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): February 13, 2013

ENCORE CAPITAL GROUP, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	000-26489	48-1090909
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3111 Camino Del Rio North, Suite 1300, San Diego, California	92108
(Address of Principal Executive Offices)	(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 February 13, 2013, Encore Capital Group, Inc. (the “Company”) issued a press release announcing its financial results for the fourth quarter and full year ended December 31, 2012. 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.

The information in Item 2.02 of this Current Report on Form 8-K, including the information contained in Exhibit 99.1, is being furnished to the Securities and Exchange Commission pursuant to Item 2.02, and shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by a specific reference in such filing.

Item 7.01. Regulation FD Disclosure.

A copy of a slide presentation contained on the Company’s website is furnished as Exhibit 99.2 to this Current Report on Form 8-K and is incorporated herein solely for purposes of this Item 7.01.

The information in Item 7.01 of this Current Report on Form 8-K, including the information contained in Exhibit 99.2, is being furnished to the Securities and Exchange Commission pursuant to Item 7.01, and shall not be deemed to be “filed” for the purposes of the Exchange Act or otherwise subject to the liabilities of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by a specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description
99.1	Press release dated February 13, 2013.
99.2	Slide presentation of Encore Capital Group, Inc. dated February 13, 2013.

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: February 13, 2013

/s/ Paul Grinberg

Paul Grinberg
Executive Vice President, Chief Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press release dated February 13, 2013.
99.2	Slide presentation of Encore Capital Group, Inc. dated February 13, 2013.

Exhibit 99.1

Encore Capital Group Announces Fourth Quarter and Full Year 2012 Financial Results

Quarterly Net Income Increased 17% to $20.2 million; Quarterly Gross Collections Increased 24% to $230.5 million

SAN DIEGO, February 13, 2013—Encore Capital Group, Inc. (Nasdaq: ECPG), through its subsidiaries (the "Company"), a leading provider of debt management and recovery solutions for consumers and property owners across a broad range of assets, today reported consolidated financial results for the fourth quarter and full year ended December 31, 2012.

"2012 was an exceptional year for Encore," said Brandon Black, the Company's President and Chief Executive Officer. "We delivered record earnings, record collections and record operating cash flow, even as we made investments to strengthen our core business and expand our services for financially stressed consumers through the acquisition of Propel Financial Services. We believe that these strategic investments, combined with our analytic strength and our disciplined approach to deploying capital, position us well in an increasingly complex business and regulatory environment."

For the Fourth Quarter of 2012:

- Gross collections from the portfolio purchasing and recovery business were $230.5 million, a 24% increase over the $185.9 million in the same period of the prior year.
- Investment in receivable portfolios in the portfolio purchasing and recovery business was $153.6 million, to purchase $8.5 billion in face value of debt, compared to $136.7 million, to purchase $3.8 billion in face value of debt in the same period of the prior year.
- Available capacity under the Encore Capital Group revolving credit facility, subject to borrowing base and applicable debt covenants, was $187.0 million as of December 31, 2012. Total debt, consisting of the Encore revolving credit and term loan facility, the Propel facility, the senior secured notes, and capital lease obligations, was $706.0 million as of December 31, 2012, compared to $389.0 million as of December 31, 2011.
- Revenue from receivable portfolios in the portfolio purchasing and recovery business, net of allowance adjustments, was $139.6 million, a 20% increase over the $116.5 million in the same period of the prior year. Revenue recognized on receivable portfolios, as a percentage of portfolio collections, excluding the effects of net portfolio allowances, decreased to approximately 59% from 64% in the same period of the prior year.
- Total operating expenses were $103.9 million, a 24% increase over the $83.6 million in the same period of the prior year. Adjusted operating expense per dollar collected for the portfolio purchasing and recovery business decreased to 43.2% compared to 44.1% 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 $134.7 million, a 28% increase over the $105.0 million in the same period of the prior year.
- Total interest expense for the portfolio purchasing and recovery segment increased to $6.5 million, as compared to $5.0 million in the same period of the prior year.
- Income from continuing operations was $20.2 million, or $0.79 per fully diluted share, compared to income from continuing operations of $17.2 million, or $0.67 per fully diluted share in the same period of the prior year.

