

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): October 25, 2007

ENCORE CAPITAL GROUP, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

000-26489
(Commission File Number)

48-1090909
(IRS Employer
Identification No.)

8875 Aero Drive, Suite 200, San Diego, California
(Address of Principal Executive Offices)

92123
(Zip Code)

(877) 445-4581
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On October 25, 2007, we issued a press release announcing our financial results for the third quarter ended September 30, 2007.

A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|--------------------------------------|
| 99.1 | Press release dated October 25, 2007 |

The information reported in this Current Report on Form 8-K, including the exhibit, shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities under that Section, nor be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ENCORE CAPITAL GROUP, INC.

Date: October 25, 2007

/s/ Paul Grinberg

Paul Grinberg

Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

**Exhibit
Number**
99.1

Description
Press release dated October 25, 2007



For Immediate Release

Encore Capital Group Announces Third Quarter 2007 Results

SAN DIEGO, October 25, 2007 /PRNewswire-FirstCall/ — Encore Capital Group, Inc. (Nasdaq: ECPG), a leading distressed consumer debt management company, today reported consolidated financial results for the third quarter ended September 30, 2007.

For the third quarter of 2007:

- Net income was \$5.4 million or \$0.23 per fully diluted share, compared to net income of \$5.2 million or \$0.22 per fully diluted share in the same period of the prior year. Net income was reduced by the one-time impact of \$2.1 million after-tax, or \$0.09 per fully diluted share, related to the cost savings initiatives announced in September, including the reduction in workforce at certain sites and the exit of healthcare purchasing and collection activities. Net income includes the positive impact of a reduction in the Company's effective tax rate by 15.2%, or \$0.05 per fully diluted share, primarily due to certain beneficial changes to the Company's effective State tax rate.
- Adjusted EBITDA, defined as net income before interest, taxes, depreciation and amortization, stock-based compensation expense, and portfolio amortization, was \$35.1 million, a 1% decrease compared to \$35.6 million in the same period of the prior year. Excluding the \$2.8 million in charges associated with the cost savings initiatives, Adjusted EBITDA increased 6% to \$37.9 million.
- Gross collections were \$85.6 million, a 13% increase over the \$75.8 million in the same period of the prior year.
- Revenues from receivable portfolios were \$59.4 million, a 4% increase over the \$57.2 million in the same period of the prior year. Revenue recognized on receivable portfolios, as a percentage of portfolio collections, was 70%, compared to 76% in the same period of the prior year. The lower revenue recognition rate was attributable to a higher percentage of collections from more recently purchased portfolios that have lower collection multiples assigned to them, as well as a higher level of allowance charges for investment in receivable portfolios, which included the \$1.4 million write-down of healthcare receivables associated with the cost savings initiatives.
- Revenues from bankruptcy servicing were \$3.3 million, compared to \$3.4 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 55.1% compared to 50.5% in the same period of the prior year. This increase was attributable to both the increase in legal costs associated with collection initiatives as well as severance and other costs associated with the cost savings initiatives. Total operating expenses were \$52.0 million, a 16% increase over the \$45.0 million in the same period of the prior year. Excluding the \$1.4 million in severance and other costs

associated with the cost savings initiatives, total operating expenses were \$50.6 million, a 12% increase compared to the \$45.0 million in the prior year. Operating expense (excluding stock-based compensation expense, bankruptcy servicing operating expenses, costs related to the consideration of strategic alternatives as well as severance and other costs associated with the cost savings initiatives) per dollar collected was 53.4%.

- Total interest expense was \$3.6 million, compared to \$6.7 million in the same period of the prior year.
- Investments in receivable portfolios were \$47.9 million to purchase \$1.3 billion in face value of debt, compared to \$32.3 million to purchase \$1.1 billion in face value of debt in the same period of the prior year.

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 www.encorecapitalgroup.com.

Contact:

Encore Capital Group, Inc.

