UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011.

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

For the transition period from to

Commission File Number: 000-50058

Portfolio Recovery Associates, Inc.

(Exact name of registrant as specified in its charter)

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

(888) 772-7326

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding as of July 29, 2011**
Common Stock, $0.01 par value	17,114,586

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED BALANCE SHEETS

June 30, 2011 and December 31, 2010

(unaudited)

(Amounts in thousands, except per share amounts)

	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 25,481	$ 41,094
Finance receivables, net	879,515	831,330
Accounts receivable, net	6,683	8,932
Income taxes receivable		2,363
Property and equipment, net	23,810	24,270
Goodwill	61,678	61,678
Intangible assets, net	15,965	18,466
Other assets	8,485	7,775
Total assets	$ 1,021,617	$ 995,908
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable	$ 5,326	$ 3,227
Accrued expenses and other liabilities	4,389	4,904
Income taxes payable	2,877	
Accrued payroll and bonuses	10,563	15,445
Net deferred tax liability	188,142	164,971
Line of credit	250,000	300,000
Long-term debt	1,856	2,396
Total liabilities	463,153	490,943
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interest	16,068	14,449
Stockholders equity:		
Preferred stock, par value $0.01, authorized shares, 2,000, issued and outstanding shares - 0		
Common stock, par value $0.01, 60,000 authorized shares, 17,115 issued and outstanding shares at June 30, 2011, and 30,000 authorized shares, 17,064 issued and outstanding shares at December 31, 2010	171	171
Additional paid-in capital	166,723	163,538
Retained earnings	375,502	326,807

Total stockholders equity	542,396	490,516
Total liabilities and stockholders equity	$ 1,021,617	$ 995,908

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED INCOME STATEMENTS

For the three and six months ended June 30, 2011 and 2010

(unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues:				
Income recognized on finance receivables, net	$ 100,303	$ 76,920	$ 196,277	$ 144,871
Fee income	14,492	16,109	30,295	31,536
Total revenues	114,795	93,029	226,572	176,407
Operating expenses:				
Compensation and employee services	34,815	30,872	68,968	60,513
Legal collection fees	5,970	4,131	11,719	8,203
Legal collection costs	9,879	6,430	19,218	12,069
Agent fees	1,724	2,927	4,362	6,554
Outside fees and services	4,066	3,155	7,481	5,984
Communications	5,706	4,102	12,020	9,160
Rent and occupancy	1,438	1,297	2,835	2,549
Depreciation and amortization	3,316	3,206	6,532	5,756
Other operating expenses	3,501	2,580	6,353	4,854
Total operating expenses	70,415	58,700	139,488	115,642
Gain on sale of property	1,157		1,157	
Income from operations	45,537	34,329	88,241	60,765
Other income and (expense):				
Interest income				35
Interest expense	(2,635)	(2,177)	(5,502)	(4,357)
Income before income taxes	42,902	32,152	82,739	56,443
Provision for income taxes	17,326	12,474	33,454	21,960
Net income	$ 25,576	$ 19,678	$ 49,285	$ 34,483
Less net income attributable to redeemable noncontrolling interest	2	150	590	155
Net income attributable to Portfolio Recovery Associates, Inc.	$ 25,574	$ 19,528	$ 48,695	$ 34,328

Net income per common share attributable to Portfolio Recovery Associates, Inc:

Basic	$ 1.49	$ 1.15	$ 2.85	$ 2.07
Diluted	$ 1.48	$ 1.14	$ 2.83	$ 2.06
Weighted average number of shares outstanding:				
Basic	17,108	16,970	17,100	16,581
Diluted	17,225	17,080	17,212	16,641

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

For the six months ended June 30, 2011

(unaudited)

(Amounts in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Stockholders Equity
Balance at December 31, 2010	17,064	$ 171	$ 163,538	$ 326,807	$ 490,516
Net income attributable to Portfolio Recovery Associates, Inc.				48,695	48,695
Exercise of stock options and vesting of nonvested shares	51		149		149
Amortization of share-based compensation			4,622		4,622
Income tax benefit from share-based compensation			459		459
Adjustment of the noncontrolling interest measurement amount			(2,045)		(2,045)
Balance at June 30, 2011	17,115	$ 171	$ 166,723	$ 375,502	$ 542,396

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2011 and 2010

(unaudited)

(Amounts in thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 49,285	$ 34,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of share-based compensation	4,622	2,074
Depreciation and amortization	6,532	5,756
Deferred tax expense	23,171	21,881
Gain on sale of property	(1,157)	
Changes in operating assets and liabilities:		
Other assets	(711)	351
Accounts receivable	2,249	1,010
Accounts payable	2,100	1,337
Income taxes	5,240	2,583
Accrued expenses	528	325
Accrued payroll and bonuses	(4,882)	(2,509)
Net cash provided by operating activities	86,977	67,291
Cash flows from investing activities:		
Purchases of property and equipment	(3,682)	(4,784)
Proceeds from sale of property	1,267	
Acquisition of finance receivables, net of buybacks	(194,906)	(184,874)
Collections applied to principal on finance receivables	146,721	102,730
Business acquisitions, net of cash acquired		(23,000)
Contingent payment made for business acquisition		(104)
Net cash used in investing activities	(50,600)	(110,032)
Cash flows from financing activities:		
Proceeds from exercise of options	149	57
Income tax benefit from share-based compensation	459	113
Payments of liability-classified contingent consideration		(1,000)
Proceeds from line of credit	2,000	99,000
Principal payments on line of credit	(52,000)	(128,800)
Proceeds from stock offering, net of offering costs		71,688
Distributions paid to noncontrolling interest	(2,059)	
Principal payments on long-term debt	(539)	(332)
Net cash (used in)/provided by financing activities	(51,990)	40,726

Net decrease in cash and cash equivalents	(15,613)	(2,015)
Cash and cash equivalents, beginning of year	41,094	20,265
Cash and cash equivalents, end of period	$ 25,481	$ 18,250
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 5,256	$ 4,318
Cash paid for income taxes	6,784	73
Noncash investing and financing activities:		
Distributions payable to noncontrolling interest	$ 247	$
Adjustment of the noncontrolling interest measurement amount	2,045	
Common stock issued for acquisition		4,950
Net unrealized change in fair value of derivative instrument		61

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

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PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization and Business:

Portfolio Recovery Associates, LLC (PRA) was formed on March 20, 1996. Portfolio Recovery Associates, Inc. (PRA Inc) was formed in August 2002. On November 8, 2002, PRA Inc completed its initial public offering (IPO) of common stock. In connection with the IPO, all of the membership units and warrants of PRA were exchanged on a one to one basis for shares of a single class of common stock of PRA Inc and warrants to purchase shares of PRA Inc common stock, respectively. PRA Inc owns all outstanding membership units of PRA, PRA Holding I, LLC (PRA Holding I), PRA Holding II, LLC (PRA Holding II), PRA Holding III, LLC (PRA Holding III), PRA Receivables Management, LLC (PRA Receivables Management), PRA Location Services, LLC (PLS) (formerly referred to as IGS), PRA Government Services, LLC (d/b/a RDS) (RDS) and MuniServices, LLC (d/b/a PRA Government Services) (MuniServices). On March 15, 2010, PRA Inc acquired 62% of the membership units of Claims Compensation Bureau, LLC (CCB). The business of PRA Inc, a Delaware corporation, and its subsidiaries (collectively, the Company) revolves around the detection, collection, and processing of both unpaid and normal-course receivables originally owed to credit grantors, governments, retailers and others. The Company s primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. These accounts are purchased from sellers of finance receivables. Accounts not in a bankruptcy status upon purchase (referred to as Core accounts) are collected by a highly skilled staff whose purpose is to locate and contact customers and arrange payment or resolution of their debts. Purchased bankruptcy accounts are managed through the bankruptcy courts and trustees, which are overseen by the US Trustee Program, a component of the Department of Justice. Trustees collect payments directly from individual debtors per the bankruptcy plan and forward them to the Company. The Company, through its Litigation Department, collects accounts judicially, either by using its own attorneys or by contracting with independent attorneys throughout the country through whom the Company takes legal action to satisfy consumer debts. The Company also services receivables on behalf of clients on either a commission or transaction-fee basis. Clients include entities in the financial services, auto, retail, utility, health care and government sectors. Services provided to these clients include obtaining location information for clients in support of their collection activities (known as skip tracing), and the management of both delinquent and non-delinquent receivables for government entities. In addition, through its CCB subsidiary, the Company provides class action claims settlement recovery services and related payment processing to its corporate clients.

