which Landlord shall install or construct in compliance with governmental requirements which take effect after the commencement of the Term hereof or as energy saving devices. Tenant's pro rata share shall be determined based upon the estimated life of the capital investment item, determined by Landlord in accordance with generally accepted accounting principles, and shall include a cost of capital funds adjustment equal to nine and three-quarters percent (9.75%) per year on the unamortized portion of all such costs. Tenant shall only have to pay for the portion of the useful life of the capital improvement which falls within the Term. Tenant shall thus make payments in equal annual installments for such capital improvements until the Term expires or until the cost of the improvement has been fully paid for, whichever first occurs.

12. Signs. Except for signs which are located wholly within the interior of the Premises and which are not visible from the exterior of the Premises, Tenant shall not place, erect, maintain or paint any signs upon the Premises or the Property unless the design of such signs comply with all Fort Washington Township and other applicable governmental rules, regulations, ordinances or other statutes. Tenant shall be solely responsible for all costs and expenses associated with the erection of any signs upon the Premises and shall be obligated to obtain and provide to Landlord any and all necessary permits prior to the placement or erection of such signs.

13. Alterations, Additions and Fixtures.

a) Tenant shall have the right to install in the Premises any trade fixtures; provided, however, that no such installation and no removal thereof shall be permitted which affects any structural component of the Building or Premises and that Tenant shall repair and restore any damage or injury to the Premises or the Property caused by installation or removal.

b) Tenant shall not make or permit to be made any alterations, improvements or additions to the Premises or Property without on each occasion first presenting plans and specifications to Landlord and obtaining Landlord's prior written consent, which shall not be unreasonably withheld or delayed and shall be communicated to Tenant by Landlord within fifteen (15) business days after Landlord's receipt of Tenant's proposed plans and specifications. Notwithstanding the foregoing, Landlord's consent may be conditioned upon compliance with reasonable requirements of Landlord including, without limitation, the filing of mechanics' lien waivers by Tenant's contractors and the submission of written evidence of adequate insurance coverage naming Landlord as an additional insured thereunder. If Landlord consents to any proposed alterations, improvements or additions or Tenant's contractor performs any of the work identified in Section 3 of this Lease Agreement, then Tenant shall make the proposed alterations, improvements and additions at Tenant's sole cost and expense provided that: (i) Tenant supplies any necessary permits; (ii) such alterations and improvements do not, in Landlord's reasonable judgment, impair the structural strength of the Building or any other improvements or reduce the value of the Property; (iii) Tenant takes or causes to be taken all steps that are otherwise required by Section 14 of this Lease and that are required or permitted by law in order to avoid the imposition of any mechanic's, laborer's or materialman's lien upon the Premises or the Property; (iv) the alterations, improvements or additions shall be installed in accordance with the approved plans and specifications and completed according to a construction schedule submitted by Tenant and approved by Landlord which approval shall not be unreasonably withheld; and (v) Tenant provides insurance of the types and coverage amounts required by Landlord. Any and all alterations, improvements and additions to the Premises which are constructed, installed or otherwise made by Tenant shall be the property of Tenant until the expiration or sooner termination of this Lease; at that time all such alterations and additions shall remain on the Premises and become the property of Landlord without payment by Landlord unless, upon the termination of this Lease, Tenant elects, at its sole discretion to remove the same in which event Tenant will remove such alterations, improvements and additions, and repair and restore any damage to the Property caused by the installation or removal. Notwithstanding the foregoing, Tenant shall not be required to obtain the prior written consent of Landlord to perform alterations to the interior of the Premises that are non-structural and normal for office use if the total cost of such work is less than $25,000.00, provided, however, Tenant shall provide prior written notice thereof to Landlord. Notwithstanding anything to the contrary contained in this Lease, Landlord may withhold its approval to any proposed alterations, additions or improvements to the Premises in its reasonable discretion with respect to any such alteration, addition or improvement which Landlord determines involves any modification to the Building's exterior or its structural, electrical, mechanical or plumbing systems, or any components thereof.

14. Mechanic's Liens. Tenant shall promptly pay any contractors and materialmen who supply labor, work or materials to Tenant at the Premises or the Property so as to minimize the possibility of a lien attaching to the Premises or the Property. Tenant shall take all steps permitted by law in order to avoid the imposition of any mechanic's, laborer's or materialman's lien upon the Premises or the Property. Should any such lien or notice of lien be filed for work performed for Tenant other than by Landlord, Tenant shall cause such lien or notice of lien to be discharged of record by payment, deposit, bond or otherwise within thirty (30) days after the filing thereof or

after Tenant's receipt of notice thereof, whichever is later, regardless of the validity of such lien or claim. If Tenant shall fail to cause such lien or claim to be discharged and removed from record within such thirty (30) day period, then, without obligation to investigate the validity thereof and in addition to any other right or remedy Landlord may have, Landlord may, but shall not be obligated to, contest the lien or claim or discharge it by payment, deposit, bond or otherwise; and Landlord shall be entitled to compel the prosecution of an action for the foreclosure of such lien by the lienor and to pay the amount of the judgment in favor of the lienor with interest and costs. Any amounts so paid by Landlord and all costs and expenses including, without limitation, attorneys' fees incurred by Landlord in connection therewith, together with interest at a rate of twelve percent (12%) per annum from the respective dates of Landlord's making such payment or incurring such cost or expense, which shall constitute Additional Rent payable hereunder promptly upon demand therefor. Nothing in this Lease is intended to authorize Tenant to do or cause any work or labor to be done or any materials to be supplied for the account of Landlord, all of the same to be solely for Tenant's account and at Tenant's risk and expense. Further, notwithstanding anything to the contrary contained in this Lease, nothing contained in or contemplated by this Lease shall be deemed or construed in any way to constitute the consent or request by Landlord for the performance of any work or services or the furnishing of any materials for which any lien could be filed against the Premises or the Building or the Property or any part of any thereof, nor as giving Tenant any right, power or authority to contract or permit the performance of any work or services or the furnishing of any materials for which any lien could be filed against the Premises, the Building, the Property or any part of any thereof. Throughout this Lease the term "mechanic's lien" is used to include any lien, encumbrance or charge levied or imposed upon the Premises or the Property or any interest therein or income therefrom on account of any mechanic's, laborer's or materialman's lien or arising out of any debt or liability to or any claim or demand of any contractor, mechanic, supplier, materialman or laborer and shall include without limitation any mechanic's notice of intention given to Landlord or Tenant, any stop order given to Landlord or Tenant, any notice of refusal to pay naming Landlord or Tenant and any injunctive or equitable action brought by any person entitled to any mechanic's lien.

15. Landlord's Right of Entry.

a) Tenant shall permit Landlord and the authorized representatives of Landlord and of any mortgagee or any prospective mortgagee to enter the Premises at all reasonable times, with forty eight(48) hour prior notice (except in the case of emergency) to Tenant, for the purpose of (i) inspecting the Premises or (ii) making any necessary repairs to the Premises or to the Building and performing any work therein. During the progress of any work on the Premises or the Building, Landlord will attempt not to inconvenience Tenant, but shall not be liable for inconvenience, annoyance, disturbance, loss of business or other damage to Tenant by reason of making any repair or by bringing or storing materials, supplies, tools and equipment in the Premises during the performance of any work, and the obligations of Tenant under this Lease shall not be thereby affected in any manner whatsoever.

b) Landlord shall have the right at all reasonable times to, with prior notice to Tenant, enter and to exhibit the Premises for the purpose of inspection or showing the Premises in connection with a sale or mortgage and, during the last twelve (12) months of the Term, to enter upon and to exhibit the Premises to any prospective tenant.

16. Damage by Fire or Other Casualty.

a) If the Premises or Building is damaged or destroyed by fire or other casualty, Tenant shall promptly notify Landlord whereupon Landlord shall, subject to the consent of Landlord's present or future mortgagee and to the conditions set forth in this Section 16, repair, rebuild or replace such damage and restore the Premises to substantially the same condition as the Premises were in immediately prior to such damage or destruction; provided, however, that Landlord shall only be obligated to restore such damage or destruction to the extent of the proceeds of fire and other extended coverage insurance policies. Notwithstanding the foregoing, if the Premises is destroyed or damaged to the extent that in Landlord's sole judgment the Premises cannot be repaired or restored within one hundred eighty (180) days after such casualty, Landlord may, subject to the rights of Landlord's mortgagee, terminate this Lease by written notice to the Tenant within sixty (60) days after the date of such casualty.

b) The repair, rebuilding or replacement work shall be commenced promptly and completed with due diligence, taking into account the time required by Landlord to effect a settlement with, and procure insurance proceeds from, the insurer, and for delays beyond Landlord's reasonable control.

c) The net amount of any insurance proceeds recovered by reason of the damage or destruction of the Building (meaning the gross insurance proceeds excluding proceeds received pursuant to a rental coverage endorsement and the cost of adjusting the insurance claim and collecting the insurance proceeds) shall be applied towards the cost of restoration. Notwithstanding anything to the contrary in this Lease Agreement, if in Landlord's sole opinion the net insurance proceeds will not be adequate to complete such restoration, Landlord shall have the right to terminate this Lease and all the unaccrued obligations of the parties hereto by sending a written notice of such termination to Tenant specifying a termination date no less then ten (10) days after its transmission; provided, however, that Tenant may require Landlord, except during the last two (2) years of the Term, to withdraw the notice of termination by agreeing to pay the cost of restoration in excess of the net insurance proceeds and by giving Landlord adequate security for such payment prior to the termination date specified in Landlord's notice of termination. If the net insurance proceeds are more than adequate, the amount by which the net insurance proceeds exceed the cost of restoration will be retained by Landlord or applied to repayment of any mortgage secured by the Premises.

d) Landlord's obligation or election to restore the Premises under this Section shall be subject to the terms of any present or future mortgage affecting the Premises and to the mortgagee's consent if required in the mortgage and shall not, in any event, include the repair, restoration or replacement of the fixtures, improvements, alterations, furniture or any other property owned, installed, made by, or in the possession of Tenant.

e) Landlord shall maintain sufficient amounts of insurance against loss or damage to the Building by fire and such other casualties as may be included within fire and extended coverage insurance or all-risk insurance, together with a rental coverage endorsement or other comparable form of coverage. If Tenant is dispossessed of the Premises due to fire or other casualty, Tenant will receive an abatement of its Fixed Basic Rent and Additional Rent and any other rent or payment which may be due hereunder during the period Tenant is dispossessed.