For the full year of 2012:

- Gross collections were $948.1 million, a 25% increase over the $761.2 million in 2011.
- Investment in receivable portfolios in the portfolio purchasing and recovery business was $562.3 million, to purchase $18.5 billion in face value of debt, compared to $386.9 million, to purchase $11.7 billion in face value of debt in 2011.
- Revenue from receivable portfolios in the portfolio purchasing and recovery business, net of allowance adjustments, was $545.4 million, a 22% increase over the $448.7 million in 2011.
- Total operating expenses were $401.7 million, a 22% increase over the $328.6 million 2011. Adjusted operating expenses for the portfolio purchasing and recovery business per dollar collected decreased to 40.4% compared to 42.2% in 2011.
- Adjusted EBITDA was $577.4 million, a 30% increase over the $443.9 million in 2011.
- Income from continuing operations was $78.6 million or $3.04 per fully diluted share, compared to income from continuing operations of $60.6 million or $2.36 per fully diluted share in 2011.
- Total stockholders' equity per share, excluding the effects of discontinued operations, was $16.06 at December 31, 2012, an 11% increase over $14.45 at December 31, 2011.

Conference Call and Webcast

The Company will hold a conference call today at 2:00 p.m. 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 event via a listen-only telephone conference call line or the Internet. To access the live telephone conference call, please dial (877) 670-9781 or (408) 940-3818. The Conference ID is 90236787. To access the live webcast via the Internet, log on at the Investors page of the Company's website at www.encorecapital.com.

Non-GAAP Financial Measures

The Company has included information concerning non-GAAP financial measures, including adjusted earnings per share, because management believes that investors regularly rely on non-GAAP adjusted earnings and adjusted earnings per share, to assess operating performance, in order to highlight trends in the Company's business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP. The Company has also 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. Additionally, the Company has included information related to adjusted operating expenses for the portfolio purchasing and recovery business, in order to facilitate a comparison of approximate cash costs to cash collections for the portfolio purchasing and recovery 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 the Company's operating performance. Further, these non-GAAP financial measures, as presented by the Company, may not be comparable to similarly titled measures reported by other companies. The Company has included a reconciliation of adjusted earnings per share to reported earnings under GAAP, a reconciliation of adjusted EBITDA to reported earnings under GAAP, a reconciliation of adjusted operating expenses for the portfolio purchasing and recovery business to the GAAP measure total operating expenses, and a reconciliation of adjusted stockholders' equity per share to reported stockholders' equity under GAAP in the attached financial tables.

About Encore Capital Group, Inc.

Encore Capital Group is a leading provider of debt management and recovery solutions for consumers and property owners across a broad range of assets. Through its subsidiaries, the Company purchases portfolios of consumer receivables from major banks, credit unions, and utility providers, and partners with individuals as they repay their obligations and work toward financial recovery. Through its Propel Financial Services, LLC subsidiary, the Company assists property owners who are delinquent on their property taxes by structuring affordable monthly payment plans.

Headquartered in San Diego, Encore Capital Group is a publicly traded NASDAQ Global Select company (ticker symbol: ECPG) and a component stock of the Russell 2000, the S&P SmallCap 600, and the Wilshire 4500. More information about the Company can be found at www.encorecapital.com. The Company's website and the information contained therein, is not incorporated into and is not a part of this press release.

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," "believe," "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, statements regarding our future operating results, performance, business plans or prospects. 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 its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors are discussed in the reports filed by the Company with the Securities and Exchange Commission, including the most recent reports on Forms 10-K, 10-Q and 8-K, each as it may be amended from time to time. The Company disclaims any intent or obligation to update these forward-looking statements.