The consolidated financial statements of the Company include the accounts of PRA Inc, PRA, PRA Holding I, PRA Holding II, PRA Holding III, PRA Receivables Management, PLS, RDS, MuniServices and CCB. Under the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 280 Segment Reporting (ASC 280), the Company has determined that it has several operating segments that meet the aggregation criteria of ASC 280 and, therefore, it has one reportable segment, accounts receivables management, based on similarities among the operating units, including homogeneity of services, service delivery methods and use of technology.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and, therefore, do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company s consolidated balance sheet as of June 30, 2011, its consolidated income statements for the three and six months ended June 30, 2011 and 2010, its consolidated statement of changes in stockholders equity for the six months ended June 30, 2011, and its consolidated statements of cash flows for the six months ended June 30, 2011 and 2010. The consolidated income statements of the Company for the three and six months ended June 30, 2011 may not be indicative of future results. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K, as filed for the year ended December 31, 2010.

PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. Finance Receivables, net:

The Company s principal business consists of the acquisition and collection of pools of accounts that have experienced deterioration of credit quality between origination and the Company s acquisition of the accounts. The amount paid for any pool reflects the Company s determination that it is probable the Company will be unable to collect all amounts due according to an account s contractual terms. At acquisition, the Company reviews the portfolio both by account and aggregate pool to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Company will be unable to collect all amounts due according to the account s contractual terms. If both conditions exist, the Company determines whether each such account is to be accounted for individually or whether such accounts will be assembled into pools based on common risk characteristics. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio and subsequently aggregates pools of accounts. The Company determines the excess of the pool s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference) based on the Company s proprietary acquisition models. The remaining amount, representing the excess of the pool s cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables over the estimated remaining life of the pool (accretable yield).

The Company accounts for its investment in finance receivables under the guidance of FASB ASC Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). Under ASC 310-30, static pools of accounts may be established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost, which includes certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, payments applied to principal and loss provision. Once a static pool is established for a calendar quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30 requires that the excess of the contractual cash flows over expected cash flows, based on the Company s estimates derived from its proprietary collection models, not be recognized as an adjustment of revenue or expense or on the balance sheet. ASC 310-30, utilizing the interest method, initially freezes the yield estimated when the accounts are purchased as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the yield over a portfolio s remaining life. Any increase to the yield then becomes the new benchmark for impairment testing. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current yield and shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheet. Income on finance receivables is accrued quarterly based on each static pool s effective yield. Quarterly cash flows greater than the interest accrual will reduce the carrying value of the static pool. This reduction in carrying value is defined as payments applied to principal (also referred to as finance receivable amortization). Likewise, cash flows that are less than the interest accrual will increase, or accrete, the carrying balance. The Company generally does not record accretion in the first six to twelve months of the estimated life of the pool; accordingly, the Company utilizes either the cost recovery method or cash method when necessary to prevent accretion as permitted by ASC 310-30. The yield is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using the Company s proprietary collection models. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. Additionally, the Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. These cost recovery pools are not aggregated with other portfolios. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the portfolio, or until such time that the Company considers the collections to be probable and estimable and begins to recognize income based on the interest method as described above. At June 30, 2011 and 2010, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of $1.2 million and $2.1 million, respectively.

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PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The Company establishes valuation allowances, if necessary, for acquired accounts subject to ASC 310-30 to reflect only those losses incurred after acquisition (that is, the present value of cash flows initially expected at acquisition that are no longer expected to be collected). Valuation allowances are established only subsequent to acquisition of the accounts. At June 30, 2011 and 2010, the Company had a valuation allowance against its finance receivables of $82,730,000 and $64,445,000, respectively.

The Company implements the accounting for income recognized on finance receivables under ASC 310-30 as follows. The Company creates each accounting pool using its projections of estimated cash flows and expected economic life. The Company then computes the effective yield that fully amortizes the pool to the end of its expected economic life based on the current projections of estimated cash flows using the interest method. As actual cash flow results are recorded, the Company balances those results to the data contained in its proprietary models to ensure accuracy, then reviews each accounting pool watching for trends, actual performance versus projections and curve shape (a graphical depiction of the timing of cash flows), sometimes re-forecasting future cash flows utilizing the Company s statistical models. The review process is primarily performed by the Company s finance staff; additionally, the Company s operational and statistical staffs may also be involved. To the extent there is overperformance, the Company will either increase the yield or release the allowance and consider increasing future cash projections, if persuasive evidence indicates that the overperformance is considered to be a significant betterment. If the overperformance is considered more of an acceleration of cash flows (a timing difference), the Company will adjust estimated future cash flows downward, which effectively extends the amortization period, or take no action at all if the amortization period is reasonable and falls within the pool s expected economic life. In either case, the yield may or may not be increased due to the time value of money (accelerated cash collections). To the extent there is underperformance, the Company will record an allowance if the underperformance is significant and will also consider revising estimated future cash flows based on current period information, or take no action if the pool s amortization period is reasonable and falls within the currently projected economic life.

The Company capitalizes certain fees paid to third parties related to the direct acquisition of a portfolio of accounts. These fees are added to the acquisition cost of the portfolio and accordingly are amortized over the life of the portfolio using the interest method. The balance of the unamortized capitalized fees at June 30, 2011 and 2010 was $3,022,700 and $3,161,505, respectively. During the three and six months ended June 30, 2011, the Company capitalized $130,400 and $386,178, respectively, of these direct acquisition fees. During the three and six months ended June 30, 2010 the Company capitalized $285,210 and $446,831, respectively, of these direct acquisition fees. During the three and six months ended June 30, 2011, the Company amortized $314,405 and $658,993, respectively, of these direct acquisition fees. During the three and six months ended June 30, 2010 the Company amortized $246,305 and $517,252, respectively, of these direct acquisition fees.

The agreements to purchase the aforementioned receivables include general representations and warranties from the sellers covering account holder death or bankruptcy and accounts settled or disputed prior to sale. The representation and warranty period permitting the return of these accounts from the Company to the seller is typically 90 to 180 days. Any funds received from the seller of finance receivables as a return of purchase price are referred to as buybacks. Buyback funds are applied against the finance receivable balance received and are not included in the Company s cash collections from operations. In some cases, the seller will replace the returned accounts with new accounts in lieu of returning the purchase price. In that case, the old account is removed from the pool and the new account is added.

Changes in finance receivables, net for the three and six months ended June 30, 2011 and 2010 were as follows (amounts in thousands):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Balance at beginning of period	$ 866,992	$ 742,484	$ 831,330	$ 693,462
Acquisitions of finance receivables, net of buybacks	88,501	84,608	194,906	184,874
Cash collections	(176,281)	(128,406)	(342,998)	(247,601)
Income recognized on finance receivables, net	100,303	76,920	196,277	144,871

Cash collections applied to principal	(75,978)	(51,486)	(146,721)	(102,730)
Balance at end of period	$ 879,515	$ 775,606	$ 879,515	$ 775,606

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PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

At the time of acquisition, the life of each pool is generally estimated to be between 72 to 96 months based on projected amounts and timing of future cash collections using the proprietary models of the Company. Based upon current projections, cash collections applied to principal on finance receivables as of June 30, 2011 are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

June 30, 2012	$ 257,297
June 30, 2013	235,331
June 30, 2014	204,965
June 30, 2015	128,445
June 30, 2016	47,192
June 30, 2017	6,285
	$ 879,515