17. Non-Abatement of Rent. Except as otherwise expressly provided in subsection 16(e) and as to condemnation in subsections 19(a) and (b) there shall be no abatement or reduction of the Fixed Basic Rent, Additional Rent or other sums payable hereunder for any cause whatsoever and this Lease shall not terminate, nor shall Tenant be entitled to surrender the Premises, in the event of fire, casualty or condemnation or any default by Landlord under this Lease.

18. Indemnification

a) Unless such loss, costs or damages were caused by negligence of Landlord, its employees, agents or contractors, Tenant hereby agrees to indemnify, defend and hold the Landlord and its employees, agents and contractors harmless from any loss, costs and damages (including reasonable attorney's fees and costs) suffered by Landlord, its agents, employees or contractors, as a result of any claim by a third party, its agents, employees or contractors. Tenant shall have the right to designate counsel acceptable to Landlord, such approval not be unreasonably withheld, to assume the defense of any such third party claim on behalf of itself and Landlord. Tenant shall not have the right to settle any claim without the consent of Landlord which shall not be unreasonably withheld. This indemnity shall survive the expiration of termination of this Lease.

b) If Landlord brings any action under this Lease Agreement, Tenant agrees in each case to pay Landlord's reasonable attorney's fees and other costs and expenses incurred by Landlord in connection therewith; provided, however, the Landlord prevails in such action.

c) Unless such loss, costs or damages were caused by negligence of Tenant, its employees, agents or contractors, Landlord hereby agrees to indemnify, defend and hold the Tenant and its employees, agents and contractors harmless from any loss, costs and damages (including reasonable attorney's fees and costs) suffered by Tenant, its agents, employees or contractors, as a result of any claim by a third party, its agents, employees or contractors arising from the operation of the Building and Property by Landlord or its agents, servants, employees or business invitees. Landlord shall have the right to designate counsel acceptable to Tenant, such approval not to be unreasonably withheld, to assume the defense of any such third party claim on behalf of itself and Tenant. Landlord shall not have the right to settle any claim without the consent of Tenant which shall not be unreasonably withheld. This indemnity shall survive the expiration or termination of this Lease.

d) If Tenant brings any action under this Lease Agreement, Landlord agrees in each case to pay Tenant's reasonable attorney's fees and other costs and expenses incurred by Tenant in connection therewith; provided, however, the Tenant prevails in such action.

19. Condemnation.

a) Termination. If (i) all of the Premises are covered by a condemnation; or (ii) any of the Premises is covered by a condemnation and the remaining part is insufficient for the reasonable operation therein of Tenant's business; or (iii) subject to the provisions of subsection 19(b)(i) hereof, any of the Property is covered by a condemnation and the condemnation proceeds are insufficient to restore the remainder of the Property; then, in any such event, this Lease shall terminate and all obligations hereunder shall cease as of the date upon which possession is taken by the condemnor. Upon such termination the Fixed Basic Rent and all Additional Rent herein reserved shall be apportioned and paid in full by Tenant to Landlord to that date and all such rent prepaid for periods beyond that date shall forthwith be repaid by Landlord to Tenant.

b) Partial Condemnation.

i) If there is a partial condemnation and Landlord decides to terminate pursuant to subsection 19(a)(iii) hereof then Tenant may require Landlord, except during the last two (2) years of the Term, to withdraw its notice of termination by: [A] giving Landlord written notice thereof within ten (10) days from transmission of Landlord's notice to Tenant of Landlord's intention to terminate, [B] agreeing to pay the cost of restoration in excess of the condemnation proceeds reduced by those sums expended by Landlord in collecting the condemnation proceeds, and [C] giving Landlord adequate security for such payment within such ten (10) day period.

ii) If there is a partial condemnation and this Lease has not been terminated pursuant to subsection (a) hereof, Landlord shall restore the Building and the improvements which are part of the Premises to a condition and size as nearly comparable as reasonably possible to the condition and size thereof immediately prior to the date upon which possession shall have been taken by the condemnor; provided, however, that Landlord shall only be obligated to restore such damage from condemnation to the extent possible with the award damage. If the condemnation proceeds are more than adequate to cover the cost of restoration and the Landlord's expenses in collecting the condemnation proceeds, any excess proceeds shall be retained by Landlord or applied to repayment of any mortgage secured by the Premises.

iii) If there is a partial condemnation and this Lease has not been terminated by the date upon which the condemnor obtains possession, the obligations of Landlord and Tenant under this Lease shall be unaffected by such condemnation except that there shall be an equitable abatement for the balance of the Term of the Fixed Basic Rent according to the value of the Premises before and after the date upon which the condemnor takes possession. In the event that the parties are unable to agree upon the amount of such abatement, either party may submit the issue to arbitration.

c) Award. In the event of a condemnation affecting Tenant, Tenant shall have the right to make a claim against the condemnor for removal expenses and moving expenses, loss of business and any other claims Tenant may have; provided and to the extent, however, that such claims or payments do not reduce the sums otherwise payable by the condemnor to Landlord. Except as aforesaid, Tenant hereby waives all claims against Landlord and against the condemnor, and Tenant hereby assigns to Landlord all claims against the condemnor including, without limitation, all claims for leasehold damages and diminution in value of Tenant's leasehold interest.

d) Temporary Taking. If the condemnor should take only the right to possession for a fixed period of time or for the duration of an emergency or other temporary condition then, notwithstanding anything hereinabove provided, this Lease shall continue in full force and effect without any abatement of rent, but the amounts payable by the condemnor with respect to any period of time prior to the expiration or sooner termination of this Lease shall be paid by the condemnor to Landlord and the condemnor shall be considered a subtenant of Tenant. Landlord shall apply the amount received from the condemnor applicable to the rent due hereunder, net of costs, to Landlord for the collection thereof, or as much thereof as may be necessary for the purpose, toward the amount due from Tenant as rent for that period.

20. Quiet Enjoyment. Tenant, upon paying the Fixed Basic Rent, Additional Rent and other charges herein required and observing and keeping all covenants, agreements and conditions of this Lease, shall quietly have and enjoy the Premises during the Term without hindrance or molestation by anyone claiming by or through Landlord, subject, however, to the exceptions, reservations and conditions of this Lease.

21. Rules and Regulations. The Landlord hereby reserves the right to prescribe, from time to time, at its sole discretion, reasonable rules and regulations (herein called the "Rules and Regulations") attached hereto as Exhibit C governing the use and enjoyment of the Premises. The Rules and Regulations shall not materially interfere with the Tenant's use and enjoyment of the Premises in accordance with the provisions of this Lease for the Permitted Use and shall not increase or modify Tenant's obligations under this Lease. In the event of a conflict between the Lease Agreement and such rules and regulations, the Lease Agreement shall control. The Tenant shall comply at all times with the Rules and Regulations and shall cause its agents, employees, invitees, visitors, and guests to do so.

22. Assignment and Sublease. Tenant may assign or sublease the within Lease to any party subject to the following:

a) In the event Tenant desires to assign this Lease or sublease all of the Premises to any other party, Tenant shall provide written notice of the terms and conditions of such assignment or sublease to Landlord prior to the effective date of any such sublease or assignment, and, prior to such effective date, the Landlord shall have the option, exercisable by written notice to Tenant within ten (10) business days of Landlord's receipt of written notice from Tenant, to: recapture the Premises to be sublet or all of the Premises (in the case of an assignment)("Recapture Space") for Landlord's own use, whereupon Tenant shall be fully released from any and all obligations hereunder with respect to the Recapture Space.

b) In the event that the Landlord elects not to recapture the Lease as hereinabove provided, the Tenant may nevertheless assign this Lease or sublet the whole or any portion of the Premises, subject to the Landlord's prior written consent which shall not be unreasonably withheld on the basis of the following terms and conditions:

i) The Tenant shall provide to the Landlord the name and address of the assignee or subtenant.

ii) The assignee or subtenant shall assume, by written instrument, all of the obligations of this Lease, and a copy of such assumption agreement shall be furnished to the Landlord within ten (10) days of its execution. Any sublease shall expressly acknowledge that said subtenant's rights against Landlord shall be no greater than those of Tenant.