Contact:

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FINANCIAL TABLES FOLLOW

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

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 17,510	$ 8,047
Investment in receivable portfolios, net	873,119	716,454
Deferred court costs, net	35,407	38,506
Property tax payment agreements receivable, net	135,100	—
Interest receivable	4,042	—
Property and equipment, net	23,223	17,796
Other assets	27,006	15,233
Goodwill	55,446	15,985
Identifiable intangible assets, net	487	462
Total assets	$1,171,340	$ 812,483
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 45,450	$ 29,628
Income tax payable	3,080	—
Deferred tax liabilities, net	8,236	15,709
Debt	706,036	388,950
Other liabilities	2,722	6,661
Total liabilities	765,524	440,948
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, 23,191 shares and 24,520 shares issued and outstanding as of December 31, 2012 and December 31, 2011, respectively	232	245
Additional paid-in capital	88,029	123,406
Accumulated earnings	319,329	249,852
Accumulated other comprehensive loss	(1,774)	(1,968)
Total stockholders' equity	405,816	371,535
Total liabilities and stockholders' equity	$1,171,340	$ 812,483

ENCORE CAPITAL GROUP, INC.
Consolidated Statements of Comprehensive Income
(In Thousands, Except Per Share Amounts)

	(Unaudited) Three Months Ended December 31,		Year Ended December 31,	
	2012	2011	2012	2011
Revenues				
Revenue from receivable portfolios, net	$139,594	$116,452	$545,412	$448,714
Tax lien transfer				
Interest income	5,315	—	13,882	—
Interest expense	(1,297)	—	(3,422)	—
Net interest income	4,018	—	10,460	—
Total revenues	143,612	116,452	555,872	448,714
Operating expenses				
Salaries and employee benefits	28,193	20,347	101,084	77,805
Cost of legal collections	45,500	39,686	168,703	157,050
Other operating expenses	10,085	8,764	48,939	35,708
Collection agency commissions	2,980	3,388	15,332	14,162
General and administrative expenses	15,467	10,289	61,798	39,760
Depreciation and amortization	1,647	1,165	5,840	4,081
Total operating expenses	103,872	83,639	401,696	328,566
Income from operations	39,740	32,813	154,176	120,148
Other (expense) income				
Interest expense	(6,540)	(4,979)	(25,564)	(21,116)
Other income (expense)	328	(181)	1,713	(363)
Total other expense	(6,212)	(5,160)	(23,851)	(21,479)
Income from continuing operations before income taxes	33,528	27,653	130,325	98,669
Provision for income taxes	(13,361)	(10,418)	(51,754)	(38,076)
Income from continuing operations	20,167	17,235	78,571	60,593
(Loss) income from discontinued operations, net of tax	—	(101)	(9,094)	365
Net income	$ 20,167	$ 17,134	$ 69,477	$ 60,958
Weighted average shares outstanding:				
Basic	24,639	24,689	24,855	24,572
Diluted	25,565	25,657	25,836	25,690
Basic earnings (loss) per share from:				
Continuing operations	$ 0.82	$ 0.70	$ 3.16	$ 2.47
Discontinued operations	$ 0.00	$ (0.01)	$ (0.36)	$ 0.01
Net basic earnings per share	$ 0.82	$ 0.69	$ 2.80	$ 2.48
Diluted earnings (loss) per share from:				
Continuing operations	$ 0.79	$ 0.67	$ 3.04	$ 2.36
Discontinued operations	$ 0.00	$ 0.00	$ (0.35)	$ 0.01
Net diluted earnings per share	$ 0.79	$ 0.67	$ 2.69	$ 2.37
Other comprehensive (loss) gain:				
Unrealized (loss) gain on derivative instruments	$ (791)	$ (870)	$ 414	$ (2,964)
Income tax benefit (provision) related to unrealized (loss) gain on derivative instruments	252	26	(220)	845
Other comprehensive (loss) gain, net of tax	(539)	(844)	194	(2,119)
Comprehensive income	$ 19,628	$ 16,290	$ 69,671	$ 58,839