During the three and six months ended June 30, 2011, the Company purchased approximately $1.41 billion and $2.90 billion, respectively, in face value of charged-off consumer receivables. During the three and six months ended June 30, 2010, the Company purchased approximately $1.67 billion and $3.56 billion, respectively, in face value of charged-off consumer receivables. At June 30, 2011, the estimated remaining collections (ERC) on the receivables purchased in the three and six months ended June 30, 2011 were $173.9 million and $373.6 million, respectively. At June 30, 2011, ERC on the receivables purchased in the three and six months ended June 30, 2010 were $142.9 million and $295.0 million, respectively.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of the balance sheet date. Additions represent the original expected accretable yield to be earned by the Company based on its proprietary buying models. Reclassifications from nonaccretable difference to accretable yield primarily result from the Company s increase in its estimate of future cash flows. Reclassifications to nonaccretable difference from accretable yield result from the Company s decrease in its estimates of future cash flows and allowance charges that exceed the Company s increase in its estimate of future cash flows. Changes in accretable yield for the three and six months ended June 30, 2011 and 2010 were as follows (amounts in thousands):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Balance at beginning of period	$ 926,278	$ 793,645	$ 892,188	$ 721,984
Income recognized on finance receivables, net	(100,303)	(76,920)	(196,277)	(144,871)
Additions	91,666	105,365	201,168	227,875
Reclassifications from nonaccretable difference	18,849	13,813	39,411	30,915
Balance at end of period	$ 936,490	$ 835,903	$ 936,490	$ 835,903

ASC 310-30 requires that a valuation allowance be recorded for significant decreases in expected cash flows or change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. In any given period, the Company may be required to record valuation allowances due to pools of receivables underperforming expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability of purchased pools of defaulted consumer receivables would include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relates to the collection and movement of accounts on both the collection floor of the Company and external channels), as well as decreases in productivity related to turnover and tenure of the Company s collection staff. The following is a summary of activity within the Company s valuation allowance account, all of which relates to loans acquired with deteriorated credit quality, for the three and six months ended June 30, 2011 and 2010 (amounts in thousands):

	Three Months Ended June 30,					
	2011			2010		
	Core Portfolio (1)	Purchased Bankruptcy Portfolio (2)	Total	Core Portfolio (1)	Purchased Bankruptcy Portfolio (2)	Total
Valuation allowance - finance receivables:						
Beginning balance	$ 71,830	$ 8,617	$ 80,447	$ 53,105	$ 5,020	$ 58,125
Allowance charges	2,000	500	2,500	6,375	50	6,425
Reversal of previous recorded allowance charges	(200)	(17)	(217)	(50)	(55)	(105)
Net allowance charge	1,800	483	2,283	6,325	(5)	6,320
Ending balance	$ 73,630	$ 9,100	$ 82,730	$ 59,430	$ 5,015	$ 64,445
Finance receivables, net:	$ 437,644	$ 441,871	$ 879,515	$ 405,041	$ 370,565	$ 775,606

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PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

	Six Months Ended June 30,					
	2011			2010		
	Core Portfolio (1)	Purchased Bankruptcy Portfolio (2)	Total	Core Portfolio (1)	Purchased Bankruptcy Portfolio (2)	Total
Valuation allowance - finance receivables:						
Beginning balance	$ 70,030	$ 6,377	$ 76,407	$ 47,580	$ 3,675	$ 51,255
Allowance charges	4,850	2,950	7,800	11,900	1,400	13,300
Reversal of previous recorded allowance charges	(1,250)	(227)	(1,477)	(50)	(60)	(110)
Net allowance charge	3,600	2,723	6,323	11,850	1,340	13,190
Ending balance	$ 73,630	$ 9,100	$ 82,730	$ 59,430	$ 5,015	$ 64,445
Finance receivables, net:	$ 437,644	$ 441,871	$ 879,515	$ 405,041	$ 370,565	$ 775,606

(1) Core accounts or portfolios refer to accounts or portfolios that are defaulted consumer receivables and are not in a bankrupt status upon purchase. These accounts are aggregated separately from purchased bankruptcy accounts.

(2) Purchased bankruptcy accounts or portfolios refer to accounts or portfolios that are in bankruptcy status when purchased, and as such, are purchased as a pool of bankrupt accounts.

3. Accounts Receivable, net:

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and its customers financial condition, the amount of receivables in dispute, the current receivables aging, and current payment patterns. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The balance of the allowance for doubtful accounts at June 30, 2011 and December 31, 2010 was $2.6 million and $2.5 million, respectively. The Company does not have any off balance sheet credit exposure related to its customers.

4. Line of Credit:

On December 20, 2010, the Company entered into a credit agreement with Bank of America, N.A., as administrative agent, and a syndicate of lenders named therein (the Credit Agreement). Under the terms of the Credit Agreement, the credit facility includes an aggregate principal amount available of $407.5 million which consists of a $50 million fixed rate loan that matures on May 4, 2012, which was transferred from the Company s then existing credit agreement, and a $357.5 million revolving credit facility that matures on December 20, 2014. The revolving credit facility will be automatically increased by $50 million upon the maturity and repayment of the fixed rate loan. The fixed rate loan bears interest at a rate of 6.8% per annum, payable monthly in arrears. The revolving loans accrue interest, at the option of the Company, at either the base rate plus 1.75% per annum or the Eurodollar rate (as defined in the Credit Agreement) for the applicable term plus 2.75% per annum. The base rate is

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the highest of (a) the Federal Funds Rate plus 0.50%, (b) Bank of America s prime rate, and (c) the Eurodollar rate plus 1.00%. Interest is payable on base rate loans quarterly in arrears and on Eurodollar loans in arrears on the last day of each interest period or, if such interest period exceeds three months, every three months. The Company s revolving credit facility includes a $20 million swingline loan sublimit and a $20 million letter of credit sublimit. It also contains an accordion loan feature that allows the Company to request an increase of up to $142.5 million in the amount available for borrowing under the revolving credit facility, whether from existing or new lenders, subject to terms of the Credit Agreement. No existing lender is obligated to increase its commitment. The Credit Agreement is secured by a first priority lien on substantially all of the Company s assets. The Credit Agreement contains restrictive covenants and events of default including the following:

- borrowings may not exceed 30% of the ERC of all its eligible asset pools plus 75% of its eligible accounts receivable;
- the consolidated leverage ratio (as defined in the Credit Agreement) cannot exceed 2.0 to 1.0 as of the end of any fiscal quarter;
- consolidated Tangible Net Worth (as defined in the Credit Agreement) must equal or exceed $309,452,000 plus 50% of positive consolidated net income for each fiscal quarter beginning December 31, 2010, plus 50% of the net proceeds of any equity offering;
- capital expenditures during any fiscal year cannot exceed $20 million;
- cash dividends and distributions during any fiscal year cannot exceed $20 million;
- stock repurchases during the term of the agreement cannot exceed $100 million;
- permitted acquisitions (as defined in the Credit Agreement) during any fiscal year cannot exceed $100 million;
- the Company must maintain positive consolidated income from operations (as defined in the Credit Agreement) during any fiscal quarter; and
- restrictions on changes in control.

The revolving credit facility also bears an unused commitment fee of 0.375% per annum, payable quarterly in arrears.

At June 30, 2011, the Company s borrowings under its revolving credit facility consisted of 30-day Eurodollar rate loans with a weighted average annual interest rate equal to 2.94%.

The Company had $250.0 million and $300.0 million of borrowings outstanding on its credit facility as of June 30, 2011 and December 31, 2010, respectively, of which $50 million represented borrowing under the non-revolving fixed rate loan at both dates.

The Company was in compliance with all covenants of its credit facility as of June 30, 2011 and December 31, 2010.

5. Long-Term Debt:

On February 6, 2009, the Company entered into a commercial loan agreement to finance computer software and equipment purchases in the amount of $2,036,114. The loan is collateralized by the related computer software and equipment. The loan is a three year loan with a fixed rate of 4.78% with monthly installments, including interest, of $60,823 beginning on March 31, 2009, and it matures on February 28, 2012.

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On December 15, 2010, the Company entered into a commercial loan agreement to finance computer software and equipment purchases in the amount of $1,569,016. The loan is collateralized by the related computer software and equipment. The loan is a three year loan with a fixed rate of 3.69% with monthly installments, including interest, of $46,108 beginning on January 15, 2011, and it matures on December 15, 2013.

