



Encore Reports a 23% Increase in Fully Diluted Earnings Per Share for the First Quarter of 2005

May 9, 2005

SAN DIEGO, May 9 /PRNewswire-FirstCall/ -- Encore Capital Group, Inc. (Nasdaq: ECPG), a leading accounts receivable management firm, today reported consolidated financial results for the first quarter ended March 31, 2005.

For the first quarter of 2005:

- Gross collections were \$65.9 million, a 3% increase over the \$64.0 million in the same period of the prior year
- Excluding \$4.0 million in collections resulting from the sale of the Company's portfolio of rewritten notes in 2004, collections increased 10% over the same period of the prior year
- Total revenues were \$50.5 million, a 19% increase over the \$42.4 million in the same period of the prior year
- Net income was \$7.5 million compared with \$6.0 million in the same period of the prior year, a 24% increase
- Earnings per fully diluted share were \$0.32, a 23% increase over the \$0.26 in the same period of the prior year.

"Our first quarter performance was in-line with our expectations and we have continued to generate solid levels of collections, revenues, and earnings per share," said Carl C. Gregory, III, Vice Chairman and CEO of Encore Capital Group, Inc. "Despite the continuation of the challenging environment for purchases we've spoken about for several quarters, we were pleased with the increased collections. This increase is primarily attributable to the refinement of our consumer level account segmentation strategies, allowing us to penetrate the portfolios beyond our original and updated forecasts. We are also beginning to see the benefits of our reduced contingent interest expense. Our contingent interest was approximately 80% of the level incurred in the first quarter of 2004, and we expect this expense to continue to decline to approximately 60% of the prior year's quarter by the end of 2005."

First Quarter Financial Highlights

Revenue recognized, as a percentage of collections, was 77% in the first quarter of 2005, compared to 66% in the first quarter of 2004. The increase in the percentage of collections recognized as revenue in the first quarter of 2005 is primarily attributable to deeper penetration of portfolios and the timing of historical purchases.

Total operating expenses for the first quarter of 2005 were \$30.3 million, compared with \$23.3 million in the first quarter of 2004. The increase in operating expenses is largely attributable to the mix of collections. Collections from sales, for which there are little to no associated costs, were approximately \$5.7 million lower in the first quarter of 2005 than they were in the first quarter of 2004. The Company also increased its collections from alternative channels. While the costs from some of these channels are higher, the penetration of the Company's portfolio is deeper, resulting in higher net collections than if only the internal collection sites were utilized.

The Company spent \$19.5 million to purchase approximately \$530 million in face value of portfolios during the first quarter of 2005, a blended purchase price of 3.68% of face value. All of the portfolios purchased in the first quarter of 2005 were credit card receivables. The Company funded all but \$2.1 million of these portfolio purchases from its own cash balance and repaid all outstanding balances on its new credit facility by the end of the quarter.

Outlook

Commenting on the outlook for the Company, Brandon Black, President and COO, said, "Our disciplined approach to the purchasing market and use of conservative estimates of future collections are two strategies that we believe will allow the Company to produce steady performance in a variety of operating environments. We continue to see improved liquidation of the portfolio, which is directly linked to the development of new proprietary scoring models that more effectively segment consumers into risk classes and the expanded use of alternative collection channels. In addition, our improved financial profile has lowered our interest expense as well as provided us the flexibility and financial strength to explore complementary acquisitions that can enhance our growth opportunities. While the current conditions in the purchasing market present challenges to generating bottom-line growth in the near-term, we believe we have built a solid foundation that can support the profitable growth of the Company over a longer time horizon."

Conference Call and Webcast

The Company will hold a conference call today at 2:00 PM Pacific time / 5:00 P.M. Eastern time to discuss the first quarter results. Members of the public are invited to listen to the live conference call via the Internet.

To hear the presentation, log on at the Investor Relations page of the Company's web site at www.encorecapitalgroup.com. For those who cannot listen to the live broadcast, a replay of the conference call will be available shortly after the call at the same location.

About Encore Capital Group, Inc.

Encore Capital Group, Inc. is a systems-driven purchaser and manager of charged-off consumer receivables portfolios. More information on the company can be found at www.encorecapitalgroup.com.