iii) The Tenant and each assignee shall be and remain liable for the observance of all the covenants and provisions of this Lease, including, but not limited to, the payment of Fixed Basic Rent and Additional Rent reserved herein, through the entire Term of this Lease, as the same may be renewed, extended or otherwise modified provided, however, that Tenant shall not be obligated for the payment of Rent or any other obligation herein during any Renewal Option of this Lease without Tenant's prior written consent. Notwithstanding anything to the contrary herein contained, Landlord, in its sole and absolute discretion shall be permitted to withhold its consent to the assignment or sublet of the whole or any portion of the Premises which includes any Renewal Option of this Lease without Tenant's prior written agreement to be bound for the full payment of Rent reserved herein for the Renewal Option.

iv) The Tenant and any assignee shall promptly pay to Landlord fifty percent (50%) of the net profit received from such subleasing or assignment. Net profit will be calculated after deducting the Tenant's direct costs of implementing the sublease.

v) In any event, the acceptance by the Landlord of any rent from the assignee or from any of the subtenants or the failure of the Landlord to insist upon a strict performance of any of the terms, conditions and covenants herein shall not release the Tenant herein, nor any assignee assuming this Lease, from any and all of the obligations herein during and for the entire Term of this Lease.

vi) Landlord shall require a Five Hundred Dollar ($500.00) payment to cover its handling charges for each request for consent to any sublet or assignment prior to its consideration of the same. Tenant acknowledges that its sole remedy with respect to any assertion that Landlord's failure to consent to any sublet or assignment is unreasonable shall be the remedy of specific performance and Tenant shall have no other claim or cause of action against Landlord as a result of Landlord's actions in refusing to consent thereto.

c) If Tenant is a corporation other than a corporation whose stock is listed and traded on a nationally recognized stock exchange, the provisions of subsection (a) hereof shall apply to a transfer (however accomplished, whether in a single transaction or in a series of related or unrelated transactions) of stock (or any other mechanism such as, by way of example, the issuance of additional stock, a stock voting agreement or change in class(es) of stock) which results in a change of control of Tenant as if such transfer of stock (or other mechanism) which results in a change of control of Tenant were an assignment of this Lease, and if Tenant is a partnership or joint venture, said provisions shall apply with respect to a transfer (by one or more transfers) of an interest in the distributions of profits and losses of such partnership or joint venture (or other mechanism, such as, by way of example, the creation of additional general partnership or limited partnership interests) which results in a change of control of such a partnership or joint venture, as if such transfer of an interest in the distributions of profits and losses of such partnership or joint venture which results in a change of control of such partnership or joint venture were an assignment of this Lease; but said provisions shall not apply to transactions with a corporation into or with which Tenant is merged or consolidated or to which all or substantially all of Tenant's assets are transferred or to any corporation which controls or is controlled by Tenant or is under common control with Tenant, provided that in the event of such merger, consolidation or transfer of all or substantially all of Tenant's assets (i) the successor to Tenant has a net worth computed in accordance with generally accepted accounting principles at least equal to the greater of (1) the net worth of Tenant immediately prior to such merger, consolidation or transfer, or (2) the net worth of Tenant herein named on the date of this Lease, and (ii) proof satisfactory to Landlord of such net worth shall have been delivered to Landlord at least ten (10) days prior to the effective date of any such transaction.

d) In the event that any or all of Tenant's interest in the Premises and/or this Lease is transferred by operation of law to any trustee, receiver, or other representative or agent of Tenant, or to Tenant as a debtor in possession, and subsequently any or all of Tenant's interest in the Premises and/or this Lease is offered or to be offered by Tenant or any trustee, receiver, or other representative or agent of Tenant as to its estate or property (such person, firm or entity being hereinafter referred to as the "Grantor", for assignment, conveyance, lease, or other disposition to a person, firm or entity other than Landlord (each such transaction being hereinafter referred to as a "Disposition"), it is agreed that Landlord has and shall have a right of first refusal to purchase, take, or otherwise acquire, the same upon the same terms and conditions as the Grantor thereof shall accept upon such Disposition to such other person, firm, or entity; and as to each such Disposition the Grantor shall give written notice to Landlord in reasonable detail of all of the terms and conditions of such Disposition within twenty (20) days next following its determination to accept the same but prior to accepting the same, and Grantor shall not make the Disposition until and unless Landlord has failed or refused to accept such right of first refusal as to the Disposition, as set forth herein. Landlord shall have sixty (60) days next following its receipt of the written notice as to such Disposition in which to exercise the option to acquire Tenant's interest by such Disposition, and the exercise of the option by Landlord shall be effected by notice to that effect sent to the Grantor; but nothing herein shall require Landlord to accept a particular Disposition or any Disposition, nor does the rejection of any one such offer of first refusal constitute a waiver or release of the obligation of the Grantor to submit other offers hereunder to Landlord. In the event Landlord accept such offer of first refusal, the transaction shall be consummated pursuant to the terms and conditions of the Disposition described in the notice to Landlord. In the event Landlord rejects such offer of first refusal, Grantor may consummate the Disposition with such other person, firm, or entity; but any decrease in price of more than two percent (2%) of the price sought from Landlord or any change in the terms of payment for such Disposition shall constitute a new transaction requiring a further option of first refusal to be given to Landlord hereunder.

e) Without limiting any of the provisions of this Section 22, if pursuant to the United States Bankruptcy Code (herein referred to as the "Code"), or any similar law hereafter enacted having the same general purpose, Tenant is permitted to assign this Lease notwithstanding the restrictions contained in this Lease, adequate assurance of future performance by an assignee expressly permitted under such Code shall be deemed to mean the deposit of cash security in an amount equal to the sum of one year's Fixed Basic Rent plus an amount equal to the Additional Rent for the calendar year preceding the year in which such assignment is intended to become effective, which deposit shall be held by Landlord for the balance of the Term, without interest, as security for the full performance of all of Tenant's obligations under this Lease, to be held and applied in the manner specified for any security deposit required hereunder.

f) Except as specifically set forth above, no portion of the Premises or of Tenant's interest in this Lease may be acquired by any other person or entity, whether by assignment, mortgage, sublease, transfer, operation of law or act of the Tenant, nor shall Tenant pledge its interest in this Lease or in any security deposit required hereunder.

23. Tenant's Relocation. [Intentionally deleted]

24. Subordination. This Lease and Tenant's rights hereunder shall be subject and subordinate at all times in lien and priority to any first mortgage or other primary encumbrance now or hereafter placed upon or affecting the Property or the Premises, and to any second mortgage or encumbrance with the consent of the first mortgagee, and to all renewals, modifications, consolidations and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant shall execute and deliver upon demand any further instrument or instruments confirming the subordination of this Lease to the lien of any such first mortgage or to the lien of any other mortgage, if requested to do so by Landlord with the consent of the first mortgagee, and any further instrument or instruments of attornment that may be desired by any such mortgagee or Landlord, provided, however, that any holder of such lien or mortgage agrees not to disturb the use and occupancy of the Premises in accordance with the terms of this Lease Agreement upon any foreclosure. Notwithstanding the foregoing, any mortgagee may at any time subordinate its mortgage to this Lease, without Tenant's

consent, by giving notice in writing to Tenant and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution and delivery. In that event such mortgagee shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution and delivery of the mortgage and had been assigned to such mortgagee. Landlord agrees that it will use best efforts to obtain and deliver to Tenant then holder(s) of any mortgage or other security interest affecting the Premises of Building. In the event Landlord fails to deliver such instrument, Tenant shall have the right to terminate this Lease Agreement by delivery of written notice thereof to Landlord.

25. Non-Disturbance. Landlord shall deliver to Tenant upon execution of the Lease a non-disturbance and attornment agreement from all present mortgagees or prime ground lease lessors. Thus subordination of the Lease to future mortgagees shall be conditioned upon each future mortgagee delivering a non-disturbance and attornment agreement to Tenant. Each non-disturbance and attornment agreement shall assure to Tenant its continued occupancy of the Premise upon all of the terms and conditions of the Lease, shall specifically recognize the Tenant's right to cure defaults by Landlord in properly operating, maintaining and making necessary or required repairs, replacements or additions, and its right to deduct the cost plus interest from Fixed Rent and Additional Rent or to terminate the Lease upon such default by Landlord; and shall specifically provide that any successor Landlord by reason of foreclosure or deed in lieu of foreclosure or other sale or transfer shall be responsible for any continuing defaults of Landlord under the Lease, including the completion of the Premises Improvements.

26. Curing Tenant's Defaults. If Tenant defaults in the performance of any of its obligations hereunder, Landlord may, without any obligation to do so and in addition to any other rights it may have in law or equity, elect to cure such default on behalf of Tenant after written notice (except in the case of emergency) to Tenant. Tenant shall reimburse Landlord upon demand for any sums paid or costs incurred by Landlord in curing such default, including interest thereon from the respective dates of Landlord's making the payments and incurring such costs, which sums and costs together with interest thereon shall be deemed Additional Rent payable within ten (10) days of demand.

27. Surrender.

a) At the expiration or earlier termination of the Term Tenant shall promptly yield up the Premises and all improvements, alterations and additions thereto, and all fixtures and equipment servicing the Premises in a condition which is clean of garbage and debris and broom clean and in the same condition, order and repair in which they are required to be kept throughout the Term, ordinary wear and tear excepted.

b) If Tenant, or any person claiming through Tenant, continues to occupy the Premises after the expiration or earlier termination of the Term or any renewal thereof without prior written consent of Landlord, the tenancy under this Lease shall become a month-to-month tenancy , terminable by Landlord or Tenant on thirty (30) days prior written notice, under the same terms and conditions set forth in this Lease; except, however, that the Fixed Basic Rent during such continued occupancy shall be 150% of the amount set forth in subsection 6(a) and Tenant shall indemnify Landlord for any loss or damage incurred by reason of Tenant's failure to surrender the Premises. Anything to the contrary notwithstanding, any holding over by Tenant without Landlord's prior written consent shall constitute a default hereunder and shall be subject to all the remedies set forth in subsection 28(b) hereof.