6. Property and Equipment, net:

Property and equipment, at cost, consisted of the following as of the dates indicated (amounts in thousands):

	June 30, 2011	December 31, 2010
Software	$ 23,339	$ 21,014
Computer equipment	11,417	10,697
Furniture and fixtures	6,184	6,147
Equipment	7,557	7,498
Leasehold improvements	5,092	4,574
Building and improvements	5,701	6,045
Land	902	992
Accumulated depreciation and amortization	(36,382)	(32,697)
Property and equipment, net	$ 23,810	$ 24,270

Depreciation and amortization expense relating to property and equipment, for the three and six months ended June 30, 2011 was $2,066,010 and $4,032,019, respectively. Depreciation and amortization expense relating to property and equipment, for the three and six months ended June 30, 2010 was $1,787,866 and $3,500,170, respectively.

The Company, in accordance with the guidance of FASB ASC Topic 350-40 Internal-Use Software (ASC 350-40), capitalizes qualifying computer software costs incurred during the application development stage and amortizes them over their estimated useful life of three to seven years on a straight-line basis beginning when the project is completed. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company s policy provides for the capitalization of certain direct payroll costs for employees who are directly associated with internal use computer software projects, as well as external direct costs of services associated with developing or obtaining internal use software. Capitalizable personnel costs are limited to the time directly spent on such projects. As of June 30, 2011 and December 31, 2010, the Company has incurred and capitalized $4,748,168 and $4,188,160, respectively, of these direct payroll costs and external direct costs related to software developed for internal use. Of these costs, $862,874 is for projects that are in the development stage and, therefore are a component of Other Assets. Once the projects are completed, the costs will be transferred to Software and amortized over their estimated useful life of three to seven years. Amortization expense for the three and six months ended June 30, 2011 was $194,505 and $351,574, respectively. Amortization expense for the three and six months ended June 30, 2010 was $103,297 and $162,829, respectively. The remaining unamortized costs relating to internally developed software at June 30, 2011 and 2010 were $2,859,901 and $2,356,568, respectively.

7. Redeemable Noncontrolling Interest:

In accordance with ASC 810, the Company has consolidated all financial statement accounts of CCB in its consolidated balance sheets as of June 30, 2011 and December 31, 2010, and its consolidated income statements for the three and six months ended June 30, 2011 and for the period from March 15, 2010 (the date of acquisition) through June 30, 2010. The redeemable noncontrolling interest amount is separately stated on the consolidated balance sheets and represents the 38% interest in CCB not owned by the Company. In addition, net income attributable to the noncontrolling interest is stated separately in the consolidated income statements for the three and six months ended June 30, 2011 and for the period from March 15, 2010 through June 30, 2010.

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The Company applies the provisions of FASB ASC Topic 480-10-S99 Distinguishing Liabilities from Equity (ASC 480-10-S99), which provides guidance on the accounting for equity securities that are subject to mandatory redemption requirements or whose redemption is outside the control of the issuer. The noncontrolling interest put arrangement is accounted for under ASC 480-10-S99, as redemption under the put arrangement is outside the control of the Company. As such, the redeemable noncontrolling interest is recorded outside of permanent equity. The Company measures the redeemable noncontrolling interest at the greater of its ASC 480-10-S99 measurement amount (estimated redemption value of the put option embedded in the noncontrolling interest) or its measurement amount under the guidance of ASC 810. The ASC 810 measurement amount includes adjustments for the noncontrolling interest s pro-rata share of earnings, losses and distributions, pursuant to the limited liability company agreement of CCB. Adjustments to the measurement amount are recorded to stockholders equity. The Company used a present value calculation to estimate the redemption value of the put option as of the reporting date. As such, for the three and six months ended June 30, 2011, the Company increased the redeemable noncontrolling interest by $1.1 million and $2.0 million, respectively, with a corresponding reduction of stockholders equity. If material, the Company adjusts the numerator of earnings per share calculations for the current period change in the excess of the noncontrolling interest s ASC 480-10-S99 measurement amount over the greater of its ASC 810 measurement amount or the estimated fair value of the noncontrolling interest. Although the noncontrolling interest was redeemable by the Company as of the reporting date, it was not yet redeemable by the holder of the put option. The estimated redemption value of the noncontrolling interest, as if it were currently redeemable by the holder of the put option under the terms of the put arrangement, was $22,800,000 as of June 30, 2011 and December 31, 2010.

The following table represents the changes in the redeemable noncontrolling interest for the period from March 15, 2010 (the acquisition date) to June 30, 2011 (amounts in thousands):

Acquisition date fair value of redeemable noncontrolling interest	$ 15,323
Net income attributable to redeemable noncontrolling interest	417
Distributions paid or accrued	(1,291)
Redeemable noncontrolling interest at December 31, 2010	14,449
Net income attributable to redeemable noncontrolling interest	590
Distributions paid or accrued	(1,016)
Adjustment of the noncontrolling interest measurement amount	2,045
Redeemable noncontrolling interest at June 30, 2011	$ 16,068

In accordance with the limited liability company agreement of CCB, distributions due to the members of the LLC are accrued each quarter and are payable as soon as reasonably possible subsequent to each quarter end.

8. Goodwill and Intangible Assets, net:

In connection with the Company s business acquisitions, the Company purchased certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements, trademarks and goodwill. In accordance FASB ASC Topic 350 Intangibles-Goodwill and Other (ASC 350), the Company is amortizing its intangible assets over their estimated useful lives.

The combined original weighted average amortization period is 8.1 years. The Company reviews these assets at least annually for impairment. Total amortization expense was $1,250,181 and $2,500,362 for the three and six months ended June 30, 2011, respectively. Total amortization expense was $1,418,211 and $2,256,275 for the three and six months ended June 30, 2010, respectively. In addition, pursuant to ASC 350, goodwill is not amortized but rather is reviewed at least annually for impairment. During the fourth quarter of 2010, the Company underwent its annual review of goodwill. Based upon the results of this review, which was conducted as of October 1, 2010, no impairment charges to goodwill or the other intangible assets were necessary as of the date of this review. The Company believes that nothing has occurred since the review was performed through June 30, 2011 that would indicate a triggering event and thereby necessitate an impairment charge to goodwill or the other intangible assets. The Company expects to perform its next annual goodwill review during the fourth quarter of 2011. At June 30, 2011 and December 31, 2010, the carrying value of goodwill was $61.7 million.

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9. Share-Based Compensation:

The Company has a stock option and nonvested share plan. The Company created the 2002 Stock Option Plan (the Plan) on November 7, 2002. The Plan was amended in 2004 (the Amended Plan) to enable the Company to issue nonvested shares of stock to its employees and directors. On March 19, 2010, the Company adopted a 2010 Stock Plan, which was approved by its shareholders at the 2010 Annual Meeting. The 2010 Stock Plan is a further amendment to the Amended Plan, and contains, among other things, specific performance metrics with respect to performance-based stock awards. Up to 2,000,000 shares of common stock may be issued under the 2010 Stock Plan. The 2010 Stock Plan expires on November 7, 2012.

The Company follows the provisions of FASB ASC Topic 718 Compensation-Stock Compensation (ASC 718). As of June 30, 2011, total future compensation costs related to nonvested awards of nonvested shares (not including nonvested shares granted under the Long-Term Incentive Program (LTI)) is estimated to be $3.9 million with a weighted average remaining life for all nonvested shares of 2.2 years (not including nonvested shares granted under the LTI Programs). As of June 30, 2011, there are no future compensation costs related to stock options and there are no remaining vested stock options to be exercised. Based upon historical data, the Company used an annual forfeiture rate of 14% for stock options and 15-40% for nonvested shares for most of the employee grants. Grants made to key employees and directors of the Company were assumed to have no forfeiture rates associated with them due to the historically low turnover among this group.