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

	Year Ended December 31, 2012	2011	2010
Operating activities:			
Net income	$ 69,477	$ 60,958	$ 49,052
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,840	4,661	3,199
Impairment charge for goodwill and identifiable intangible assets	10,400	—	—
Amortization of loan costs and premium on property tax payment agreements receivable	3,268	1,833	3,682
Stock-based compensation expense	8,794	7,709	6,010
Income tax provision (less than) in excess of income tax payments	(7,474)	(1,917)	646
Excess tax benefit from stock-based payment arrangements	(4,123)	(5,101)	(3,249)
Loss on sale of discontinued operations	2,416	—	—
(Reversal) provision for allowances on receivable portfolios, net	(4,221)	10,823	22,209
Changes in operating assets and liabilities			
Deferred court costs	3,099	(6,348)	(6,201)
Other assets	(206)	2,179	(1,390)
Prepaid income tax and income taxes payable	7,060	6,495	(1,782)
Accounts payable, accrued liabilities and other liabilities	4,190	3,287	3,299
Net cash provided by operating activities	98,520	84,579	75,475
Investing activities:			
Cash paid for acquisition, net of cash acquired	(186,731)	—	—
Purchases of receivable portfolios	(562,335)	(386,850)	(361,957)
Collections applied to investment in receivable portfolios, net	406,815	301,474	217,891
Proceeds from put-backs of receivable portfolios	3,076	2,852	3,981
Originations of property tax payment agreements receivable	(34,036)	—	—
Collections applied to property tax payment agreements receivable, net	35,706	—	—
Purchases of property and equipment	(6,265)	(5,564)	(2,722)
Net cash used in investing activities	(343,770)	(88,088)	(142,807)
Financing activities:			
Payment of loan costs	(12,359)	(840)	(6,248)
Proceeds from senior secured notes	—	25,000	50,000
Repayment of senior secured notes	(2,500)	—	—
Proceeds from revolving credit facility and term loan facility	508,399	121,000	125,500
Repayment of revolving credit facility and term loan facility	(289,673)	(143,000)	(58,500)
Proceeds from issuance of convertible notes	115,000	—	—
Repayment of convertible notes	—	—	(42,920)
Purchases of convertible hedge instruments	(22,669)	—	—
Proceeds from sale of warrants	11,028	—	—
Repurchase of common stock	(49,270)	—	—
Proceeds from net settlement of certain call options	—	—	524
Proceeds from exercise of stock options	1,847	1,263	2,118
Taxes paid related to net share settlement of equity awards	(2,969)	(3,891)	(2,024)
Excess tax benefit from stock-based payment arrangements	4,123	5,101	3,249
Repayment of capital lease obligations	(6,244)	(3,982)	(1,850)
Net cash provided by financing activities	254,713	651	69,849
Net increase (decrease) in cash and cash equivalents	9,463	(2,858)	2,517
Cash and cash equivalents, beginning of period	8,047	10,905	8,388
Cash and cash equivalents, end of period	$ 17,510	$ 8,047	$ 10,905
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 25,218	$ 19,038	$ 15,652
Cash paid for income taxes	46,297	32,125	30,125
Supplemental schedule of non-cash investing and financing activities:			
Fixed assets acquired through capital lease	$ 5,287	$ 2,949	$ 4,317

ENCORE CAPITAL GROUP, INC.
Supplemental Financial Information

Reconciliation of Adjusted Earnings From Continuing Operations to GAAP Net Income From Continuing Operations, Adjusted EBITDA to GAAP Net Income, Adjusted Operating Expenses For The Portfolio Purchasing And Recovery Business to GAAP Total Operating Expenses, and Adjusted Stockholders' Equity Per Share to GAAP Total Stockholders' Equity
(In Thousands, Except Per Share amounts) (Unaudited)

	Three Months Ended December 31,				Year Ended December 31,			
	2012		2011		2012		2011	
	$	Per Diluted Share	$	Per Diluted Share	$	Per Diluted Share	$	Per Diluted Share
GAAP net income from continuing operations, as reported	$20,167	$ 0.79	$17,235	$ 0.67	$78,571	$ 3.04	$60,593	$ 2.36
Adjustment:								
Convertible notes non-cash interest and issuance cost amortization, net of tax	191	$ 0.01	—	—	191	$ 0.01	—	—
Adjusted earnings from continuing operations	$20,358	$ 0.80	$17,235	$ 0.67	$78,762	$ 3.05	$60,593	$ 2.36

	Three Months Ended December 31,		Year Ended December 31,	
	2012	2011	2012	2011
GAAP net income, as reported	$ 20,167	$ 17,134	$ 69,477	$ 60,958
Adjustments:				
Loss (income) from discontinued operations, net of tax	—	101	9,094	(365)
Interest expense	6,540	4,979	25,564	21,116
Provision for income taxes	13,361	10,418	51,754	38,076
Depreciation and amortization	1,647	1,165	5,840	4,081
Amount applied to principal on receivable portfolios	90,895	69,462	402,594	312,297
Stock-based compensation expense	2,084	1,729	8,794	7,709
Acquisition related expenses	—	—	4,263	—
Adjusted EBITDA	$134,694	$104,988	$577,380	$443,872