28. Defaults-Remedies.

a) Defaults. It shall be an event of default under this Lease if any one or more of the following events occurs:

i) Tenant fails to pay in full, within ten (10) days after written notice by Landlord , any and all installments of Fixed Basic Rent or Additional Rent or any other charges or payments due and payable under this Lease whether or not herein included as rent.

ii) Tenant violates or fails to perform or otherwise breaches any agreement, term, covenant or condition contained in this Lease.

iii) Tenant becomes insolvent or bankrupt in any sense or makes an assignment for the benefit of creditors or if a petition in bankruptcy or for reorganization or for an arrangement with creditors under any federal or state law is filed by or against Tenant, or a bill in equity or other proceeding for the appointment of a receiver or similar official for any of Tenant's assets is commenced, or if any of the real or personal property of Tenant shall be levied upon by any sheriff, marshal or constable; provided, however, that any proceeding brought by anyone other than the parties to this Lease under any bankruptcy, reorganization arrangement, insolvency, readjustment, receivership or similar law shall not constitute an event of default until such proceeding, decree, judgment or order has continued unstayed for more than sixty (60) consecutive days.

iv) Tenant abandons or vacates the Premises without notice without having first paid to Landlord in full all Fixed Basic Rent, Additional Rent and other charges that have become due as well as all which will become due thereafter through the end of the Term.

b) Remedies. Upon the occurrence of an event of default under this Lease, Landlord shall have all of the following rights:

i) Landlord may charge a late payment charge of five (5%) percent of any amount owed to Landlord pursuant to this Lease which is not paid within five (5) days of the due date which is set forth in the Lease or, if a due date is not specified in this Lease, within thirty (30) days of the mailing of a bill therefor by Landlord. If Landlord incurs a late charge in connection with any payment which Tenant has failed to make within the times required in this Lease, Tenant shall pay Landlord, in addition to such payment due, the full amount of such late charge incurred by Landlord. Nothing in this Lease shall be construed as waiving any rights of Landlord arising out of any default of Tenant, by reason of Landlord's imposing or accepting any such late charge(s) and/or interest; the right to collect such late charge(s) and/or interest is separate and apart from any rights relating to remedies of Landlord after default by Tenant including, without limitation, the rights and remedies of Landlord provided herein.

ii) Landlord may accelerate the whole or any part of the Fixed Basic Rent and all Additional Rent for the entire unexpired balance of the Term of this Lease, as well as all other charges, payments, costs and expenses herein agreed to be paid by Tenant, and any Fixed Basic Rent or other charges, payments, costs and expenses so accelerated shall, in addition to any and all installments of rent already due and payable and in arrears and any other charge or payment herein reserved, included or agreed to be treated or collected as rent and any other charge, expense or cost herein agreed to be paid by Tenant which may be due and payable and in arrears, be deemed due and payable as if, by the terms and provisions of this Lease, such accelerated rent and other charges, payments, costs and expenses were on that date payable in advance.

iii) Landlord may re-enter the Premises and, at the option of Landlord, remove all persons and all or any property therefrom, either by summary dispossess proceedings or by any suitable action or proceeding at law or by force or otherwise, without being liable for prosecution or damages therefor, and Landlord may repossess and enjoy the Premises. Upon recovering possession of the Premises by reason of or based upon or arising out of a default on the part of Tenant, Landlord may, at Landlord's option, either terminate this Lease or make such alterations and repairs as may be necessary in order to relet the Premises and shall use its reasonable efforts to relet the Premises or any part or parts thereof, either in Landlord's name or otherwise, for a term or terms which may, at Landlord's option, be less than or exceed the period which would otherwise have constituted the balance of the Term of this Lease and at such rent or rents and upon such other terms and conditions as in Landlord's sole discretion may seem advisable and to such person or persons as may in Landlord's discretion seem best; upon each such reletting all rents received by Landlord from such reletting shall be applied as follows: first, to the payment of any costs and expenses of such reletting, including all costs of alterations and repairs; second, to the payment of any indebtedness other than Fixed Basic Rent, Additional Rent or other charges due hereunder from Tenant to Landlord; third, to the payment of Fixed Basic Rent, Additional Rent and other charges due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future rent as it may become due and payable hereunder. If rentals received from reletting during any month are less than that to be paid during that month by Tenant, Tenant shall pay any such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. No such re-entry or taking possession of the Premises or the making of alterations or improvements thereto or the reletting thereof shall be construed as an election on the part of Landlord to terminate this Lease unless written notice of termination is given to Tenant. Landlord shall in no event be liable in any way whatsoever for failure to relet the Premises or, in the event that the Premises or any part or parts thereof are relet, for failure to collect the rent thereof under such reletting. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

iv) Landlord may terminate this Lease and the Term without any right on the part of Tenant to waive the forfeiture by payment of any sum due or by other performance of any condition, term or covenant broken. Upon such termination, Landlord shall be entitled to recover, in addition to any and all sums and damages for violation of Tenant's obligations hereunder in existence at the time of such termination, damages for Tenant's default in an amount equal to the amount of the Fixed Basic Rent and Additional Rent reserved for the balance of the Term, as well as all other charges, payments, costs and expenses herein agreed to be paid by Tenant tall of which amount shall be immediately due and payable from Tenant to Landlord upon demand therefor.

v) WHEN THIS LEASE AND THE TERM OR ANY EXTENSION OR RENEWAL THEREOF SHALL HAVE BEEN TERMINATED ON ACCOUNT OF ANY DEFAULT BY TENANT, OR WHEN THE TERM HAS EXPIRED, AND AFTER TEN (10) DAYS PRIOR WRITTEN NOTICE FROM LANDLORD TO TENANT OF ITS INTENTION TO DO SO, IT SHALL BE LAWFUL FOR ANY ATTORNEY OF ANY COURT OF RECORD TO APPEAR AS ATTORNEY FOR TENANT AS WELL AS FOR ALL PERSONS CLAIMING BY, THROUGH OR UNDER TENANT, AND TO FILE AN AGREEMENT FOR ENTERING IN ANY COMPETENT COURT AN AMICABLE ACTION FOR JUDGMENT IN EJECTMENT AGAINST TENANT AND ALL PERSONS CLAIMING BY, THROUGH OR UNDER TENANT FOR THE RECOVERY BY LANDLORD OF POSSESSION OF THE PREMISES, FOR WHICH THIS LEASE SHALL BE A SUFFICIENT WARRANT; WHEREUPON, IF LANDLORD SO DESIRES, AN APPROPRIATE WRIT OF POSSESSION MAY ISSUE FORTHWITH, WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER, AND PROVIDED THAT IS FOR ANY REASON AFTER SUCH ACTION SHALL HAVE BEEN COMMENCED IT SHALL BE DETERMINED AND POSSESSION OF THE PREMISES REMAIN IN OR BE RESTORED TO TENANT, LANDLORD SHALL HAVE THE RIGHT FOR THE SAME DEFAULT AND UPON ANY SUBSEQUENT DEFAULT OR DEFAULTS, OR UPON THE TERMINATION OF THIS LEASE OR TENANT'S RIGHT OF POSSESSION AS HEREINBEFORE SET FORTH, TO BRING ONE OR MORE FURTHER ACTIONS IN EJECTMENT AS HEREINBEFORE SET FORTH TO CONFESS JUDGMENT FOR THE RECOVERY OF POSSESSION OF THE PREMISES.

c) Waiver of Jury Trial. IT IS MUTUALLY AGREED BY AND BETWEEN LANDLORD AND TENANT THAT (A) THEY HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTER-CLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OF OCCUPANCY

OF THE PREMISES OR CLAIM OF INJURY OR DAMAGE, AND (B) IN ANY ACTION AGAINST LANDLORD BY TENANT, THE LEGAL FEES OF THE PREVAILING PARTY WILL BE PAID BY THE OTHER PARTY TO THE ACTION.

d) Non-Waiver. No waiver by Landlord of any breach by Tenant of any of Tenant's obligations, agreements or covenants herein shall be a waiver of any subsequent breach or of any other obligation, agreement or covenant, nor shall any forbearance by Landlord to seek a remedy for any event of default by Tenant be a waiver by Landlord of any rights and remedies with respect to such or any subsequent event of default.

e) Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy provided herein or by law, but each shall be cumulative and in addition to every other right or remedy given herein or now or hereafter existing at law or in equity or by statute.

29. Condition of Premises. Tenant represents that the Property and the Premises, the zoning thereof, the street or streets, sidewalks, parking areas, curbs and access ways adjoining them, any surface conditions thereof, and the present uses and non-uses thereof, have been examined by Tenant and Tenant accepts them in the condition or state in which they now are, or any of them now is, without relying on any representation, covenant or warranty, express or implied, in fact or in law, by Landlord and without recourse to Landlord, the nature, condition or usability thereof or the use or uses to which the Premises and the Property or any part thereof may be put under present zoning ordinances or otherwise, except as to work to be performed by Landlord pursuant to Section 3 and except as to latent defects in such work. Tenant's occupancy of the Premises shall, unless otherwise agreed to in writing by the Landlord and Tenant, constitute acceptance of the work performed by Landlord pursuant to Section 3.