Total share-based compensation expense was $2,008,017 and $4,622,218 for the three and six months ended June 30, 2011, respectively. Total share-based compensation expense was $1,194,006 and $2,073,886 for the three and six months ended June 30, 2010, respectively. Tax benefits resulting from tax deductions in excess of share-based compensation expense recognized under the provisions of ASC 718 (windfall tax benefits) are credited to additional paid-in capital in the Company s Consolidated Balance Sheets. Realized tax shortfalls, if any, are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The total tax benefit realized from share-based compensation was $506,973 and $1,475,609 for the three and six months ended June 30, 2011, respectively. The total tax benefit realized from share-based compensation was $343,799 and $467,586 for the three and six months ended June 30, 2010, respectively.

Stock Options

All options issued under the Amended Plan vest ratably over five years. Granted options expire seven years from the applicable grant date. Options granted to a single person cannot exceed 200,000 in a single year. All of the stock options which have been granted under the Amended Plan were granted to employees of the Company, except for 40,000 which were granted to non-employee directors. The Company granted no options during the three or months ended June 30, 2011 and 2010. The total intrinsic value of options exercised during the three and six months ended June 30, 2011 was approximately $224,000. The total intrinsic value of options exercised during the three and six months ended June 30, 2010 was approximately $76,640. At June 30, 2011, 895,000 options had been granted under the Amended Plan, all of which have either been cancelled, expired or exercised. There were no antidilutive options outstanding for the three and six months ended June 30, 2011 and 2010, respectively.

The following summarizes all option related transactions from December 31, 2009 through June 30, 2011 (amounts in thousands, except per share amounts):

	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Fair Value Per Share
December 31, 2009	7	$ 29.41	$ 2.70
Exercised	(2)	28.45	2.92
December 31, 2010	5	29.79	2.62

Exercised	(5)	29.79	2.62
June 30, 2011	$	$	

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

Nonvested Shares

With the exception of the awards made pursuant to the LTI Program and a few employee and director grants, the terms of the nonvested share awards are similar to those of the stock option awards, wherein the nonvested shares vest ratably over five years and are expensed over their vesting period.

The following summarizes all nonvested share transactions (excluding shares granted under the LTI Programs) from December 31, 2009 through June 30, 2011 (amounts in thousands, except per share amounts):

	Nonvested Shares Outstanding	Weighted-Average Price at Grant Date
December 31, 2009	81	$ 40.24
Granted	57	53.06
Vested	(37)	41.46
Cancelled	(10)	39.61
December 31, 2010	91	47.89
Granted	43	76.11
Vested	(45)	56.80
Cancelled	(3)	42.19
June 30, 2011	86	$ 57.48

The total grant date fair value of shares vested during the three and six months ended June 30, 2011 was $853,978 and $2,577,130, respectively. The total grant date fair value of shares vested during the three and six months ended June 30, 2010 was $566,754 and $890,322, respectively.

Long-Term Incentive Programs

Pursuant to the Amended Plan, on January 20, 2009, January 14, 2010 and January 14, 2011, the Compensation Committee approved the grant of 108,720, 53,656 and 73,914 performance and market based nonvested shares, respectively. All shares granted under the LTI Programs were granted to key employees of the Company. The 2009 grant is performance based and cliff vests after the requisite service period of two to three years if certain financial goals are met. The goals are based upon diluted earnings per share (EPS) totals for 2009,

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the return on owners equity for the three year period beginning on January 1, 2009 and ending December 31, 2011, and the relative total shareholder return as compared to a peer group for the same three year period. For each component, the number of shares vested can double if the financial goals are exceeded and no shares will vest if the financial goals are not met. The Company is expensing the nonvested share grant over the requisite service period of two to three years beginning on January 1, 2009. If the Company believes that the number of shares granted will be more or less than originally projected, an adjustment to the expense will be made at that time based on the probable outcome. The EPS component of the 2009 plan was not achieved and therefore no compensation expense was recognized relative to this component.

The 2010 grant is performance based and cliff vests after the requisite service period of two to three years if certain financial goals are met. The goals are based upon diluted EPS totals for 2010, the return on owners equity for the three year period beginning on January 1, 2010 and ending December 31, 2012, and the relative total shareholder return as compared to a peer group for the same three year period. For each component, the number of shares vested can double if the financial goals are exceeded and no shares will vest if the financial goals are not met. The EPS component of the 2010 plan was achieved at 190% and these shares will vest at 50% on both December 31, 2011 and December 31, 2012. The Company is expensing the nonvested share grant over the requisite service period of two to three years beginning on January 1, 2010. If the Company believes that the number of shares granted will be more or less than originally projected, an adjustment to the expense will be made at that time based on the probable outcome.

The 2011 grant is performance based and cliff vests after the requisite service period of two to three years if certain financial goals are met. The goals are based upon the Company s earnings before interest, taxes, depreciation and amortization (EBITDA) for 2011, the return on owners equity for the three year period beginning on January 1, 2011 and ending December 31, 2013, and the relative total shareholder return as compared to a peer group for the same three year period. For each component, the number of shares vested can double if the financial goals are exceeded and no shares will vest if the financial goals are not met. The Company is expensing the nonvested share grant over the requisite service period of two to three years beginning on January 1, 2011. If the Company believes that the number of shares granted will be more or less than originally projected, an adjustment to the expense will be made at that time based on the probable outcome.

At June 30, 2011, total future compensation costs, assuming the current estimated levels are achieved, related to nonvested share awards granted under the 2009, 2010 and 2011 LTI Programs are estimated to be approximately $8.6 million. The Company assumed a 7.5% forfeiture rate for this grant and the remaining shares have a weighted average life of 1.5 years at June 30, 2011.

10. Income Taxes:

The Company follows the guidance of FASB ASC Topic 740 Income Taxes (ASC 740) as it relates to the provision for income taxes and uncertainty in income taxes. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. There were no unrecognized tax benefits at both June 30, 2011 and 2010.

The Company was notified on June 21, 2007 that it was being examined by the Internal Revenue Service for the 2005 calendar year. The IRS concluded the audit and on March 19, 2009 issued Form 4549-A, Income Tax Examination Changes, for tax years ended December 31, 2007, 2006 and 2005. The IRS has asserted that cost recovery for tax revenue recognition does not clearly reflect taxable income and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. The Company believes it has sufficient support for the technical merits of its positions and that it is more-likely-than-not these positions will ultimately be sustained; therefore, a reserve for uncertain tax positions is not necessary for these tax positions. The company has two courses of action if it is unsuccessful in its appeal with the IRS. With the first course, the Company can pay the assessed tax and interest and file a refund suit in US District Court. Alternatively, the Company can file a petition in Tax Court, which does not require a payment up front of the assessed tax and

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interest. If the Company is unsuccessful in either course, it can appeal to the federal Circuit Court of Appeals. Payment of the assessed taxes and interest could possibly require additional financing from other sources. On April 6, 2011, the Company was notified verbally by the IRS that the audit period will be expanded to include the tax years ended December 31, 2009 and 2008.

At June 30, 2011, the tax years subject to examination by the major taxing jurisdictions, including the Internal Revenue Service, are 2003, 2005 and subsequent years. The 2003 tax year remains open to examination because of a net operating loss that originated in that year but was not fully utilized until the 2005 tax year. The examination periods for the 2007, 2006 and 2005 tax years are extended through December 31, 2011.

ASC 740 requires the recognition of interest, if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties, if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. No interest or penalties were accrued or reversed in the first three or six months of 2011 or 2010.

