



Encore Capital Group Announces Fourth Quarter and Full Year 2007 Results

February 19, 2008

SAN DIEGO, Feb. 19 /PRNewswire-FirstCall/ -- Encore Capital Group, Inc. (Nasdaq: ECPG), a leading distressed consumer debt management company, today reported consolidated financial results for the fourth quarter and full year ended December 31, 2007.

For the fourth quarter of 2007:

- Gross collections were \$85.4 million, a 10% decrease compared to \$94.5 million in the same period of the prior year.
- Investments in receivable portfolios were \$74.6 million, to purchase \$1.8 billion in face value of debt, compared to \$63.6 million, to purchase \$1.4 billion in face value of debt in the same period of the prior year.
- Revenues from receivable portfolios were \$55.8 million, a 14% decrease compared to \$64.9 million in the same period of the prior year. Revenue recognized on receivable portfolios, as a percentage of portfolio collections, was 65%, compared to 69% in the same period of the prior year.
- Revenues from bankruptcy servicing were \$2.9 million, compared to \$3.2 million in the same period of the prior year.
- Total operating expenses were \$47.4 million, a 2% decrease compared to \$48.2 million in the same period of the prior year. Operating expense (excluding stock-based compensation expense, bankruptcy servicing operating expenses and costs related to the consideration of strategic alternatives) per dollar collected increased to 50.7% compared to 44.9% in the same period of the prior year.
- Adjusted EBITDA, defined as net income before interest, taxes, depreciation and amortization, stock-based compensation expense and portfolio amortization, was \$34.9 million, a 32% decrease compared to \$51.2 million in the same period of the prior year.
- Total interest expense was \$4.0 million, compared to \$9.0 million in the same period of the prior year.
- Net income was \$4.8 million or \$0.21 per fully diluted share, compared to net income of \$6.6 million or \$0.28 per fully diluted share in the same period of the prior year.

For the full year of 2007:

- Gross collections were \$355.2 million, a 5% increase over \$337.1 million in 2006.
- Total revenues were \$254.0 million, consistent with the \$255.1 million in 2006.
- Adjusted EBITDA was \$163.0 million, a decline of 8% from the \$177.4 million in 2006.
- Net income was \$15.0 million or \$0.64 per fully diluted share, compared to net income of \$24.0 million or \$1.03 per fully diluted share in

2006.

Additional information:

Several events affect comparability of 2007 versus 2006 in both quarterly and annual results, as outlined below. For a more detailed comparison of 2007 versus 2006 results, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which the Company filed today.

- In the fourth quarter of 2006, the Company sold accounts amounting to approximately \$1.9 billion in face value financed under its previous credit facility for \$13.9 million, which included \$3.4 million in zero-basis collection.
- In the second quarter of 2007, the Company entered into an agreement with the lender under its previous credit facility to eliminate all future contingent interest for a one-time payment of \$16.9 million. Accordingly, after May 7, 2007, the Company no longer incurred any contingent interest expense.
- In the third quarter of 2007, the Company announced certain cost savings initiatives aimed at reducing its overall operating expenses. The Company recorded one-time charges of \$1.4 million related to the reduction in workforce.
- In the fourth quarter of 2007, the Company recorded a net impairment provision of \$8.7 million, compared to \$0.7 million in the same period of the prior year. In 2007, the Company recorded a net impairment provision of \$11.2 million, including \$1.4 million to write-down healthcare receivables, compared to \$1.4 million in the prior year.
- In the fourth quarter of 2007, the Company expensed \$6.3 million in upfront court costs, compared to \$5.3 million in the same period of the prior year. In 2007, the Company expensed \$28.0 million in upfront court costs, compared to \$15.5 million in the prior year.
- In the fourth quarter of 2007, the Company changed its court cost reserve methodology, which resulted in an increase in the deferred court cost asset and a reduction in operating expenses of \$0.8 million.

Non-GAAP Financial Measures

The Company has included information concerning Adjusted EBITDA because management utilizes this information, which is materially similar to a financial measure contained in covenants used in the Company's credit agreement, in the evaluation of its operations and believes that this measure is a useful indicator of the Company's ability to generate cash collections in excess of operating expenses through the liquidation of its receivable portfolios. The Company has included information concerning total operating expenses excluding stock-based compensation expense, bankruptcy servicing operating expenses and costs related to the consideration of strategic alternatives in order to facilitate a comparison of approximate cash costs to cash collections for the debt purchasing business in the periods presented. These non-GAAP financial measures should not be considered as alternatives to, or more meaningful than, net income and total operating expenses as indicators of Encore Capital Group's operating performance. Neither Adjusted EBITDA nor operating expenses excluding stock-based compensation expense, bankruptcy servicing operating expenses and costs related to the consideration of strategic alternatives has been prepared in accordance with generally accepted accounting principles (GAAP). These non-GAAP financial measures, as presented by Encore Capital Group, may not be comparable to similarly titled measures reported by other companies. The Company has included a reconciliation of Adjusted EBITDA to reported earnings under GAAP, and a reconciliation of operating expenses excluding stock-based compensation expense, bankruptcy servicing operating expenses and costs related to the consideration of strategic alternatives to the GAAP measure total operating expenses in the attached financial tables.