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or

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FINANCIAL TABLES FOLLOW

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

| | September 30, 2007 (Unaudited) | December 31, 2006 (A) |
|---|--------------------------------------|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,478 | \$ 10,791 |
| Restricted cash | 3,137 | 4,660 |
| Accounts receivable, net | 4,915 | 2,599 |
| Investment in receivable portfolios, net | 348,818 | 300,348 |
| Property and equipment, net | 4,650 | 5,249 |
| Prepaid income tax | 5,031 | 3,727 |
| Purchased servicing asset | 314 | 1,132 |
| Forward flow asset | 18,399 | 27,566 |
| Other assets | 26,200 | 21,903 |
| Goodwill | 13,735 | 13,735 |
| Identifiable intangible assets, net | 2,825 | 3,628 |
| Total assets | \$ 432,502 | \$ 395,338 |
| Liabilities and stockholders' equity | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 18,823 | \$ 23,744 |
| Accrued profit sharing arrangement | — | 6,869 |
| Deferred tax liabilities, net | 10,862 | 10,667 |
| Deferred revenue | 3,034 | 2,156 |
| Purchased servicing obligation | 187 | 634 |
| Debt | 232,948 | 200,132 |
| Other liabilities | 606 | — |
| Total liabilities | 266,460 | 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, 22,988 shares and 22,781 shares issued and outstanding as of September 30, 2007 and December 31, 2006, respectively | 230 | 228 |
| Additional paid-in capital | 71,698 | 66,532 |
| Accumulated earnings | 94,127 | 83,933 |
| Accumulated other comprehensive (loss) income | (13) | 443 |
| Total stockholders' equity | 166,042 | 151,136 |
| Total liabilities and stockholders' equity | \$ 432,502 | \$ 395,338 |

(A) Derived from the audited consolidated financial statements as of December 31, 2006.

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

| | Three Months ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| Revenue from receivable portfolios, net | \$59,415 | \$57,247 | \$ 185,589 | \$ 174,425 |
| Servicing fees and other related revenue | 3,276 | 3,350 | 9,705 | 12,585 |
| Total revenues | <u>62,691</u> | <u>60,597</u> | <u>195,294</u> | <u>187,010</u> |
| Operating expenses | | | | |
| Salaries and employee benefits | 17,138 | 15,773 | 50,388 | 48,358 |
| Stock-based compensation expense | 1,281 | 1,490 | 3,286 | 4,335 |
| Cost of legal collections | 20,868 | 12,545 | 59,649 | 36,767 |
| Other operating expenses | 4,987 | 5,308 | 16,970 | 17,409 |
| Collection agency commissions | 2,478 | 4,533 | 8,639 | 14,178 |
| General and administrative expenses | 4,462 | 4,388 | 12,965 | 11,421 |
| Depreciation and amortization | 833 | 964 | 2,541 | 2,892 |
| Total operating expenses | <u>52,047</u> | <u>45,001</u> | <u>154,438</u> | <u>135,360</u> |
| Income before other (expense) income and income taxes | <u>10,644</u> | <u>15,596</u> | <u>40,856</u> | <u>51,650</u> |
| Other (expense) income | | | | |
| Interest expense | (3,648) | (2,920) | (9,904) | (9,286) |
| Contingent interest expense | — | (3,824) | (4,123) | (12,746) |
| Pay-off of future contingent interest | — | — | (11,733) | — |
| Other income | 79 | 45 | 153 | 379 |
| Total other expense | <u>(3,569)</u> | <u>(6,699)</u> | <u>(25,607)</u> | <u>(21,653)</u> |
| Income before income taxes | <u>7,075</u> | <u>8,897</u> | <u>15,249</u> | <u>29,997</u> |
| Provision for income taxes | (1,717) | (3,689) | (5,055) | (12,616) |
| Net income | <u>\$ 5,358</u> | <u>\$ 5,208</u> | <u>\$ 10,194</u> | <u>\$ 17,381</u> |
| Basic—Earnings per share computation: | | | | |
| Net income available to common stockholders | <u>\$ 5,358</u> | <u>\$ 5,208</u> | <u>\$ 10,194</u> | <u>\$ 17,381</u> |
| Weighted average shares outstanding | <u>22,922</u> | <u>22,778</u> | <u>22,837</u> | <u>22,745</u> |
| Earnings per share—Basic | <u>\$ 0.23</u> | <u>\$ 0.23</u> | <u>\$ 0.45</u> | <u>\$ 0.76</u> |
| Diluted—Earnings per share computation: | | | | |
| Net income available to common stockholders | <u>\$ 5,358</u> | <u>\$ 5,208</u> | <u>\$ 10,194</u> | <u>\$ 17,381</u> |
| Weighted average shares outstanding | <u>22,922</u> | <u>22,778</u> | <u>22,837</u> | <u>22,745</u> |
| Incremental shares from assumed conversion of stock awards | <u>551</u> | <u>605</u> | <u>583</u> | <u>644</u> |
| Diluted weighted average shares outstanding | <u>23,473</u> | <u>23,383</u> | <u>23,420</u> | <u>23,389</u> |
| Earnings per share—Diluted | <u>\$ 0.23</u> | <u>\$ 0.22</u> | <u>\$ 0.44</u> | <u>\$ 0.74</u> |