11. Earnings per Share:

Basic EPS are computed by dividing net income available to common shareholders of PRA Inc by weighted average common shares outstanding. Diluted EPS are computed using the same components as basic EPS with the denominator adjusted for the dilutive effect of stock options and nonvested share awards. Share-based awards that are contingent upon the attainment of performance goals are not included in the computation of diluted EPS until the performance goals have been attained. The dilutive effect of stock options and nonvested shares is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options and vesting of nonvested shares would be used to purchase common shares at the average market price for the period. The assumed proceeds include the windfall tax benefit that would be received upon assumed exercise. The following tables provide a reconciliation between the computation of basic EPS and diluted EPS for the three and six months ended June 30, 2011 and 2010 (amounts in thousands, except per share amounts):

	For the three months ended June 30,					
	2011			2010		
	Net Income	Weighted Average Common Shares	EPS	Net Income	Weighted Average Common Shares	EPS
Basic EPS	$ 25,574	17,108	$ 1.49	$ 19,528	16,970	$ 1.15
Dilutive effect of stock options and nonvested share awards		117			110	
Diluted EPS	$ 25,574	17,225	$ 1.48	$ 19,528	17,080	$ 1.14

	For the six months ended June 30,					
	2011			2010		
	Net Income	Weighted Average Common Shares	EPS	Net Income	Weighted Average Common Shares	EPS
Basic EPS	$ 48,695	17,100	$ 2.85	$ 34,328	16,581	$ 2.07
Dilutive effect of stock options and nonvested share awards		112			60	
Diluted EPS	$ 48,695	17,212	$ 2.83	$ 34,328	16,641	$ 2.06

There were no antidilutive options outstanding for the three or six months ended June 30, 2011 and 2010.

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12. Commitments and Contingencies:

Employment Agreements:

The Company has employment agreements, most of which expire on December 31, 2011, with all of its executive officers and with several members of its senior management group. Such agreements provide for base salary payments as well as bonuses which are based on the attainment of specific management goals. Future compensation under these agreements is approximately $8.7 million. The agreements also contain confidentiality and non-compete provisions.

Leases:

The Company is party to various operating and capital leases with respect to its facilities and equipment. For further discussion of these leases please refer to the Company s audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K, as filed for the year ended December 31, 2010.

Forward Flow Agreements:

The Company is party to several forward flow agreements that allow for the purchase of defaulted consumer receivables at pre-established prices. The maximum remaining amount to be purchased under forward flow agreements at June 30, 2011 is approximately $160.5 million.

Redeemable Noncontrolling Interest:

In connection with the Company s acquisition of 62% of the membership units of CCB on March 15, 2010, the Company acquired the right to purchase the remaining 38% of the membership units of CCB not held by the Company at a predetermined price within the next four years. Also, Class Action Holdings, Inc. (formerly known as Claims Compensation Bureau, Inc.), the holder of the remaining 38% interest in CCB, can require the Company to purchase its interest during the period beginning on March 1, 2012 and ending on February 28, 2018. While the actual amount or timing of any future payment is unknown at this time, the maximum amount of consideration to be paid for such 38% interest is $22.8 million.

Litigation:

The Company is from time to time subject to routine legal claims and proceedings, most of which are incidental to the ordinary course of its business. The Company initiates lawsuits against customers and are occasionally countersued by them in such actions. Also, customers, either individually, as members of a class action, or through a governmental entity on behalf of customers, may initiate litigation against the Company in which they allege that the Company has violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against the Company. While it is not expected that these or any other legal proceedings or claims in which the Company is involved will, either individually or in the aggregate, have a material adverse impact on the Company s results of operations, liquidity or financial condition, it is possible that, due to unexpected future developments, an unfavorable resolution of a legal proceeding or claim could occur which may be material to the Company s results of operations for a particular period. The matters described below fall outside of the normal parameters of the Company s routine legal proceedings.

The Attorney General for the State of Missouri filed a purported enforcement action against PRA in 2009 that seeks relief for Missouri customers that have allegedly been injured as a result of certain collection practices of PRA. PRA has vehemently denied any wrongdoing herein and in 2010, the complaint was dismissed with prejudice. In April 2011, the Missouri Court of Appeals Eastern District affirmed the prior dismissal. The State of Missouri has since asked the appellate court for a rehearing on the matter, or alternatively to have the matter transferred to the Missouri Supreme Court. Based on the foregoing, it is not possible at this time to estimate the possible loss, if any.

The Company has been named as defendant in the following five putative class action cases, each of which alleges that the Company violated the Telephone Consumer Protection Act (TCPA) by calling consumers cellular

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phones without their prior express consent: *Allen v. Portfolio Recovery Associates, Inc.*, Case No. 10-cv-2658, instituted in the United States District Court for the Southern District of California on December 23, 2010; *Meyer v. Portfolio Recovery Associates, LLC*, Case No. 37-2011-00083047, instituted in the Superior Court of California, San Diego County on January 3, 2011; *Frydman v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-524, instituted in the United States District Court for the Northern District of Illinois on January 31, 2011; *Bartlett v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-0624, instituted in the United States District Court for the Northern District of Georgia on March 1, 2011; and *Harvey v. Portfolio Recovery Associates, LLC*, Case No. 11-cv-00582, instituted in the United States District Court for the Middle District of Florida on April 8, 2011. Each of the complaints seeks monetary damages under the TCPA, injunctive relief and other relief, including attorney fees. Two of these actions, *Allen* and *Frydman* purport to have been brought on behalf of a national class of plaintiffs. The Company intends to vigorously defend against the allegations in each of these cases. It is not possible at this time to estimate the possible loss, if any.

13. Fair Value Measurements and Disclosures:

Disclosures about Fair Value of Financial Instruments:

In accordance with the disclosure requirements of FASB ASC Topic 825, Financial Instruments (ASC 825), the table below summarizes fair value estimates for the Company s financial instruments. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company. The carrying amounts in the table are recorded in the consolidated balance sheet under the indicated captions (amounts in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 25,481	$ 25,481	$ 41,094	$ 41,094
Finance receivables, net	879,515	1,210,625	831,330	1,126,340
Financial liabilities:				
Line of credit	$ 250,000	$ 250,000	$ 300,000	$ 300,000
Long-tern debt	1,856	1,856	2,396	2,396

Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The Company uses the following methods and assumptions to estimate the fair value of financial instruments:

Cash and cash equivalents: The carrying amount approximates fair value.

Finance receivables, net: The Company records purchased receivables at cost, which represents a significant discount from the contractual receivable balances due. The Company computed the estimated fair value of these receivables using proprietary pricing models that the Company utilizes to make portfolio purchase decisions.

Line of credit: The carrying amount approximates fair value due to the short-term nature of the interest rate periods.

Long-term debt: The carrying amount approximates fair value, as the interest rates approximate the rate currently offered to the Company for similar debt instruments of comparable maturities by the Company s bankers.

As of June 30, 2011, and December 31, 2010, the Company did not account for any financial assets or financial liabilities at fair value.

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PORTFOLIO RECOVERY ASSOCIATES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

14. Recent Accounting Pronouncements:

In December 2010, the FASB issued ASU 2010-28, Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A) . ASU 2010-28 modifies Step 1 of the goodwill impairment test under ASC Topic 350 for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors, including the examples provided in ASC paragraph 350-20-35-30, in determining whether an interim goodwill impairment test between annual test dates is necessary. ASU 2010-28 allows an entity to use either the equity or enterprise valuation premise to determine the carrying amount of a reporting unit, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company adopted ASU 2010-28 on January 1, 2011 which had no material effect on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS . The amendments in ASU 2011-04 generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). The provisions of ASU 2011-04 are effective prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is prohibited. The Company does not expect ASU 2011-04 to have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) to amend its accounting guidance on the presentation of other comprehensive income (OCI) in an entity s financial statements. The amended guidance eliminates the option to present the components of OCI as part of the statement of changes in shareholders equity and provides two options for presenting OCI: in a statement included in the income statement or in a separate statement immediately following the income statement. The amendments do not change the guidance for the items that have to be reported in OCI or when an item of OCI has to be moved into net income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating which option it will utilize to present items of net income and other comprehensive income, neither of which is expected to have a material effect on the Company.