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

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FINANCIAL TABLES FOLLOW

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

| | December 31, 2007 (A) | December 31, 2006 (A) |
|---|--------------------------|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$4,900 | \$10,791 |
| Restricted cash | 3,776 | 4,660 |
| Accounts receivable, net | 4,136 | 2,599 |
| Investment in receivable portfolios, net | 392,209 | 300,348 |
| Deferred court costs | 20,533 | 10,934 |
| Property and equipment, net | 4,390 | 5,249 |
| Prepaid income tax | 10,346 | 3,727 |
| Forward flow asset | 15,863 | 27,566 |
| Other assets | 8,800 | 12,101 |
| Goodwill | 15,985 | 13,735 |
| Identifiable intangible assets, net | 2,557 | 3,628 |
| Total assets | \$483,495 | \$395,338 |
| | | |
| Liabilities and stockholders' equity | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$20,346 | \$23,744 |
| Accrued profit sharing arrangement | - | 6,869 |
| Deferred tax liabilities, net | 13,669 | 10,667 |
| Deferred revenue and purchased servicing obligation | 3,898 | 2,790 |
| Debt | 272,420 | 200,132 |
| Other liabilities | 1,642 | - |
| Total liabilities | 311,975 | 244,202 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| Convertible preferred stock, \$.01 par value, 5,000 shares authorized, no shares issued and outstanding | - | - |
| Common stock, \$.01 par value, 50,000 shares authorized, 22,992 shares and 22,781 shares issued and outstanding as of December 31, 2007, and 2006, respectively | 230 | 228 |
| Additional paid-in capital | 73,310 | 66,532 |
| Accumulated earnings | 98,975 | 83,933 |
| Accumulated other comprehensive (loss) income | (995) | 443 |
| Total stockholders' equity | 171,520 | 151,136 |
| Total liabilities and stockholders' equity | \$483,495 | \$395,338 |

(A) Derived from the audited consolidated financial statements as of December 31, 2007.

| | Three Months Ended | | Year Ended | |
|--|-----------------------------|----------|--------------|-----------|
| | December 31, (Unaudited) | | December 31, | |
| | 2007 | 2006 | 2007 (A) | 2006 (A) |
| Revenues | | | | |
| Revenue from receivable portfolios, net | \$55,813 | \$64,915 | \$241,402 | \$239,340 |
| Servicing fees and other related revenue | 2,904 | 3,215 | 12,609 | 15,800 |
| Total revenues | 58,717 | 68,130 | 254,011 | 255,140 |
| Operating expenses | | | | |
| Salaries and employee benefits (excluding stock- based compensation expense) | 13,765 | 15,604 | 64,153 | 63,962 |
| Stock-based compensation expense | 1,001 | 1,334 | 4,287 | 5,669 |
| Cost of legal collections | 18,987 | 15,312 | 78,636 | 52,079 |
| Other operating expenses | 4,563 | 5,176 | 21,533 | 22,585 |
| Collection agency commissions | 3,772 | 3,852 | 12,411 | 18,030 |
| General and administrative expenses | 4,513 | 5,889 | 17,478 | 17,310 |
| Depreciation and amortization | 810 | 1,002 | 3,351 | 3,894 |
| Total operating expenses | 47,411 | 48,169 | 201,849 | 183,529 |
| Income before other (expense) income and income taxes | 11,306 | 19,961 | 52,162 | 71,611 |
| Other (expense) income | | | | |
| Interest expense | (4,000) | (3,226) | (13,904) | (12,512) |
| Contingent interest expense | - | (5,774) | (4,123) | (18,520) |
| Pay-off of future contingent interest | - | | (11,733) | - |
| Other income | 918 | 230 | 1,071 | 609 |
| Total other expense | (3,082) | (8,770) | (28,689) | (30,423) |
| Income before income taxes | 8,224 | 11,191 | 23,473 | 41,188 |
| Provision for income taxes | (3,376) | (4,564) | (8,431) | (17,180) |
| Net income | \$4,848 | \$6,627 | \$15,042 | \$24,008 |
| Basic - earnings per share computation: | | | | |
| Net income available to common stockholders | \$4,848 | \$6,627 | \$15,042 | \$24,008 |
| Weighted average shares outstanding | 22,991 | 22,780 | 22,865 | 22,754 |
| Earnings per share - Basic | \$0.21 | \$0.29 | \$0.66 | \$1.06 |

| | | | | |
|--|---------|---------|----------|----------|
| Diluted - earnings per share computation: | | | | |
| Net income available to common stockholders | \$4,848 | \$6,627 | \$15,042 | \$24,008 |
| Interest expense on convertible notes, net of tax | - | - | - | - |
| Income available to common stockholders assuming conversion of convertible notes | \$4,848 | \$6,627 | \$15,042 | \$24,008 |
| Weighted average shares outstanding | | | | |
| | 22,991 | 22,780 | 22,876 | 22,754 |
| Incremental shares from assumed conversion of warrants and stock awards | | | | |
| | 475 | 614 | 510 | 636 |
| Incremental shares from assumed conversion of convertible notes | | | | |
| | - | - | - | - |
| Diluted weighted average shares outstanding | | | | |
| | 23,466 | 23,394 | 23,386 | 23,390 |
| Earnings per share | | | | |
| - Diluted | \$0.21 | \$0.28 | \$0.64 | \$1.03 |

(A) Derived from the audited consolidated financial statements.