30. Hazardous Substances.

a) Landlord and Tenant shall not cause or allow the generation, treatment, storage or disposal of Hazardous Substances on or near the Premises or Property. "Hazardous Substances" shall mean any substance the presence of which requires investigation or remediation under any statute, regulation, ordinance, order, action, policy or common law; or which is or becomes defined as a hazardous pollutant, substance or waste under any statute, regulation, ordinance, order, action or any amendments thereto; or which is toxic, corrosive, explosive, flammable, or threatening to human health and the environment and is or becomes regulated by any governmental authority; or the presence of which on the Premises causes or threatens to cause a nuisance upon the Premises or to adjacent properties.

b) Landlord and Tenant agree to indemnify, defend and hold harmless the other, its employees, agents, successors, and assigns, from and against any and all damage, claim, liability, or loss, including reasonable attorneys' and other fees, arising out of or in any way connected to the generation, treatment, storage or disposal of Hazardous Substances by Landlord or Tenant, its employees, agents, contractors, or invitees, on or near the Premises or Property. Such duty of indemnification shall include, but not be limited to damage, liability, or loss pursuant to all Federal, state and local environmental laws, rules and ordinances, strict liability and common law.

c) Landlord and Tenant agree to notify each other immediately of any disposal of Hazardous Substances in the Premises or Property, of any discovery of Hazardous Substances in the Premises, or of any notice by a governmental authority or private party alleging or suggesting that a disposal of Hazardous Substances on or near the Premises or Property may have occurred. Furthermore, Landlord and Tenant agree to provide the other with full and complete access to any documents or information in its possession or control relevant to the question of the generation, treatment, storage, or disposal of Hazardous Substances on or near the Premises.

d) Landlord represents and warrants that, to the best of its knowledge, there are no Hazardous Substances in, under or about the Building.

31. Recording. Neither this Lease nor a memorandum of this Lease shall be recorded in any public records without the written consent of both Landlord and Tenant.

32. Brokers' Commission. Tenant represents and warrants to Landlord that the Brokers (as defined in the Preamble) are the sole brokers with whom Tenant has negotiated in bringing about this Lease and Tenant agrees to indemnify and hold Landlord and its mortgagee(s) harmless from any and all claims of other brokers and expenses in connection therewith arising out of or in connection with the negotiation of or the entering into this Lease by Landlord and Tenant. In the event that no broker was involved as aforesaid, then Tenant represents and warrants to the Landlord that no broker brought about this transaction, and Tenant agrees to indemnify and hold Landlord harmless from any and all claims of any broker arising out of or in connection with the negotiations of, or entering into of, this Lease by Tenant and Landlord.

33. Notices. All notices, demands, requests, consents, certificates, and waivers required or permitted hereunder from either party to the other shall be in writing and sent by United States certified mail, return receipt requested, postage prepaid, or by recognized overnight courier, addressed as follows:

If to Tenant:
NCO Group, Inc.

1740 Walton Road
Blue Bell, Pennsylvania, 19422
Attn: Michael J. Barrist,
President and Chief Executive Officer

with a copy to:
Joshua Gindin, Esquire
Kessler & Gindin
230 South Broad Street
20th Floor
Philadelphia, PA 19102

If to Landlord:
Mr. Richard Heany
Indiana Avenue Associates, L.P.
c/o O'Neill Properties
443 S. Gulph Road
King of Prussia, PA 19406

with a copy to:
Kevin W. Walsh, Esquire
Adelman Lavine Gold and Levin
1900 Two Penn Center Plaza
Philadelphia, PA 19102

Either party may at any time, in the manner set forth for giving notices to the other, specify a different address to which notices to it shall thereafter be sent.

34. Irrevocable Offer: No Option. Although Tenant's execution of this Lease shall be deemed an offer irrevocable by Tenant, the submission of this Lease by Landlord to Tenant for examination shall not constitute a reservation of or option for the Premises. This Lease shall become effective only upon execution thereof by both parties and delivery thereof to Tenant.

35. Inability to Perform. If Landlord is delayed or prevented from performing any of its obligations under this Lease by reason of strike, labor troubles, or any cause whatsoever beyond Landlord's control, the period of such delay or such prevention shall be deemed added to the time herein provided for the performance of any such obligation by Landlord.

36. Survival. Notwithstanding anything to the contrary contained in this Lease, the expiration of the Term of this Lease, whether by lapse of time or otherwise, shall not relieve Tenant from its obligations accruing prior to the expiration of the Term.

37. Corporate Tenants. If Tenant is a corporation, the person(s) executing this Lease on behalf of Tenant hereby covenant(s) and warrant(s)

that: Tenant is a duly formed corporation qualified to do business in the state in which the Property is located; Tenant will remain qualified to do business in said state throughout the Term and any renewals thereof; and such persons are duly authorized by such corporation to execute and deliver this Lease on behalf of the corporation.

38. Waiver of Invalidity of Lease. Each party agrees that it will not raise or assert as a defense to any obligation under the Lease or this or make any claim that the Lease is invalid or unenforceable due to any failure of this document to comply with ministerial requirements including, without limitation, requirements for corporate seals, attestations, witnesses, notarizations or other similar requirements and each party hereby waives the right to assert any such defenses or make any claim of invalidity or unenforceability due to any of the foregoing.

39. Security Deposit. As additional security for the full and prompt performance by Tenant of the terms and covenants of this Lease, Tenant has deposited with Landlord the Security Deposit, as set forth in the Preamble. The Security Deposit shall not constitute rent for any month (unless so applied by Landlord on account of Tenant's default hereunder). Tenant shall, upon demand, restore any portion of the Security Deposit which may be applied by Landlord to cure any default by Tenant hereunder. To the extent that Landlord has not applied the Security Deposit or any portion thereof on account of a default, the Security Deposit, or such remaining portion of the Security Deposit, shall be returned to Tenant, without interest, promptly following the termination of this Lease. Notwithstanding the foregoing, in the event that Tenant has timely paid every installment of Rent due to the Landlord hereunder, then Landlord shall return to Tenant the Security Deposit without interest to Tenant on the sixth (6th) year anniversary of the Commencement Date.

40. Tenant Estoppel Certificate.

a) Tenant shall from time to time, within five (5) days after Landlord's request or that of any mortgagee of Landlord, execute, acknowledge and deliver to Landlord a written instrument in recordable form, substantially in the form attached hereto as Exhibit D (a "Tenant Estoppel Certificate"), certifying (i) that this Lease is in full force and effect and has not been modified, supplemented or amended (or, if there have been modifications, supplements or amendments, that it is in full force and effect as modified, supplemented or amended, and stating such modifications, supplements and amendments); (ii) the dates to which Fixed Basic Rent and Additional Rent and any other charges arising hereunder have been paid; (iii) the amount of any prepaid rents or credits due Tenant, if any; (iv) if applicable, that Tenant has accepted possession and has entered into occupancy of the Premises, and certifying the Commencement Date and the Termination Date; (v) whether or not, to the best of the Tenant's knowledge, all conditions under the Lease to be performed by Landlord prior thereto have been satisfied and whether or not

Landlord is then in default in the performance of any covenant, agreement or condition contained in this Lease and specifying each, if any, unsatisfied condition and each, if any, default of which Tenant may have knowledge; and (vi) any other fact or condition reasonably requested. Any certification delivered pursuant to the provisions of this Article shall be intended to be relied upon by Landlord and any mortgagee or prospective mortgagee or purchaser of the Property or of any interest therein.

b) The failure of Tenant to execute, acknowledge and deliver to Landlord a written Tenant Estoppel Certificate in accordance with the provisions of this Section 39 within said ten (5) day period shall constitute an acknowledgment by Tenant, which may be relied upon by any mortgagee or prospective mortgagee or any purchaser of the Property or of any interest therein, that this Lease has not been modified, supplemented or amended except as set forth in landlord's request, and is in full force and effect (or in full force and effect as so modified, supplemented or amended), that the Base Rent, Additional Rent and any other charges arising hereunder have not been paid beyond the respective due dates immediately preceding the date of such request, that Tenant has no right of set-off or other defense to this Lease and of the truth of such other facts and conditions as shall have been requested to be certified, and shall constitute, as to any person entitled to rely as aforesaid, a waiver of any defaults which may exist prior to the date of such request. Notwithstanding the foregoing, Tenant's failure to furnish a Tenant Estoppel Certificate within said five (5) day period shall constitute a default under this Lease.