15. Stockholders Equity:

At the Company s 2011 Annual Meeting of Shareholders on June 10, 2011, the Company s shareholders approved an amendment of the Company s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company s Common Stock from 30 million to 60 million.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

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

- deterioration in the economic or inflationary environment in the United States, including the interest rate environment, that may have an adverse effect on our collections, results of operations, revenue and stock price or on the stability of the financial system as a whole;
- our ability to purchase defaulted consumer receivables at appropriate prices and to replace our defaulted consumer receivables with additional receivables portfolios;
- our ability to obtain account documents relating to accounts that we acquire and the possibility that account documents that we obtain could contain errors;
- our ability to successfully acquire receivables of new asset types or implement a new pricing structure;
- changes in the business practices of credit originators in terms of selling defaulted consumer receivables;
- changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables;
- changes in or interpretation of tax laws or adverse results of tax audits;
- changes in bankruptcy or collection laws that could negatively affect our business, including by causing an increase in certain types of bankruptcy filings involving liquidations, which may cause our collections to decrease;
- our ability to employ and retain qualified employees, especially collection personnel, and our senior management team;
- our work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs;
- changes in the credit or capital markets, which affect our ability to borrow money or raise capital;

the degree and nature of our competition;

our ability to retain existing clients and obtain new clients for our fee-for-service businesses;

our ability to obtain necessary account documents from sellers of defaulted consumer receivables, which could negatively impact our collections;

our ability to comply with regulations of the collection industry;

our ability to successfully operate and/or integrate new business acquisitions;

- our ability to maintain, renegotiate or replace our credit facility;
- our ability to satisfy the restrictive covenants in our debt agreements;
- the imposition of additional taxes on us;
- the possibility that we could incur significant valuation allowance charges;
- our ability to manage growth successfully;
- the possibility that we could incur business or technology disruptions, or not adapt to technological advances;
- the possibility that we or our industry could experience negative publicity or reputational attacks;
- the sufficiency of our funds generated from operations, existing cash and available borrowings to finance our current operations; and
- the risk factors listed from time to time in our filings with the Securities and Exchange Commission (the SEC).

You should assume that the information appearing in this quarterly report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the following Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as the discussion of Business and Risk Factors described in our 2010 Annual Report on Form 10-K, filed on February 25, 2011.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this report and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

Overview

Portfolio Recovery Associates is a specialized financial and business services company. We are a leading company in the business of purchasing and collecting defaulted consumer receivables. Those finance receivables fall into two general categories: bankruptcy portfolios and charged-off Core portfolios. Revenue for this part of our business consists of cash collections received less amounts applied to principal on the Company s owned finance receivables.

Through our subsidiaries, we provide a broad range of fee-based business services. Those services include collateral location services to credit originators through our PRA Location Services subsidiary; revenue administration, discovery, and compliance services to governmental entities through our Government Services subsidiaries; and class action claims recovery services through our CCB subsidiary.

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Portfolio Recovery Associates is headquartered in Norfolk, Virginia, and employs approximately 2,500 team members. The shares of Portfolio Recovery Associates are traded on the NASDAQ Global Select Market under the symbol PRAA.

Earnings Summary

During the second quarter of 2011, net income attributable to Portfolio Recovery Associates, Inc. was $25.6 million, or $1.48 per diluted share, compared with $19.5 million, or $1.14 per diluted share, in the second quarter of 2010. Total revenue was $114.8 million in the second quarter of 2011, up 23.4% from the same quarter one year earlier. Revenues in the recently completed quarter consisted of $100.3 million in income recognized on finance receivables, net of allowance charges, and $14.5 million in fee income. Income recognized on finance receivables, net of allowance charges, increased $23.4 million, or 30.4%, over the same period in 2010, primarily as a result of a significant increase in cash collections. Cash collections were $176.3 million in the second quarter of 2011, up 37.3% or $47.9 million as compared to the second quarter of 2010. During the quarter, the Company recorded $2.3 million in net allowance charges, compared with $6.3 million in the comparable quarter of 2010. The Company s performance has been positively impacted by operational efficiencies surrounding the cash collections process, including the continued refinement of dialer technology and account scoring analytics. Additionally, the Company has continued to develop its internal legal collection staff resources, which enables us to place accounts into that channel that otherwise would have been prohibitively expensive for legal action.

Fee income decreased from $16.1 million in the second quarter of 2010 to $14.5 million in the second quarter of 2011 mainly due to a decline in fee income generated by our PRA Location Services business, partially offset by an increase in fee income generated by our Government Services subsidiaries. The decline was due primarily to the continued adverse impact of the economic slowdown on general business growth.

Operating expenses were $70.4 million in the second quarter of 2011, up 20.0% over the second quarter of 2010, due primarily to increases in compensation expense, legal collection fees, legal collection costs and communications expense. Compensation expense increased primarily as a result of larger staff sizes as well as increased share-based compensation expense related to our Long-Term Incentive Programs. Legal collection fees and legal collection costs increased from $10.6 million in the second quarter of 2010 to $15.8 million in the second quarter of 2011. This increase was the result of several factors, including growth in the size of our owned debt portfolios, expansion of our internal legal collection resources, and refinement of our internal scoring methodology that expanded our account selections for legal action. The communications expense increase was mainly due to a growth in mailings resulting from an increase in special letter campaigns and higher telephone expenses driven by a greater number of finance receivables to work, as well as a significant expansion of our dialer capacity and a resulting increase in the number of calls generated by the dialer.

Results of Operations

The results of operations include the financial results of Portfolio Recovery Associates, Inc. and all of our subsidiaries, all of which are in the receivables management business. Under the guidance of the FASB ASC Topic 280 Segment Reporting (ASC 280), we have determined that we have several operating segments that meet the aggregation criteria of ASC 280, and therefore, we have one reportable segment, receivables management, based on similarities among the operating units including homogeneity of services, service delivery methods and use of technology.

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The following table sets forth certain operating data as a percentage of total revenues for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Income recognized on finance receivables, net	87.4%	82.7%	86.6%	82.1%
Fee income	12.6%	17.3%	13.4%	17.9%
Total revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Compensation and employee services	30.3%	33.2%	30.4%	34.3%
Legal collection fees	5.2%	4.4%	5.2%	4.7%
Legal collection costs	8.6%	6.9%	8.5%	6.8%
Agent fees	1.5%	3.1%	1.9%	3.7%
Outside fees and services	3.5%	3.4%	3.3%	3.4%
Communications	5.0%	4.4%	5.3%	5.2%
Rent and occupancy	1.3%	1.4%	1.3%	1.4%
Depreciation and amortization	2.9%	3.4%	2.9%	3.3%
Other operating expenses	3.0%	2.8%	2.8%	2.8%
Total operating expenses	61.3%	63.1%	61.6%	65.6%
Gain on sale of property	1.0%	0.0%	0.5%	0.0%
Income from operations	39.7%	36.9%	38.9%	34.4%
Other income and (expense):				
Interest income	0.0%	0.0%	0.0%	0.0%
Interest expense	(2.3%)	(2.3%)	(2.4%)	(2.5%)
Income before income taxes	37.4%	34.6%	36.5%	31.9%
Provision for income taxes	15.1%	13.4%	14.8%	12.4%
Net income	22.3%	21.2%	21.7%	19.5%
Less net income attributable to redeemable noncontrolling interest	(0.0%)	(0.2%)	(0.3%)	(0.1%)
Net income attributable to Portfolio Recovery Associates, Inc.	22.3%	21.0%	21.4%	19.4%

We use the following terminology throughout our reports:

Allowance charges refers to a reduction in income recognized on finance receivables on pools of finance receivables whose cash collection estimates are not received or projected to not be received.

Amortization rate refers to cash collections applied to principal on finance receivables as a percentage of total cash collections.

Buybacks refers to purchase price refunded by the seller due to the return of non-compliant accounts.

Cash collections refers to collections on our owned portfolios only, exclusive of fee income.

Cash receipts refers to collections on our owned portfolios plus fee income.

Core accounts or portfolios refer to accounts or portfolios that are defaulted consumer receivables and are not in a bankrupt status upon purchase. These accounts are aggregated separately from purchased bankruptcy accounts.

Estimated remaining collections refers to the sum of all future projected cash collections on our owned portfolios.

Fee income refers to revenues generated from our fee-for-service subsidiaries.

Income recognized on finance receivables refers to income derived from our owned debt portfolios.

Income recognized on finance receivables, net refers to income derived from our owned debt portfolios and is shown net of allowance charges.

Net finance receivable balance refers to the purchase price less amortization and allowance charges over the life of the portfolio.

Principal amortization refers to cash collections applied to principal on finance receivables.

Purchase price refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized costs, less buybacks.