	Three Months Ended December 31,		Year Ended December 31,	
	2012	2011	2012	2011
GAAP total operating expenses, as reported	$103,872	$83,639	$401,696	$328,566
Adjustments:				
Stock-based compensation expense	(2,084)	(1,729)	(8,794)	(7,709)
Tax lien transfer segment operating expenses	(2,113)	—	(5,681)	—
Acquisition related expenses	—	—	(4,263)	—
Adjusted operating expenses for the portfolio purchasing and recovery business	$ 99,675	$81,910	$382,958	$320,857

	December 31, 2012	December 31, 2011
GAAP stockholders' equity, as reported	$ 405,816	$ 371,535
Effect of discontinued operations	9,094	(365)
Adjusted stockholders' equity	$ 414,910	$ 371,170
Diluted shares outstanding	25,836	25,690
Adjusted stockholders' equity per share	$ 16.06	$ 14.45

SOURCE Encore Capital Group, Inc.

$115 MILLION
CONVERTIBLE BOND ISSUANCE

February 13, 2013

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

The statements in this presentation that are not historical facts, including, most importantly, those statements preceded by, or that include, the words “may,” “believe,” “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, statements regarding our future operating results and growth. For all “forward-looking statements,” Encore Capital Group, Inc. (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 its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors are discussed in the reports filed by the Company with the Securities and Exchange Commission, including the most recent reports on Forms 10-K, 10-Q and 8-K, each as it may be amended from time to time. The Company disclaims any intent or obligation to update these forward-looking statements.

IN THE 4TH QUARTER OF 2012, WE RAISED $115 MILLION THROUGH THE ISSUANCE OF A CONVERTIBLE BOND

Overview of the Offering

1 Encore issued a convertible bond to Qualified Institutional Buyers, raising $115 million[1] at an annual coupon of 3.0%, with a conversion premium of 25.0% above the stock price at issue ($31.5625) [2]

2 Simultaneously with the issuance of the convertible bond:

- A Encore purchased a bond hedge in the over-the-counter equity derivatives market (effectively repurchasing the call-option embedded in the convertible bond)
- B Encore sold warrants at 75.0% above the stock price at issue ($44.1875) [2]
  - The purchased call options are considered integrated with the convertible bond from a tax perspective and, as a result, the cost of the options is deductible for tax purposes
  - The sold warrants expire 3 months after the bond hedge

3 Concurrent with the transaction, Encore repurchased shares worth $25 million pursuant to a share repurchase program

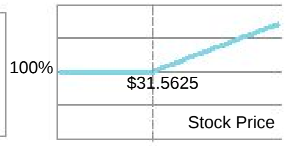
1. Comprised of a $100 million offering on November 27, 2012 and a $15 million overallotment option exercised on December 6, 2012
2. The stock price at issue was $25.25

THE COMBINATION OF THE CONVERTIBLE BOND WITH A BOND HEDGE PLUS WARRANTS EFFECTIVELY INCREASED THE CONVERSION PREMIUM TO 75%

Value Delivered by Encore at Maturity[1]

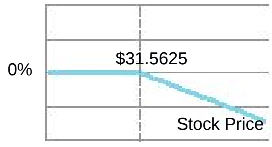
Step 1: Issue Convertible Bond

- Encore issued a convertible bond with a conversion price of $31.5625 (25% above stock price at issue)
  - With net share settlement, if the stock price is above the conversion price at maturity, Encore would deliver the original issue amount in cash and the incremental value above the conversion price in shares



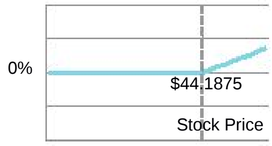
Step 2: Purchase Bond Hedge

- Encore purchased a bond hedge in the over-the-counter derivatives market (i.e., Encore purchased back the call option embedded in the convertible bond)
  - If the stock price is above the conversion price at maturity, Encore would receive the incremental value above the conversion price in shares from the bond hedge counterparties



