



Encore Capital Reports Record Fourth Quarter and Full Year 2005 Earnings

March 15, 2006 at 4:11 PM EST

SAN DIEGO, March 15 /PRNewswire-FirstCall/ -- Encore Capital Group, Inc. (Nasdaq: ECPG), a leading accounts receivable management firm, today reported consolidated financial results for the fourth quarter and full year ended December 31, 2005.

For the fourth quarter of 2005:

- * Gross collections were \$72.0 million, a 35% increase over the \$53.4 million in the same period of the prior year
- * Total revenues were \$58.4 million, a 27% increase over the \$46.0 million in the same period of the prior year
- * Net income was \$7.8 million, a 37% increase over the \$5.7 million in the same period of the prior year
- * Earnings per fully diluted share were \$0.32, a 33% increase over the \$0.24 in the same period of the prior year.

For the full year of 2005:

- * Gross collections were \$292.2 million, a 24% increase over the \$234.7 million in 2004
- * Total revenues were \$221.8 million, a 24% increase over the \$178.5 million in 2004
- * Net income was \$31.1 million, a 34% increase over the \$23.2 million in 2004
- * Earnings per fully diluted share were \$1.30, a 31% increase over the \$0.99 in 2004

Commenting on the fourth quarter and the full year, J. Brandon Black, President and CEO of Encore Capital Group, Inc., said, "Our fourth quarter capped another record year for the Company. For the year, we generated the highest level of collections, revenues, and profits in our history. We continue to remain disciplined in our purchasing process and during the fourth quarter we spent \$39.9 million to purchase \$1.3 billion in face value of debt. While deal flow was very strong in the fourth quarter due to the increased supply in the credit card market resulting from bankruptcy reform, we limited our purchases to those that we felt were appropriately priced and could generate an adequate return for our stockholders. Similarly, we remained steadfast in our goal to find further process innovations and efficiency improvements to help offset the elevated level of pricing that we continue to see.

"We continue to be pleased with our initial bulk portfolio purchase and the forward flow agreement from the Jefferson Capital transaction. Through the end of February 2006, cumulative collections on the initial bulk portfolio purchase were \$50.4 million, or 53% of the purchase price. The forward flow continues to provide us favorably priced portfolio and collections continue to meet our expectations.

"Ascension Capital, our fee-based bankruptcy services business achieved record placements in the fourth quarter, confirming our projections for increasing demand for these services. We continue to see a strong pipeline of potential new clients that we believe will help this business maintain its momentum in the future," said Mr. Black.

Financial Highlights

Revenue recognized on receivable portfolios, as a percentage of portfolio collections, was 75% in the fourth quarter of 2005, compared with 86% in the fourth quarter of 2004. The lower revenue recognition rate was partially attributable to a higher percentage of collections from more recently purchased portfolios that have lower collection multiples assigned to them. The change in the revenue recognition rate was also attributable to a \$2.3 million allowance charge recorded in the fourth quarter of 2005, which was netted against revenue.

The Company generated \$4.4 million in fee-based revenue during the fourth quarter of 2005, through the Ascension Capital bankruptcy services business acquired in August 2005.

Total operating expenses for the fourth quarter of 2005 were \$38.0 million, compared with \$27.9 million in the fourth quarter of 2004. Excluding Ascension Capital, which is a fee-based business, operating expenses were \$32.9 million in the fourth quarter of 2005, compared with \$27.9 million in the fourth quarter of 2004, while operating expense per dollar collected declined to 45.7% from 52.3%.

Total interest expense was \$7.8 million in the fourth quarter of 2005, compared to \$8.5 million in the fourth quarter of 2004. The contingent interest component of interest expense was \$4.6 million in the fourth quarter of 2005, compared with \$7.4 million in the same period of the prior year. The Company continues to see a reduction in contingent interest expense as collections decline from older portfolios purchased under its previous credit facility.

During the fourth quarter, the Company spent \$39.9 million to purchase \$1.3 billion in face value of debt. For the full year of 2005, the Company spent \$195.6 million to purchase \$5.9 billion in face value of debt.

Outlook

Commenting on the outlook for Encore Capital Group, Mr. Black said, "In 2006, we expect our traditional collection business to be a steady cash generator and we will continue to enhance our unique operating platform that is predicated on consumer level analytics and technology. We have been able to maintain strong revenue and earnings growth despite a challenging purchasing environment over the last year, and we remain confident in our ability to continue generating growth in revenue and earnings over the long term. The fundamentals of our industry remain strong, with expected future increases in supply as consumer debt levels increase and creditors across different asset classes explore debt sales to monetize their charged-off receivables. Our consumer level analytical approach will position us well to capitalize on these opportunities.