41. Rights Reserved by Landlord. Landlord waives no rights, except those that may be specifically waived herein, and explicitly retains all other rights including, without limitation, the following rights, each of which Landlord may exercise without notice to Tenant and without liability to Tenant for damage or injury to property, person or business on account of the exercise thereof, and the exercise of any such rights shall not be deemed to constitute an eviction or disturbance of Tenant's use or possession of the Premises and shall not give rise to any claim for set-off or abatement of Rent or any other claim:

a) To install, affix and maintain any and all signs on the exterior and on the interior of the Building at any time during the last six (6) months of the Term.

b) To decorate or to make repairs, alterations, additions, or improvements, whether structural or otherwise, in and about the Building, or any part thereof, and for such purposes to enter upon the Premises and during the continuance of any of such work, to temporarily close doors, entry ways, public space and corridors in the Building and to interrupt or temporarily suspend services or use of facilities, all without affecting any of Tenant's obligations hereunder, so long as the Premises are reasonably accessible and usable.

c) To furnish door keys for the entry door(s) in the Premises on the Commencement Date and to retain at all times, and to use in appropriate instances, keys to all doors within and into the Premises. Tenant agrees to purchase only from Landlord additional duplicate keys as required, to change no locks, and not to affix locks on doors without the prior written consent of the Landlord. Upon the expiration of the Term or Tenant's right to possession, Tenant shall return all keys to Landlord and shall disclose to Landlord the combination of any safes, cabinets or vaults left in the Premises.

d) To designate and approve all window coverings used in the Building.

e) To approve the weight, size and location of safes, vaults and other heavy equipment and articles in and about the Premises and the Building so as not to exceed the legal load per square foot designated by the structural engineers for the Building, and to require all such items and furniture and similar items to be moved into or out of the Building and Premises only at such times and in such manner as Landlord shall direct in writing. Tenant shall not install or operate machinery or any mechanical devices of a nature not directly related to Tenant's ordinary use, as limited by the Permitted Use, of the Premises without the prior written consent of Landlord. The movement of Tenant's property into or out of the Building or the Premises and within the Building are entirely at the risk and responsibility of Tenant, and Landlord reserves the right to require written authorization from Tenant, in form and content satisfactory to Landlord, before allowing any property to be moved into or out of the Building or Premises.

f) To enter the Premises in accordance with Section 15, and in the last year of the Term, to show the Premises to prospective tenants at reasonable times and, if vacated or abandoned, to show the Premises at any time and to prepare the Premises for re-occupancy.

g) To erect, use and maintain pipes, ducts, wiring and conduits, and appurtenances thereto, in and through the Premises.

h) To enter the Premises at any reasonable time to inspect the Premises and to make repairs or alterations as Landlord deems necessary, with due diligence and minimum disturbance.

42. Miscellaneous.

a) Captions. The captions in this Lease are for convenience only and are not a part of this Lease and do not in any way define, limit, describe or amplify the terms and provisions of this Lease or the scope or intent thereof.

b) Entire Agreement. This Lease represents the entire agreement between the parties hereto and there are no collateral or oral agreements or understandings between Landlord and Tenant with respect to the Premises or the Property. No rights, easements or licenses are acquired in the Property or any land adjacent to the Property by Tenant by implication or otherwise except as expressly set forth in the provisions of this Lease.

c) Modification. This Lease shall not be modified in any manner except by an instrument in writing executed by the parties. Notwithstanding the foregoing, Landlord shall have the right at anytime, and form time to time, during the Term, to unilaterally amend the provisions of this Lease if Landlord is advised by its counsel that all or any portion of the monies paid by Tenant to Landlord hereunder are, or may be deemed to be, unrelated business income within the meaning of the United States Internal Revenue Code or regulations issued thereunder; and Tenant agrees that it will execute all documents or instruments necessary to effect such amendment or amendments, provided that no such amendment shall result in Tenant having to pay in the aggregate a larger sum of money on account of its occupancy of the Premises under the terms of this Lease as so amended, and provided further that no such amendment or amendments shall result in Tenant receiving under this Lease less services than it is entitled to receive, nor services of a less quality. In addition, Tenant agrees to make such changes to this Lease as are required by any mortgagee, provided such changes do not substantially affect Tenant's rights and obligation hereunder.

d) Interpretation. The masculine (or neuter) pronoun, singular number, shall include the masculine, feminine and neuter genders and the singular and plural number.

e) Exhibits. Each writing or plan referred to herein as being attached as an Exhibit or otherwise designated herein as an Exhibit hereto is hereby made a part hereof.

f) Captions and Headings. The captions and headings of sections, subsections and the table of contents herein are for convenience only and are not intended to indicate all of the subject matter in the text and they shall not be deemed to limit, construe, affect or alter the meaning of any provisions of this Lease and are not to be used in interpreting this Lease or for any other purpose in the event of any controversy.

g) Interest. Wherever interest is required to be paid hereunder, such interest shall be at the highest rate permitted by law but not in excess of eight percent (8%).

h) Severability. If any term or provision of this Lease, or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

i) Joint and Several Liability. [Intentionally deleted]

j) No Representations by Landlord. Landlord and Landlord's agents have made no representations, agreements, conditions, warranties, understandings or promises, either oral or written, with respect to this Lease, the Premises and/or the Building.

k) Relationship of Parties. This Lease shall not create any relationship between the parties other than that of Landlord and Tenant.

l) Choice of Law. The terms of this Lease shall be construed under the laws of the Commonwealth of Pennsylvania, and that exclusive jurisdiction and venue shall be in the Court of Common Pleas of the County in which the Property is located.

43. Additional Definitions.

a) "Date of this Lease" or "date of this Lease" shall mean the date of acceptance of this Lease by the Landlord, following execution and delivery thereof to Landlord by Tenant and that date shall be inserted in the space provided in the Preamble.

b) "Landlord" as used herein includes the Landlord named above as well as its successors and assigns, each of whom shall have the same rights, remedies, powers, authorities and privileges as he would have had he originally signed this lease as Landlord. Any such person, whether or not named herein, shall have no liability hereunder after ceasing to hold title to the Premises. Neither Landlord nor any principal of Landlord nor any owner of the Building or the Lot, whether disclosed or undisclosed, shall have any personal liability with respect to any of the provisions of this Lease or the Premises, and if Landlord is in breach or default with respect to Landlord's obligations under this Lease or otherwise, Tenant shall look solely to the equity of Landlord in the Premises for the satisfaction of Tenant's remedies.

c) "Tenant" as used herein includes the Tenant named above as well as its heirs, successors and assigns, each of which shall be under the same obligations, liabilities and disabilities and each of which shall have the same rights, privileges and powers as it would have possessed had it originally signed this Lease as Tenant. Each and every person named above as Tenant shall be bound formally and severally by the terms, covenants and agreements contained herein. However, no such rights, privileges or powers shall inure to the benefit of any assignee of Tenant, immediate or remote, unless the assignment to such assignee is permitted or has been approved in writing by Landlord. Any notice required or permitted by the terms of this Lease may be given by or to any one of the persons named above as Tenant, and shall have the same force and effect as if given by or to all of them.

d) "Mortgage" and "Mortgagee" as used herein includes any lien or encumbrance on the Premises or the Property or on any part of or interest in or appurtenance to any of the foregoing, including without limitation any ground rent or ground lease if Landlord's interest is or becomes a leasehold estate. The word "mortgagee" is used herein to include the holder of any mortgage, including any ground Landlord if Landlord's interest is or becomes a leasehold estate. Wherever any right is given to a mortgagee, that right may be exercised on behalf of such mortgagee by any representative or servicing agent of such mortgagee.

e) "Person" as used herein includes a natural person, a partnership, a corporation, an association, and any other form of business association or entity.

f) "Property" as used herein shall mean the Building and the lot, tract or parcel of land on which the Building is situated.

g) "Rent" or "rent" as used herein shall mean all Fixed Basic Rent and Additional Rent reserved under this Lease.

IN WITNESS WHEREOF, and in consideration of the mutual entry into this Lease and for other good and valuable consideration, and intending to be legally bound, each party hereto has caused this agreement to be duly executed under seal.

Landlord:

Date Signed: 4/3/97

INDIANA AVENUE ASSOCIATES, L.P.

a Pennsylvania limited partnership
By: INDIANA AVENUE ASSOCIATES ACQUISITION CORPORATION, a Pennsylvania corporation, its General Partner

By:

Richard Heany President

Tenant:

Date Signed:

NCO GROUP, INC.,

a Pennsylvania corporation

By:

MICHAEL J. BARRIST,
President and Chief Executive Officer

RIDER A

RENEWAL OPTION: Tenant is hereby granted an option to renew this Lease upon the following terms and conditions:

At the time of the exercise of the option to renew and at the time of the said renewal, the Tenant shall not be in default in accordance with the terms and provisions of this Lease, and shall be in possession of the Premises pursuant to this Lease.

Notice of the exercise of the option shall be sent to the Landlord in writing at least twelve (12) months but not more than fifteen (15) months before the expiration of the term of this Lease.

The renewal term shall be for a period of three (3) years, to commence at the expiration of the Term of this Lease, and all of the terms and conditions of this Lease, other than the Fixed Basic Rent, shall apply during any such renewal term.

The Fixed Basic Rent to be paid during the renewal term shall be: Three Million Eight Hundred Thirteen Thousand and 00/100 Dollars ($3,813,000.00), net of electric, calculated and payable as follows:

	Years 1 - 5
er Rentable Square Foot	$15.50
Yearly Rate:	$1,271,000.00
Monthly Installment:	$ 105,916.67

RIDER B

LEASE TERMINATION FEE AND COMMENCEMENT DATE PENALTY

(a) In the event that Landlord or its nominee fails to make closing under agreements of sale by and between Landlord or its nominee and 1710-20 Sentry East Associates, L.P., 1730 Sentry East Associates, L.P. and 1740 Sentry East Associates, L.P. (collectively referred to as "Sentry") for certain buildings identified as Units 1710 1720, 1730 and 1740 at Sentry Park East ("Sentry Park Premises") on or before July 1, 1997 (or such later date as Landlord or its nominee and Sentry shall agree) and Sentry has not otherwise executed agreements of sale with other purchasers for the Sentry Park Premises providing for the sale of the Sentry Park Premises on or before July 1, 1997, then Landlord, its successors and assigns agree to pay to Sentry a lease termination fee of One Hundred and Sixty Thousand Dollars ($160,000) on or before July 31, 1997.