Forward Looking Statements

The statements in this press release that are not historical facts, including, most importantly, those statements preceded by, or that include, the words

"may," "believes," "projects," "expects," "anticipates" or the negation thereof, or similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). These statements may include, but are not limited to, projections of future contingent interest expense, purchase volumes, revenues, income or loss (including our expectations regarding the current environment for and timing of portfolio purchases and the resulting effect on revenue recognition rates and profitability); plans for future operations, products or services; and financing needs or plans, as well as assumptions relating to those matters. For all "forward-looking statements," the Company claims the protection of the safe harbor for forward-looking statements contained in the Reform Act. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company and our subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could affect the Company's results and cause them to materially differ from those contained in the forward-looking statements include: the Company's ability to purchase receivables portfolios on acceptable terms and in sufficient quantities; the Company's ability to acquire and collect on portfolios consisting of new types of receivables; the Company's ability to recover sufficient amounts on or with respect to receivables to fund operations; the Company's ability to successfully execute acquisitions; the Company's continued servicing of receivables in its third party financing transactions; the Company's ability to hire and retain qualified personnel to recover on its receivables efficiently; changes in, or failure to comply with, government regulations; the costs, uncertainties and other effects of legal and administrative proceedings; and risk factors and cautionary statements made in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2004. Forward-looking statements speak only as of the date the statement was made. They are inherently subject to risks and uncertainties, some of which the Company cannot predict or quantify. Future events and actual results could differ materially from the forward-looking statements. The Company will not undertake and specifically declines any obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, whether as the result of new information, future events or for any other reason. In addition, it is the Company's policy generally not to make any specific projections as to future earnings, and the Company does not endorse any projections regarding future performance that may be made by third parties.

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ENCORE CAPITAL GROUP, INC.
 Condensed Consolidated Statements of Operations
 (In Thousands, Except Per Share Amounts)
 (Unaudited)

| | Three Months Ended | |
|--|--------------------|----------|
| | March 31, | |
| | 2005 | 2004 |
| Revenues | | |
| Revenue from receivable portfolios | \$50,420 | \$42,091 |
| Servicing fees and other related income | 56 | 296 |
| Total revenues | 50,476 | 42,387 |
| Operating expenses | | |
| Salaries and employee benefits | 12,600 | 11,624 |
| Other operating expenses | 4,642 | 3,422 |
| Collection agency commissions | 2,024 | 672 |
| Cost of legal collections | 8,356 | 5,502 |
| Other general and administrative expense | 2,158 | 1,653 |
| Depreciation and amortization | 511 | 443 |
| Total operating expenses | 30,291 | 23,316 |
| Income before other income (expense) and income taxes | 20,185 | 19,071 |
| Other income (expense) | | |
| Interest expense | (8,087) | (9,282) |
| Other income | 405 | 155 |
| Total other income (expense) | (7,682) | (9,127) |
| Income before income taxes | 12,503 | 9,944 |
| Provision for income taxes | (5,051) | (3,928) |
| Net income | \$7,452 | \$6,016 |

| | | |
|---|--------|--------|
| Weighted average shares outstanding | 22,227 | 22,020 |
| Incremental shares from assumed conversion of options | 1,353 | 1,423 |
| Adjusted weighted average share outstanding | 23,580 | 23,443 |
| Earnings per share - Basic | \$0.34 | \$0.27 |
| Earnings per share - Diluted | \$0.32 | \$0.26 |

ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Financial Condition
(In Thousands, Except Par Value Amounts)