"Nevertheless, our near term earnings growth will be affected by our ability to identify opportunities to acquire attractively priced portfolios, as we did with the Jefferson Capital transaction in 2005, and by our portfolio mix which has shifted towards more recently purchased portfolios with lower collection multiples assigned to them. In 2006, we will continue to supplement our core business by seeking to identify investment opportunities in new areas with high growth potential within the distressed consumer debt market, as we did with bankruptcy services and medical collections," said Mr. Black.

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 fourth quarter and full year 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 and profitability), the size of the markets for bankruptcy services and delinquent consumer healthcare debt, and the exploitation of new opportunities in those markets; plans for future acquisitions, 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, 2005. 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 control, 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, nor does the Company intend, to update or revise any forward-looking statements to reflect new information or 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.

Contact:

Encore Capital Group, Inc.
Paul Grinberg (858) 309-6904 (Stockholders/Analysts)
paul.grinberg@encorecapitalgroup.com
or
Ren Zamora (858) 560-3598 (Investor Relations)
ren.zamora@encorecapitalgroup.com

Encore Capital Group, Inc.
Consolidated Statements of Financial Condition
(In Thousands, Except Par Value Amounts)

| | December 31, 2005(A) | December 31, 2004(A) |
|---------------------------|-------------------------|-------------------------|
| Assets | | |
| Cash and cash equivalents | \$7,026 | \$9,731 |
| Investment in marketable | | |

| | | |
|--|-----------|-----------|
| securities | -- | 40,000 |
| Restricted cash | 4,212 | 3,432 |
| Accounts receivable, net | 5,515 | -- |
| Investment in receivables portfolios, net | 256,333 | 137,963 |
| Property and equipment, net | 5,113 | 3,360 |
| Prepaid income tax | 4,289 | 24 |
| Purchased servicing asset | 3,035 | -- |
| Deferred tax assets, net | 2,040 | 361 |
| Forward flow asset | 38,201 | -- |
| Other assets | 16,065 | 6,271 |
| Goodwill | 14,148 | -- |
| Identifiable intangible assets, net | 5,227 | -- |
| Total assets | \$361,204 | \$201,142 |

Liabilities and stockholders'
equity

Liabilities:

| | | |
|---|----------|----------|
| Accounts payable and accrued liabilities | \$23,101 | \$17,418 |
| Accrued profit sharing arrangement | 16,528 | 20,881 |
| Deferred revenue | 3,326 | -- |
| Purchased servicing obligation | 1,776 | -- |
| Debt | 198,121 | 66,828 |
| Total liabilities | 242,852 | 105,127 |

Commitments and contingencies

Stockholders' equity:

| | | |
|--|-----------|-----------|
| Convertible 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 22,651 shares and 22,166 shares issued and outstanding as of December 31, 2005 and 2004, respectively | 227 | 222 |
| Additional paid-in capital | 57,989 | 66,788 |
| Accumulated earnings | 59,925 | 28,834 |
| Accumulated other comprehensive income | 211 | 171 |
| Total stockholders' equity | 118,352 | 96,015 |
| Total liabilities and stockholders' equity | \$361,204 | \$201,142 |

(A) Derived from the audited consolidated financial statements.

Encore Capital Group, Inc.
Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)

| | Three Months Ended | | Year Ended | |
|--------------|-----------------------------|------|--------------|---------|
| | December 31, (Unaudited) | | December 31, | |
| | 2005 | 2004 | 2005(A) | 2004(A) |
| Revenues | | | | |
| Revenue from | | | | |

| | | | | |
|------------------------|----------|----------|-----------|-----------|
| receivable | | | | |
| portfolios, net | \$53,906 | \$45,881 | \$215,931 | \$177,783 |
| Servicing fees | | | | |
| and other | | | | |
| related revenue | 4,470 | 98 | 5,904 | 692 |
| Total revenues | 58,376 | 45,979 | 221,835 | 178,475 |
| Operating expenses | | | | |
| Salaries and | | | | |
| employee benefits | 14,500 | 12,006 | 52,410 | 47,193 |
| Cost of legal | | | | |
| collections | 9,128 | 7,674 | 35,090 | 28,202 |
| Other operating | | | | |
| expenses | 4,445 | 3,184 | 16,973 | 13,645 |
| Collection | | | | |
| agency commissions | 4,559 | 1,585 | 17,287 | 4,786 |
| General and | | | | |
| administrative | | | | |
| expenses | 4,162 | 2,935 | 13,375 | 9,212 |
| Depreciation and | | | | |
| amortization | 1,200 | 539 | 2,686 | 1,951 |
| Total operating | | | | |
| expenses | 37,994 | 27,923 | 137,821 | 104,989 |
| Income before other | | | | |
| income (expense) | | | | |
| and income taxes | 20,382 | 18,056 | 84,014 | 73,486 |
| Other income (expense) | | | | |
| Interest expense | (7,778) | (8,501) | (32,717) | (35,330) |
| Other income | 319 | 118 | 929 | 690 |
| Total other | | | | |
| expense | (7,459) | (8,383) | (31,788) | (34,640) |
| Income before | | | | |
| income taxes | 12,923 | 9,673 | 52,226 | 38,846 |
| Provision for | | | | |
| income taxes | (5,160) | (3,990) | (21,135) | (15,670) |
| Net income | \$7,763 | \$5,683 | \$31,091 | \$23,176 |
| Basic - earnings | | | | |
| per share computation: | | | | |
| Net income | \$7,763 | \$5,683 | \$31,091 | \$23,176 |
| Weighted average | | | | |
| shares outstanding | 22,353 | 22,126 | 22,299 | 22,072 |
| Earnings per | | | | |
| share - Basic | \$0.35 | \$0.26 | \$1.39 | \$1.05 |
| Diluted - earnings | | | | |
| per share computation: | | | | |
| Net income | \$7,763 | \$5,683 | \$31,091 | \$23,176 |
| Interest expense | | | | |
| on convertible | | | | |
| notes, net of tax | 149 | -- | 207 | -- |
| Net income assuming | | | | |
| conversion of | | | | |
| convertible notes | \$7,912 | \$5,683 | \$31,298 | \$23,176 |
| Weighted average | | | | |