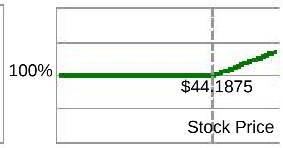
Step 3: Sell Warrants

- Encore sold a warrant with a strike price of $44.1875 (75% above stock price at issue) in the over-the-counter derivatives market
  - If the stock price is above the warrant strike price at maturity, Encore would deliver the incremental value above the warrant strike price in shares to the warrant counterparties



Net Effect: Convertible with Bond Hedge + Warrants

- In effect, it is as if Encore had issued a convertible bond with a conversion price of $44.1875 (the warrant strike price)
  - If the stock price is above the warrant strike price at maturity, Encore will deliver the original issue amount in cash and the incremental value above the warrant strike price in shares



1. Value measured as a percentage of par

THE BOND HEDGE IS TREATED AS EQUITY FOR ACCOUNTING PURPOSES AND HAS TAX BENEFITS

Net Share Settlement Accounting Method

Encore pays par in cash and delivers shares for the in-the-money amount of the conversion option

- Balance sheet: Debt plus option
- Interest expense: Straight debt cost
- EPS dilution: Treasury stock method

Net Share Settled Convertible Accounting

Description	Balance Sheet	Income Statement
• The debt component is the estimated fair value, as of the issuance date, of a similar bond without the conversion feature – The remainder is additional paid-in capital • The debt component is subsequently accreted to par over its expected life, with interest expense that reflects the convertible coupon plus amortization of the bond discount	• Illustration: Convertible coupon is 3.0%, straight cost of debt is 6.0%, maturity is 5 years, and issue size is $115 million – The debt component is initially recorded at $100.3 million (present value of cash flows discounted at the straight cost of debt), with the remaining $14.7 million recorded as a component of equity – The end of year 1 value of the debt component is $100.3 million + $2.6 million amortization of bond discount = $102.9 million (1)	• Interest expense is calculated as follows: – Year 1 interest expense is $6.1 million, cash interest = $3.5 million and amortization of bond discount is $2.6 million (1) • The Treasury stock method is used to determine shares added to total shares outstanding – This is only applicable when the stock trades above the conversion price of $31.5625

Bond Hedge Plus Warrants Accounting

- The purchased call options (bond hedge) reduce equity and the sold warrants increase equity; equity is reduced by the net amount
  - The purchased call options and sold warrants are identified as equity pursuant to EITF 00-19
  - The bond hedge and warrants premium are not expensed and they are not marked to market
- The purchased call options are ignored for EPS purposes
- The sold warrants are accounted for pursuant to the Treasury Stock Method

Tax Considerations

- The Convertible Bond is treated as debt issued at a discount (convertible face value minus cost of bond hedge)
- The discount is amortized as interest expense over the life of the bond
- This results in deductions being taken at Encore's straight cost of debt (on the accreted balance sheet liability)
- The proceeds from the sold warrants are tax-free

1. Refer to page 5 and Appendix A for bond amortization schedule

THE ACCOUNTING RULES RESULT IN A DIFFERENCE BETWEEN CASH AND REPORTED INTEREST EXPENSE

Assumptions

Base Offering Size	$115.0 million
Maturity (Years)	5
Convertible Coupon	3.00%
Conversion Premium	25.0%
Straight Debt Cost	6.00%
Bond Component	$100.3 million
Tax Rate	39.0%

Present Value of convertible bond cash flows discounted at the equivalent cost of straight debt

Debt Accretion Schedule

Year	Interest [1] A	Coupon Payment B	Amort. of Discount C	EOP Debt Balance [2] D
	6.0%*$D_{(t-1)}$	3.0%*Par	A + B	$D_{(t-1)}$+C
0				100.3
1	6.1	(3.5)	2.6	102.9
2	6.2	(3.5)	2.8	105.7
3	6.4	(3.5)	2.9	108.6
4	6.6	(3.5)	3.1	111.7
5	6.8	(3.5)	3.3	0.0