| | March 31, 2005 (Unaudited) | December 31, 2004 (A) |
|--|----------------------------------|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$15,098 | \$9,731 |
| Investments in marketable securities | 16,000 | 40,000 |
| Restricted cash | 4,680 | 3,432 |
| Investment in receivable portfolios, net | 142,069 | 137,963 |
| Property and equipment, net | 3,280 | 3,360 |
| Deferred tax assets, net | 78 | 361 |
| Other assets | 6,230 | 6,295 |
| Total assets | \$187,435 | \$201,142 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$14,273 | \$17,418 |
| Accrued profit sharing arrangement | 19,560 | 20,881 |
| Income taxes payable | 2,720 | -- |
| Notes payable and other borrowings | 46,139 | 66,567 |
| Capital lease obligations | 214 | 261 |
| Total liabilities | 82,906 | 105,127 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, \$.01 par value, 5,000 shares authorized, and no shares issued and outstanding | -- | -- |
| Common stock, \$.01 par value, 50,000 shares authorized, and 22,259 shares and 22,166 shares issued and outstanding as of March 31, 2005 and December 31, 2004, respectively | 223 | 222 |
| Additional paid-in capital | 67,928 | 66,788 |
| Accumulated earnings | 36,286 | 28,834 |
| Accumulated other comprehensive income | 92 | 171 |
| Total stockholders' equity | 104,529 | 96,015 |
| Total liabilities and stockholders' equity | \$187,435 | \$201,142 |

(A) Derived from the audited consolidated financial statements as of December 31, 2004

ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited, In Thousands)

Three Months Ended
March 31,
2005 2004

| | | |
|---|----------|----------|
| Operating activities | | |
| Gross collections | \$65,853 | \$63,996 |
| Less: | | |
| Amounts collected on behalf of third parties | (274) | (962) |
| Amounts applied to principal on receivable portfolios | (15,160) | (20,943) |
| Servicing fees | 56 | 296 |
| Operating expenses | | |
| Salaries and employee benefits | (15,769) | (12,705) |
| Other operating expenses | (4,329) | (1,656) |
| Cost of legal collections | (8,356) | (5,502) |
| Collection agency commissions | (2,024) | (672) |
| Other general and administrative | (2,519) | (1,583) |
| Interest payments | (1,151) | (538) |
| Contingent interest payments | (8,205) | (5,793) |
| Other income | 405 | 190 |
| Increase in restricted cash | (1,248) | (4,525) |
| Income taxes | (1,490) | (1,410) |
| Net cash provided by operating activities | 5,789 | 8,193 |
| Investing activities | | |
| Purchases of receivable portfolios | (19,523) | (17,248) |
| Collections applied to principal of receivable portfolios | 15,160 | 20,943 |
| Proceeds from sales of marketable securities | 24,000 | 1,000 |
| Proceeds from put-backs of receivable portfolios | 258 | 356 |
| Purchases of property and equipment | (431) | (502) |
| Net cash provided by investing activities | 19,464 | 4,549 |
| Financing activities | | |
| Proceeds from notes payable and other borrowings | 2,088 | 6,952 |
| Repayment of notes payable and other borrowings | (22,516) | (20,474) |
| Proceeds from exercise of common stock options | 588 | 36 |
| Repayment of capital lease obligations | (46) | (65) |
| Net cash used in financing activities | (19,886) | (13,551) |
| Net increase (decrease) in cash | 5,367 | (809) |
| Cash, beginning of period | 9,731 | 8,612 |
| Cash, end of period | \$15,098 | \$7,803 |

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Cash Flows (cont.)

Reconciliation of Net Income to Net Cash Provided by Operating Activities
(Unaudited, In Thousands)

| | Three Months Ended | |
|---|--------------------|---------|
| | March 31, | |
| | 2005 | 2004 |
| Net income | \$7,452 | \$6,016 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 511 | 443 |
| Amortization of loan costs | 44 | 11 |
| Tax benefits from stock option exercises | 526 | 261 |
| Amortization of stock based compensation | 27 | 27 |
| Deferred income tax expense (benefit) | 283 | (3,716) |
| Changes in operating assets and liabilities: | | |
| Decrease in restricted cash | (1,248) | (4,525) |
| Increase in income taxes payable | 2,744 | -- |
| Increase in other assets | (5) | (219) |
| (Decrease) increase in accrued profit sharing arrangement | (1,321) | 2,837 |
| (Decrease) increase in accounts payable | | |

| | | |
|---|---------|---------|
| and accrued liabilities | (3,224) | 7,058 |
| Net cash provided by operating activities | \$5,789 | \$8,193 |

SOURCE Encore Capital Group, Inc. 05/09/2005

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