| | | | | |
|--|--------|--------|--------|--------|
| shares outstanding | 22,353 | 22,126 | 22,299 | 22,072 |
| Incremental shares from assumed conversion of warrants, options, and preferred stock | 1,226 | 1,479 | 1,240 | 1,409 |
| Incremental shares from assumed conversion of convertible notes | 1,338 | -- | 459 | -- |
| Diluted weighted average shares outstanding | 24,917 | 23,605 | 23,998 | 23,481 |
| Earnings per share - Diluted | \$0.32 | \$0.24 | \$1.30 | \$0.99 |

(A) Derived from the audited consolidated financial statements.

Encore Capital Group, Inc.
Consolidated Statements of Cash Flows
(In Thousands)

| | Years ended December 31, | |
|---|--------------------------|-----------|
| | 2005(A) | 2004(A) |
| Operating activities | | |
| Gross collections | \$292,163 | \$234,676 |
| Less: | | |
| Amounts collected on behalf of third parties | (1,052) | (2,337) |
| Amounts applied to principal on receivable portfolios | (72,044) | (54,557) |
| Servicing fees | 451 | 692 |
| Operating expenses | (128,355) | (98,470) |
| Interest payments | (7,139) | (2,892) |
| Contingent interest payments | (27,541) | (24,128) |
| Other income | 929 | 690 |
| Decrease (increase) in restricted cash | (780) | (2,590) |
| Income taxes | (25,406) | (14,672) |
| Net cash provided by operating activities | 31,226 | 36,412 |
| Investing activities | | |
| Cash paid for Jefferson Capital | (142,862) | -- |
| Cash paid for Ascension Capital Group | (15,970) | -- |
| Escrow deposit on employee retention contract | (2,000) | -- |
| Purchases of receivable portfolios | (94,689) | (103,374) |
| Collections applied to principal of receivable portfolios | 72,044 | 54,557 |
| Purchases of marketable securities | -- | (40,000) |
| Proceeds from the sale of marketable securities | 40,000 | -- |
| Proceeds from put-backs of receivable portfolios | 1,996 | 1,185 |
| Purchases of property and equipment | (2,863) | (2,525) |
| Net cash used in investing activities | (144,344) | (90,157) |

| | | |
|--|-----------|----------|
| Financing activities | | |
| Proceeds from notes payable and other borrowings | 191,367 | 78,676 |
| Proceeds from convertible note borrowings | 100,000 | -- |
| Proceeds from sale of warrants associated with convertible notes | 11,573 | -- |
| Purchase of call options associated with convertible notes | (27,418) | -- |
| Repayment of notes payable and other borrowings | (160,947) | (53,288) |
| Proceeds from exercise of common stock options and warrants | 1,213 | 169 |
| Capitalization of loan fees | (5,816) | (494) |
| Net borrowing (repayment) of capital lease obligations | 441 | (199) |
| Net cash provided by financing activities | 110,413 | 24,864 |
| Net increase (decrease) in cash | (2,705) | (28,881) |
| Cash and cash equivalents, beginning of year | 9,731 | 38,612 |
| Cash and cash equivalents, end of year | \$7,026 | \$9,731 |

(A) Derived from the audited consolidated financial statements.

SOURCE Encore Capital Group, Inc.

03/15/2006

CONTACT: Stockholders/Analysts, Paul Grinberg, +1-858-309-6904, paul.grinberg@encorecapitalgroup.com, or Investor Relations, Ren Zamora, +1-858-560-3598, ren.zamora@encorecapitalgroup.com, both of Encore Capital Group, Inc.

Web site: <http://www.encorecapitalgroup.com>

(ECPG)

03/15/2006 16:10 EST <http://www.prnewswire.com>