(b) In the event that Landlord fails to deliver the Premises with all Landlord's Work substantially completed and in broom clean condition, free of debris, furniture and equipment on or before July 1, 1997, then Tenant shall have the right to occupy the Sentry Park Premises and Landlord shall be obligated to pay to Sentry fixed basic rent in an amount not to exceed a total of Forty Thousand Dollars ($40,000) per month on a pro rated basis through the earlier of (i) the date of occupancy by Tenant of the Premises or (ii) September 1, 1997.

EXHIBIT A

LOCATION OF PREMISES

All of that building and real property known as 515 West Pennsylvania Avenue, Fort Washington, Pennsylvania

EXHIBIT B

PLANS AND SPECIFICATIONS FOR LANDLORD'S WORK

EXHIBIT B-1

APPROVED CONTRACTORS

EXHIBIT C

RULES AND REGULATIONS

1. OBSTRUCTION OF PASSAGEWAYS: The sidewalks, entrance, passages, courts, elevators, vestibules, stairways, corridors and public parts of the Building shall not be obstructed or encumbered by Tenant or used by Tenant for any purpose other than ingress and egress. If the Premises are situated on the ground floor with direct access to the street, then Landlord shall, at Landlord's expense, keep the sidewalks and curbs directly in front of the Premises clean and free from ice, snow and refuse.

2. WINDOWS: Windows in the Premises shall not be covered or obstructed by Tenant. No bottles, parcels or other articles shall be placed on the window sills, in the halls, or in any other part of the Building other than the Premises. No article shall be thrown out of the doors or windows of the Premises.

3. PROJECTIONS FROM BUILDING: No awnings, air-conditioning units, or other fixtures shall be attached to the outside walls or the window sills of the Building or otherwise affixed so as to project from the Building, without prior written consent of Landlord.

4. SIGNS: No sign or lettering shall be affixed by Tenant to any part of the outside of the Premises, or any part of the inside of the Premises so as to be clearly visible from the outside of the Premises, without the prior written consent of Landlord. However, Tenant shall have the right to place its name on any door leading into the Premises the size, color and style thereof to be subject to the Landlord's approval. Tenant shall not have the right to have additional names placed on the Building directory without Landlord's prior written consent.

5. FLOOR COVERING: Tenant shall not lay linoleum or other similar floor covering so that the same shall come in direct contact with the floor of the Premises. If linoleum or other similar floor covering is desired to be used, an interlining of builder's deadening felt shall first be fixed to the floor by a paste or other material that may easily be removed with water, the use of cement or other similar adhesive material being expressly prohibited.

6. INTERFERENCE WITH OCCUPANTS OF BUILDING: Tenant shall not make, or permit to be made, any unseemly or disturbing noises or odors and shall not interfere with other tenants or those having business with them. Tenant will keep all mechanical apparatus in the Premises free of vibration and noise which may be

transmitted beyond the limits of the Premises.

7. LOCK KEYS: If Tenant shall add any additional locks or bolts of any kind on any of the doors or windows, then Tenant shall immediately deliver any necessary keys and/or combinations required to unlock same to Landlord. Tenant shall, on the termination of Tenant's tenancy, deliver to Landlord all keys to any space within the Building either furnished to or otherwise procured by Tenant, and in the event of the loss of any keys furnished, Tenant shall pay to Landlord the cost thereof. Tenant, before closing and leaving the Premises, shall ensure that all windows are closed and entrance doors locked. Nothing in this Paragraph 7 shall be deemed to prohibit Tenant from installing a burglar alarm within the Premises, provided: (1) Tenant obtains Landlord's consent which will not be unreasonably withheld or delayed; (2) Tenant supplies Landlord with copies of the plans and specifications of the system; (3) such installation shall not damage the Building; and (4) all costs of installation shall be borne solely by Tenant.

8. CONTRACTORS: No contract of any kind with any supplier of towels, water, toilet articles, waxing, rug shampooing, venetian blind washing, furniture polishing, lamp servicing, cleaning of electrical fixtures, removal of waste paper, rubbish, garbage, or other like service shall be entered into by Tenant, nor shall any machine of any kind be installed in the Building or the Office Building Area without the prior written consent of the Landlord which shall not be unreasonably withheld. Tenant shall not employ any persons other than Landlord's janitors for the purpose of cleaning the Premises without prior written consent of Landlord which shall not be unreasonably withheld. Landlord shall not be responsible to Tenant for any loss of property from the Premises however occurring, or for any damage to the effects of Tenant by such janitors or any of its employees, or by any other person or any other cause.

9. PROHIBITED ON PREMISES: Tenant shall not conduct, or permit any other person to conduct, any auction upon the Premises, manufacture or store goods, wares or merchandise upon the Premises without the prior written approval of Landlord, except the storage of usual supplies and inventory to be used by Tenant in the conduct of his business, permit the Premises to be used for gambling, make any unusual noises in the Building, permit to be played musical instrument on the Premises, permit any radio to be played, or television, recorded or wired music in such loud manner as to disturb or annoy other tenants, or permit any unusual odors to be produced on the Premises. Tenant shall not permit any portion of the Premises to be occupied as an office for a public stenographer or typewriter, or for the storage, manufacture, or sale of intoxicating beverages, narcotics, tobacco in any form or as a barber or manicure shop. Canvassing, soliciting and peddling in the Building and the Office Building Area are prohibited and Tenant shall cooperate to prevent the same. No bicycles, vehicles or animals of any kind shall be brought into or kept in or about the Premises.

10. PLUMBING, ELECTRIC AND TELEPHONE WORK: Plumbing facilities shall not be

used for any purpose other than those for which they were constructed; and no sweepings, rubbish, ashes, newspaper or other substances of any kind shall be thrown into them. Waste and excessive or unusual amounts of electricity or water is prohibited. When electric wiring of any kind is introduced, it must be connected as directed by Landlord, and no stringing or cutting of wires will be allowed, except by prior written consent of Landlord, and shall be done by contractors approved by Landlord. The number and locations of telephones, telegraph instruments, electrical appliances, call boxes, etc. shall be subject to Landlord's approval.

11. MOVEMENT OF FURNITURE, FREIGHT OR BULKY MATTER: The carrying in or out of freight, furniture or bulky matter of any description must take place during such hours as Landlord may from time to time reasonably determine and only after advance notice to the superintendent of the Building. The persons employed by Tenant for such work must be reasonably acceptable to the Landlord. Tenant may, subject to these provisions, move freight, furniture, bulky matter, and other material into or out of the Premises on Saturdays between the hours of 9:00 a.m. and 1:00 p.m., provided Tenant pays additional costs, if any, incurred by Landlord for elevator operators or security guards, and for any other expenses occasioned by such activity of Tenant. If, at least three (3) days prior to such activity, Landlord requests that Tenant deposit with Landlord, as security of Tenant's obligations to pay such additional costs, a sum of which Landlord reasonably estimates to be the amount of such additional cost, the Tenant shall deposit such sum with Landlord as security of such cost. There shall not be used in the Building or Premises, either by Tenant or by others in the delivery or receipt of merchandise, any hand trucks except those equipped with rubber tires and side guards, and no hand trucks will be allowed in the elevators without the consent of the superintendent of the Building.

12. SAFES AND OTHER HEAVY EQUIPMENT: Landlord reserves the right to prescribe the weight and position of all safes and other heavy equipment so as to distribute properly the weight thereof and to prevent any unsafe condition from arising.

13. ADVERTISING: Landlord shall have the right to prohibit any advertising by Tenant which in Landlord's reasonable opinion tends to impair the reputation of the Building or its desirability as a building for offices, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

14. NON-OBSERVANCE OR VIOLATION OF RULES BY OTHER TENANTS: Landlord shall not be responsible to Tenant for non-observance or violation of any of these rules and regulations by any other tenant.

15. PARKING: Tenant and its employees shall park their cars only in those

portions of the parking area designated by Landlord.

16. RESERVATION OF RIGHTS: Landlord hereby reserves to itself any and all rights not granted to Tenant hereunder, including, but not limited to, the following rights which are reserved to Landlord for its purposes in operating the Building:

a. the exclusive right to the use of the name of the Building for all purposes, except that Tenant may use the name as its business address and for no other purposes; and

b. the right to change the name or address of the Building, without incurring any liability to Tenant for doing so; and

c. the right to install and maintain a sign on the exterior of the Building; and

d. the exclusive right to use or dispose of the use of the roof of the Building; and

e. the right to limit the space on the directory of the Building to be allotted to Tenant; and

f. the right to grant to anyone the right to conduct any particular business or undertaking in the Building.

17. HEALTH AND SAFETY: The Tenant shall be responsible for initiating, maintaining and supervising all health and safety precautions and/or programs required by Law in connection with the Tenant's use and occupancy of the Premises.

18. HAZARDOUS MATERIALS: The Tenant shall not store, introduce or otherwise permit any material known to be hazardous within the Premises. Any material within the Premises which is determined to be hazardous shall be removed and properly disposed of by the Tenant at the Tenant's sole expense.

-- END --

EXHIBIT D

TENANT ESTOPPEL CERTIFICATE

TO: ______________________ ("_______") pursuant to that certain _________ Agreement (the "Agreement") dated _________, 199_, by and between _________ and ____ ("Lessor").

1. The undersigned ("Lessee") is the lessee under that certain Lease dated __________, 19__, by and between _____________________________________, as lessor, and ____________________________________, as lessee (the "Lease"), covering a portion of those certain premises commonly known and designated as ____, Pennsylvania, consisting of approximately ________ square feet (the "Premises"). A true, complete and correct copy of the Lease is attached hereto as Exhibit "A".