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

| | Years ended December 31, | |
|---|-----------------------------|-----------|
| | 2007 (A) | 2006 (A) |
| Operating activities | | |
| Gross collections | \$355,193 | \$337,097 |
| Less: | | |
| Amounts collected on behalf of third parties | (469) | (723) |
| Amounts applied to principal on receivable portfolios | (102,093) | (95,647) |
| Servicing fees | 112 | 91 |
| Operating expenses | (193,729) | (161,294) |
| Interest payments | (12,983) | (11,838) |
| Contingent interest payments | (22,724) | (28,178) |
| Other income | 1,071 | 609 |
| Decrease (increase) in restricted cash | 884 | (448) |
| Income taxes | (8,730) | (874) |
| Excess tax benefits from stock-based payment arrangements | (698) | (768) |
| Net cash provided by operating activities | 15,834 | 38,027 |
| Investing activities | | |
| Cash paid for Jefferson Capital | - | - |
| Cash paid for Ascension Capital Group | - | - |
| Escrow deposit on employee retention contract | - | - |
| Cash paid for India membership interest | (2,250) | - |
| Purchases of receivable portfolios, net | | |

| | | |
|--|-----------|-----------|
| of forward flow allocation | (197,249) | (133,653) |
| Collections applied to principal of receivable portfolios | 102,093 | 95,647 |
| Proceeds from the sale of marketable securities | - | - |
| Proceeds from put-backs and recalls of receivable portfolios | 3,769 | 3,246 |
| Purchases of property and equipment | (1,422) | (2,430) |
| Net cash used in investing activities | (95,059) | (37,190) |
| Financing activities | | |
| Proceeds from notes payable and other borrowings | 121,000 | 53,500 |
| Proceeds from convertible note borrowings | - | - |
| Proceeds from sale of warrants associated with convertible notes | - | - |
| Purchase of call options associated with convertible notes | - | - |
| Repayment of notes payable and other borrowings | (48,500) | (51,250) |
| Capitalization of loan fees | - | - |
| Proceeds from exercise of common stock options and warrants | 348 | 149 |
| Excess tax benefits from stock-based payment arrangements | 698 | 768 |
| Net (repayment) borrowing of capital lease obligations | (212) | (239) |
| Net cash provided by financing activities | 73,334 | 2,928 |
| Net (decrease) increase in cash | (5,891) | 3,765 |
| Cash and cash equivalents, beginning of year | 10,791 | 7,026 |
| Cash and cash equivalents, end of year | \$4,900 | \$10,791 |

(A) Derived from the audited consolidated financial statements.

ENCORE CAPITAL GROUP, INC.
Supplemental Financial Information

Reconciliation of Adjusted EBITDA to GAAP Net Income and Operating Expenses,
Excluding Stock-based Compensation Expense, Bankruptcy Servicing Operating
Expenses and Costs Related to the Consideration of Strategic Alternatives to

GAAP Total Operating Expenses
(Unaudited, In Thousands)

| | Three Months Ended | | Year Ended | |
|--|--------------------|---------|--------------|----------|
| | December 31, | | December 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| GAAP net income, as reported | \$4,848 | \$6,627 | \$15,042 | \$24,008 |
| Interest expense | 4,000 | 3,226 | 13,904 | 12,512 |
| Contingent interest expense | - | 5,774 | 4,123 | 18,520 |
| Pay-off of future contingent interest | - | - | 11,733 | - |
| Provision for income taxes | 3,376 | 4,564 | 8,431 | 17,180 |
| Depreciation and amortization | 810 | 1,002 | 3,351 | 3,894 |
| Amount applied to principal on receivable portfolios | 20,826 | 28,710 | 102,093 | 95,647 |

| | | | | |
|--|----------|----------|-----------|-----------|
| Stock-based compensation expense | 1,001 | 1,334 | 4,287 | 5,669 |
| Adjusted EBITDA | \$34,861 | \$51,237 | \$162,964 | \$177,430 |
| GAAP total operating expenses, as reported | \$47,411 | \$48,169 | \$201,849 | \$183,529 |
| Stock-based compensation expense | (1,001) | (1,334) | (4,287) | 5,669 |
| Bankruptcy servicing operating expenses | (3,076) | (3,864) | (14,801) | (18,314) |
| Costs related to the consideration of strategic alternatives | - | (499) | (213) | (1,498) |
| Operating expenses, excluding stock-based compensation expense, bankruptcy servicing operating expenses and costs related to the consideration of strategic alternatives | \$43,334 | \$42,472 | \$182,548 | \$158,048 |

SOURCE Encore Capital Group, Inc.

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