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------------|
| | 2007 | 2006 |
| Operating activities | | |
| Gross collections | \$ 269,782 | \$ 242,583 |
| Less: | | |
| Amounts collected on behalf of third parties | (368) | (546) |
| Amounts applied to principal on receivable portfolios | (81,267) | (66,937) |
| Servicing fees | 89 | 51 |
| Operating expenses | (146,071) | (121,420) |
| Interest payments | (10,193) | (9,634) |
| Contingent interest payments | (22,724) | (17,975) |
| Other income | 153 | 379 |
| Decrease in restricted cash | 1,523 | 848 |
| Income taxes | (7,398) | (842) |
| Excess tax benefits from stock-based payment arrangements | (683) | (754) |
| Net cash provided by operating activities | <u>2,843</u> | <u>25,753</u> |
| Investing activities | | |
| Purchases of receivable portfolios, net of forward flow allocation | (125,224) | (73,237) |
| Collections applied to principal of receivable portfolios | 81,267 | 66,937 |
| Proceeds from put-backs and recalls of receivable portfolios | 2,097 | 2,691 |
| Purchases of property and equipment | (1,139) | (1,447) |
| Net cash used in by investing activities | <u>(42,999)</u> | <u>(5,056)</u> |
| Financing activities | | |
| Proceeds from notes payable and other borrowings | 53,000 | 23,500 |
| Repayment of notes payable and other borrowings | (20,000) | (35,641) |
| Proceeds from exercise of common stock options | 344 | 146 |
| Excess tax benefits from stock-based payment arrangements | 683 | 754 |
| Repayment of capital lease obligations | (184) | (179) |
| Net cash provided by (used in) financing activities | <u>33,843</u> | <u>(11,420)</u> |
| Net (decrease) increase in cash | (6,313) | 9,277 |
| Cash and cash equivalents, beginning of period | 10,791 | 7,026 |
| Cash and cash equivalents, end of period | <u>\$ 4,478</u> | <u>\$ 16,303</u> |

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 September 30, | |
|---|-------------------------------------|-----------------|
| | 2007 | 2006 |
| GAAP net income, as reported | \$ 5,358 | \$ 5,208 |
| Interest expense | 3,648 | 2,920 |
| Contingent interest expense | — | 3,824 |
| Provision for income taxes | 1,717 | 3,689 |
| Depreciation and amortization | 833 | 964 |
| Amount applied to principal on receivable portfolios | 22,293 | 17,526 |
| Stock-based compensation expense | 1,281 | 1,490 |
| Adjusted EBITDA | <u>\$35,130</u> | <u>\$35,621</u> |
| GAAP total operating expenses, as reported | \$52,047 | \$45,001 |
| Stock-based compensation expense | (1,281) | (1,490) |
| Bankruptcy servicing operating expenses | (3,599) | (4,499) |
| Costs related to the consideration of strategic alternatives | — | (749) |
| Operating expenses, excluding stock-based compensation expense, bankruptcy servicing operating expenses and costs related to the consideration of strategic alternatives | <u>\$47,167</u> | <u>\$38,263</u> |

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