Purchased bankruptcy accounts or portfolios refer to accounts or portfolios that are in bankruptcy when we purchase them and as such are purchased as a pool of bankrupt accounts.

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Total estimated collections refers to the actual cash collections, including cash sales, plus estimated remaining collections.

Total estimated collections to purchase price refers to the total estimated collections divided by the purchase price.

Three Months Ended June 30, 2011 Compared To Three Months Ended June 30, 2010

Revenues

Total revenues were $114.8 million for the three months ended June 30, 2011, an increase of $21.8 million, or 23.4%, compared to total revenues of $93.0 million for the three months ended June 30, 2010.

Income Recognized on Finance Receivables, net

Income recognized on finance receivables, net was $100.3 million for the three months ended June 30, 2011, an increase of $23.4 million, or 30.4%, compared to income recognized on finance receivables, net of $76.9 million for the three months ended June 30, 2010. The increase was primarily due to an increase in cash collections on our finance receivables to $176.3 million for the three months ended June 30, 2011, from $128.4 million for the three months ended June 30, 2010, an increase of $47.9 million or 37.3%. During the three months ended June 30, 2011, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of $1.41 billion at a cost of $89.5 million. During the three months ended June 30, 2010, we acquired defaulted consumer receivable portfolios with an aggregate face value of $1.67 billion at a cost of $86.8 million. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectability. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time frames, we intend to target a similar internal rate of return, after direct expenses, in pricing our portfolio acquisitions; therefore, the absolute rate paid is not necessarily relevant to the estimated profitability of a period s buying.

Income recognized on finance receivables, net is shown net of changes in valuation allowances recognized under FASB ASC Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30), which requires that a valuation allowance be recorded for significant decreases in expected cash flows or a change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the three months ended June 30, 2011, we recorded net allowance charges of $2.3 million, of which $2.0 million related to non-bankruptcy portfolios acquired in 2008 offset by an allowance charge reversal of $0.2 million on non-bankruptcy portfolios purchased in 2005. The remaining $0.5 million mainly related to bankruptcy portfolios acquired in 2008. For the three months ended June 30, 2010, we recorded net allowance charges of $6.3 million, the majority of which related to non-bankruptcy portfolios acquired from 2005 through 2008. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability, of purchased pools of defaulted consumer receivables include: new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability, of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relates to the collection and movement of accounts on both our collection floor and external channels), as well as decreases in productivity related to turnover and tenure of our collection staff.

Fee Income

Fee income was $14.5 million for the three months ended June 30, 2011, a decrease of $1.6 million, or 9.9%, compared to fee income of $16.1 million for the three months ended June 30, 2010. Fee income decreased primarily due to a decline in revenue generated by our PRA Location Services business as a result of the continued adverse impact of the economic slowdown on general business growth. This was partially offset by an increase in revenues generated by our government services businesses.

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Operating Expenses

Total operating expenses were $70.4 million for the three months ended June 30, 2011, an increase of $11.7 million or 19.9% compared to total operating expenses of $58.7 million for the three months ended June 30, 2010. Total operating expenses were 36.9% of cash receipts for the three months ended June 30, 2011 compared to 40.6% for the same period in 2010.

Compensation and Employee Services

Compensation and employee services expenses were $34.8 million for the three months ended June 30, 2011, an increase of $3.9 million, or 12.6%, compared to compensation and employee services expenses of $30.9 million for the three months ended June 30, 2010. This increase is mainly due to an overall increase in our collection staff as well as the hiring of non-collection personnel. Compensation and employee services expenses increased as total employees grew 5.3% to 2,504 as of June 30, 2011, from 2,377 as of June 30, 2010. Compensation and employee services expenses as a percentage of cash receipts decreased to 18.3% for the three months ended June 30, 2011, from 21.4% of cash receipts for the same period in 2010.

Legal Collection Fees

Legal collection fees represent the contingent fees for the cash collections generated by our independent third party attorney network. Legal collection fees were $6.0 million for the three months ended June 30, 2011, an increase of $1.9 million, or 46.3%, compared to legal collection fees of $4.1 million for the three months ended June 30, 2010. This increase was the result of an increase in our external legal collections which increased $8.5 million or 45.2%, from $18.8 million for the three months ended June 30, 2010 to $27.3 million for the three months ended June 30, 2011. Legal collection fees for the three months ended June 30, 2011 were 21.8% of external legal cash collections, compared to 21.9% for the three months ended June 31, 2010.

Legal Collection Costs

Legal collection costs are costs paid to courts where a lawsuit is filed. It also includes the cost of documents received from sellers of defaulted consumer receivables. Legal collection costs were $9.9 million for the three months ended June 30, 2011, an increase of $3.5 million, or 54.7%, compared to legal collection costs of $6.4 million for the three months ended June 30, 2010. The increase was attributable to an increase in legal collection costs resulting from accounts referred to both our in-house attorneys and outside independent contingent fee attorneys due to the refinement of our internal scoring methodology that expanded our account selections for legal action. In addition, the growth in the size of our owned debt portfolios resulted in additional document costs related to the filing of more lawsuits. These legal collection costs represent 22.8% and 21.3% of our total legal collections for the three month periods ended June 30, 2011 and 2010, respectively.

Agent Fees

Agent fees primarily represent costs paid to repossession agents to repossess vehicles. Agent fees were $1.7 million for the three months ended June 30, 2011, a decrease of $1.2 million, or 41.4%, compared to agent fees of $2.9 million for the three months ended June 30, 2010. The decrease was mainly due to a decline in agent fees related to reduced business activity associated with PRA Location Services.

Outside Fees and Services

Outside fees and services expenses were $4.1 million for the three months ended June 30, 2011, an increase of $0.9 million or 28.1% compared to outside fees and services expenses of $3.2 million for the three months ended June 30, 2010. The $0.9 million increase was attributable to an increase in corporate legal expense and other outside fees and services.

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Communications

Communications expenses were $5.7 million for the three months ended June 30, 2011, an increase of $1.6 million, or 39%, compared to communications expenses of $4.1 million for the three months ended June 30, 2010. The increase was mainly due to a growth in mailings resulting from an increase in special letter campaigns. The remaining increase was attributable to higher telephone expenses driven by a greater number of finance receivables to work, as well as a significant expansion of our dialer capacity and a resulting increase in the number of calls generated by the dialer. Mailings were responsible for 93.8% or $1.5 million of this increase, while the remaining 6.2% or $0.1 million was attributable to increased call volumes.

Rent and Occupancy

Rent and occupancy expenses were $1.4 million for the three months ended June 30, 2011, an increase of $0.1 million, or 7.7%, compared to rent and occupancy expenses of $1.3 million for the three months ended June 30, 2010. The increase was due to the expansion of our Hampton, Virginia call center and other renewals and expansions, as well as increased utility charges.

Depreciation and Amortization

Depreciation and amortization expenses were $3.3 million for the three months ended June 30, 2011, an increase of $0.1 million or 3.1% compared to depreciation and amortization expenses of $3.2 million for the three months ended June 30, 2010. The increase is the result of continued capital expenditures on equipment, software and computers related to our growth and systems upgrades.

Other Operating Expenses

Other operating expenses were $3.5 million for the three months ended June 30, 2011, an increase of $0.9 million or 34.6% compared to other operating expenses of $2.6 million for the three months ended June 30, 2010. Of the $0.9 million increase, $0.4 million was attributable to an increase in gross receipts tax expense mainly due to the general growth of the company as well as changes in state tax laws which required additional gross receipt tax expenses to be incurred. No other individual item represents a significant portion of the overall increase.

Gain on Sale of Property

Gain on sale of property was $1.2 million for the three months ended June 30, 2011, compared to $0 for the three months ended June 30, 2010. The increase is the result of the sale of a parcel of land adjacent to our Norfolk headquarters during the second quarter of 2011.

Interest Income

Interest income was $0 for both the three months ended June 30, 2011 and 2010.

Interest Expense

Interest expense was $2.6 million for the three months ended June 30, 2011, an increase of $0.4 million compared to interest expense of $2.2 million for the three months ended June 30, 2010. The increase was mainly due to an increase in our weighted average interest rate, wh