2. The Lease has not been modified, changed, altered or amended in any respect (except as indicated following this sentence) and is the only lease or agreement between the undersigned and the Lessor affecting the Premises. If none, state "none".

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3. The undersigned has made no agreements with Lessor or its agents or employees, which are not described in the Lease concerning free rent, partial rent, rebate of rental payments or any other type of rental concession with respect to the Lease (except as indicated following this sentence). If none, state "none".

----

4. The undersigned accepted possession of the Premises on _________, 19__, currently occupies the Premises and has been open for business since __________, 19__. The current term of the Lease began on __________, 19__. The current term of the Lease will expire on __________, 19__, and Lessee has no present right to cancel or terminate the Lease under the terms thereof, or otherwise. No rent payable pursuant to the Lease has been prepaid for more than two (2) months, and no monies otherwise payable to Lessor under the Lease have been paid in advance of the due date therefor as set forth in the Lease. The fixed minimum rent currently being paid under the Lease is $__________ per month. Future changes to the fixed minimum rental are as set forth in the Lease. The undersigned also pays amounts for percentage rent, insurance and property tax escalations based upon the square footage of the Premises subject to the Lease, as set forth in the Lease, which amounts have been paid to and including _________, 199_.

5. The Lease is fully valid and enforceable and is currently in full force and effect. Neither Lessor or Lessee is in default thereunder, and all conditions and obligations on the part of Lessor to be fulfilled under the terms of the Lease have been satisfied or fully performed including, without

limitation, all required tenant improvements, allowances, alterations, installations and construction, and payment therefor has been made in full. Lessee has no offset, claim, defense or counterclaim against any rent or other sum payable by Lessee under the Lease or against any other obligation of Lessee under the Lease. No condition exists which with the giving of notice or the passage of time, or both, would constitute a default under the Lease.

6. Lessee has not suffered any assignment of the Lease or sublet the Premises or any portion thereof, and no person or entity, other than Lessee, has any possessory interest in the Premises or right to occupy the Premises or any portion thereof, except as permitted under the Lease.

7. Lessee claims no right, title or interest in or to the Premises or right to possession of the Premises, except as lessee under the terms of the Lease. The Lease does not contain and the undersigned does not have any outstanding options or rights of first refusal to purchase the Premises or any portion thereof or the real property of which the Premises are a part, except as otherwise set forth below. If none, state "none".

----

8. No actions, whether voluntary or otherwise, are pending against the undersigned under the bankruptcy laws of the United States or any state thereof, and Lessee knows of no fact or pending or threatened claim or litigation that might result in the insolvency or bankruptcy of Lessee.

9. Lessee is a [corporation][limited partnership][general partnership] duly organized and validly existing and in good standing under the laws of the State of _________ [and qualified to do business in the State where the Premises is located]. [__________, a __________, owns and holds all of the issued and outstanding stock in and of Lessee, and is a separate and distinct entity from Lessee].

10. Lessee's occupancy of the Premises complies fully with all local, state and federal laws, ordinances, codes, rules, regulations and orders including, without limitation, those concerning hazardous wastes, hazardous materials, asbestos, oil and underground storage tanks. In addition, no such hazardous wastes, hazardous materials, asbestos, oil or underground storage tanks have been or are incorporated in, stored on or under, released from, treated on, transported to or from or disposed of, on or from the Premises or any portion thereof.

11. All inspections, licenses, permits, consents, permissions, approvals and certificates required, whether by law, regulation or insurance standards, to be made or issued with respect to the conduct of Lessee's business, the Premises and the use and occupancy of the Premises by Lessee have been made by or issued by all necessary private parties, the appropriate governmental or quasi-governmental authorities or other authorities having

jurisdiction over the Premises and/or Lessee's business, are in full force and effect, and Lessee has not received notification from any such authority that Lessee or the Premises is in material noncompliance with such laws, regulations or standards, that the Premises is being used, operated or occupied unlawfully or that Lessee has failed to obtain such inspections, permits, consents, permissions, approvals, licenses or certificates, as the case may be. Lessee has not received notice of any violation or failure to conform with any such law, ordinance, regulation, standard, license, permit, consent, permission, approval or certificate.

12. All insurance policies required to be maintained by Lessee under the Lease have been maintained, are in full force and effect and all premiums with respect thereto have been paid in full.

13. Upon receipt of notice of the closing of the purchase and sale of the Premises as set forth in the Agreement, Lessee shall recognize _____ as lessor under the Lease, and all payments of rent and other sums due to Lessor under the Lease and all communications permitted or required under the Lease shall be directed to _____ c/o
____, and all communications permitted or required under the Lease shall be directed to Lessee at the address for Lessee set forth in the Lease (except as otherwise indicated following this sentence), unless and until otherwise specified in written notice by the party to whom notice is to be given at such address. If none, state "none".

----

11. This certification is made to induce _____ to enter into the Agreement, knowing that _____ is relying upon the truth of this Tenant Estoppel Certificate in entering into the Agreement, and that the acquisition of the Premises by _____ pursuant to the Agreement shall be deemed good and valuable consideration to Lessee for the foregoing representations made by Lessee.

Dated this ____ day of _________, 199_.

LESSEE:

------------------------------,

a

BY:

Name:

Title:

EXHIBIT E

COMMENCEMENT DATE AGREEMENT

THIS AGREEMENT made the _________ day of ________, 199__ is by and between ________________ (hereinafter "Landlord") whose address is _________________________________ and _________________________ (hereinafter "Tenant") whose address is ____.

STATEMENT OF FACTS

A. Landlord and Tenant entered into a Lease dated ____________, 199__ (hereinafter "Lease") setting forth the terms of occupancy by Tenant of approximately ________ rentable square feet on the _____ (___) floor (hereinafter "Premises") at _____________________________ (hereinafter "Building"); and

B. The Term of the Lease is for ____________ (__) months with the Commencement Date of the initial Term being defined in the Preamble to the Lease as being subject to change under Section 4 thereof; and

C. It has been determined in accordance with the provisions of Section 4 of the Lease that ___________, 199__ is the Commencement Date of the Term of the Lease.

STATEMENT OF TERMS

NOW, THEREFORE, in consideration of the Premises and the covenants hereinafter set forth, it is agreed:

1. The Commencement Date of the Term of the Lease is ___________ , 199__ and the Expiration Date thereof is _____________ , 199__ and the Lease Preamble Articles 6 and 9 shall be deemed modified accordingly.

2. Article 10 of the Preamble shall be deemed modified as follows:

This Agreement is executed by the parties hereto for the purpose of providing a record of the Commencement and Expiration Dates of the Lease, adjust the Term of the Lease and Fixed Basic Rent amount accordingly.

3. Except as modified herein, the Lease covering the Premises shall remain in full force and effect as if the same were set forth in full herein

and Landlord and Tenant hereby ratify and confirm all the terms and conditions thereof.

4. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and permitted assigns.

5. Each party agrees that it will not raise or assert as a defense to any obligation under the Lease or this Agreement or make any claim that the Lease or this Agreement is invalid or unenforceable due to any failure of this document to comply with ministerial requirements including, but not limited to, requirements for corporate seals, attestations, witnesses, notarizations, or other similar requirements, and each party hereby waives the right to assert any such defense or make any claim of invalidity or unenforceability due to any of the foregoing.

IN WITNESS THEREOF, Landlord and Tenant have hereunto set their hands and seals the date and year first above written and acknowledge one to the other they possess the requisite authority to enter into this transaction and to sign this Agreement.

LANDLORD:

BY: ------------------------------

Name: ------------------------------

Title: ------------------------------

Attest: ------------------------------

TENANT:

BY: ------------------------------

Name: ------------------------------

Title: ------------------------------

Attest:

Exhibit 21.1

Corporate Organization of NCO Group, Inc.

NCO Group, Inc.
Pennsylvania corporation

Wholly-Owned Subsidiaries

NCO Financial Systems, Inc.
Pennsylvania corporation
also doing business as "The Sentry Group" and "American Financial Enterprises - Collection Division"

NCO Funding, Inc.
Delaware corporation

Management Adjustment Bureau, Inc.
New York corporation

NCO Teleservices, Inc.
Pennsylvania corporation also doing business as "The Response Center"

NCO Financial Systems of MI, Inc.
Michigan corporation

CRWF Acquisition, Inc.
Pennsylvania corporation doing business as "CRW Financial"

K&K Acquisition, Inc.
Pennsylvania corporation doing business as "Kaplan & Kaplan"

NCO Financial Systems of NC, Inc.
North Carolina corporation

Goodyear & Associates, Inc.
North Carolina corporation

Advantage Financial Services, Inc.
an Ohio corporation

Advantage Southeast, Inc.
a Tennessee corporation

American Transportation Services Bureau, Inc.

an Ohio corporation

Credit Acceptance Corporation
a Pennsylvania corporation

CRW California, Inc.
a Delaware corporation

CRW Texas, Inc.
a Delaware corporation

CC Services, Inc.
a Delaware corporation

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of NCO Group, Inc. on Form S-8 (File No. 333-42743) of our report dated March 6, 1998, on our audits of the consolidated financial statements of NCO Group, Inc. as of December 31, 1997 and 1996, and for the years ended December 31 1997, 1996 and 1995, which report is included in this Annual Report on Form 1O-K.

Coopers & Lybrand L.L.P.
Philadelphia, Pennsylvania
March 26, 1998

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