$D_{(t-1)}$: Previous period accounting debt balance

Accounting Overview of Settlement

	Net Share Settled
What Happens Upon Conversion?	Par paid in cash and (Conversion Value - Par) delivered in stock
Upfront Balance Sheet	
Debt	100.3
Equity component	14.7
Interest Expense in Year 1 (Annualized)	
Convertible coupon (cash interest expense)	3.5
Accretion (non-cash interest expense)	2.6
Total interest expense	**6.1**
Tax benefit	(2.4)
After-tax interest expense	**3.7**
EPS Calculation	
Method	Debt and Equity
Description	Interest Expense : Coupon + Accretion deducted from earnings Shares Outstanding : In-the-money amount included in share count under treasury stock method (underlying shares x (current share price - conversion price) / current share price)

1. Interest calculated on a semi-annual basis
2. End of Period (“EOP”) accounting debt balance is net of the net any paydown on the convertible bond; refer to Appendix A for additional calculation detail

THE STRUCTURE RESULTS IN A FAVORABLE AFTER-TAX INTEREST RATE

1 **Pre-tax Interest Rate Calculation**

- # of semi-annual payments: 10
- Semi-annual coupon: $1.73 million
- Upfront proceeds: $103.4 million
- Maturity value: $115 million

Annualized IRR: 5.33%

Convertible Terms	
Offering Size	$115.0 million
Ranking	Senior Unsecured
Coupon	3.00%
Conversion Premium	25.00%
Share Price at Issuance	$25.25
Conversion Price	$31.5625
Maturity	5 Years
Settlement Method	Net Share Settlement
Call Protection	Non-Call Life

Bond Hedge Plus Warrants	**With Overlay**
Maturity	5 Years
Bond Hedge Strike (%) / Bond Hedge Strike ($)	25.0% / $31.5625
Warrant Strike (%) / Warrant Strike ($)	75.0% / $44.1875
Net Premium / % of Proceeds	$11.6 million / 10.1%
Net Proceeds	$103.4 million
Implied effective pre-tax interest rate on proceeds (including cost of Bond Hedge and Warrants) 1	5.33%
Implied effective after-tax interest rate on proceeds [(1)]	3.03%

1. Assumes Encore's effective tax rate of 39% and implied cost of straight debt at 6.0%; refer to Appendix A for additional calculation detail

AT AN ILLUSTRATIVE PRICE ABOVE $50 PER SHARE, THERE IS ACCOUNTING DILUTION, BUT NO ECONOMIC DILUTION DUE TO THE SHARE REPURCHASE

Assumptions

Stock Price at Issue	$25.25
Illustrative Stock Price	$50.50
Wgt. Avg. Diluted Shrs Outstanding	25.8 million
Illustrative Annual EPS	$6.08
Interest Rate on Existing Revolver	4.0%
Share Repurchase Amount	$25.0 million
Paydown of Revolver with Proceeds	$74.5 million
Tax Rate	39.0%

Convertible Terms

Offering Size	$115 million
Convertible Coupon	3.00%
Conversion Premium	25.0%
Maturity	5 Years
Conversion Price	$31.56
Underlying Shares	3.6 million
Bond Component	$100.3 million
Assumed Straight Debt Cost	6.00%

Bond Hedge Plus Warrants

Bond Hedge Premium	19.70%
Bond Hedge Strike Price	$31.56
Warrants Strike Price	$44.19
Net Premium (cost)	10.1%
Net Proceeds	$103.4 million

EPS Accretion / Dilution Analysis [1], [2]

	Net Share Settled	
$million, unless otherwise stated	**FY12**	**Illustrative Annual Impact [4]**
Stock Price Assumption ($)	$25.25 [3]	$50.50
GAAP Income from Continuing Operations	**78.6**	**157.1**
Pro Forma Adjustments		
After-Tax Cash Interest Expense from Convertible Bond	(2.1)	(2.1)
After-Tax Amortization Expense	(1.6)	(1.6)
After-Tax Interest Savings from Debt Paydown	1.8	-
Adjusted GAAP Income from Continuing Operations	**76.7**	**153.4**
Adjusted Non-GAAP Income from Continuing Operations [5]	**78.3**	**155.0**
Stock Price ($)	$25.25	$50.50
Conversion Price ($)	$31.56	$31.56
Warrants Strike Price ($)	$44.19	$44.19
Fully Diluted Shares Outstanding (million)	**25.8**	**25.8**
Pro Forma Adjustments		
Share Dilution from Base Convertible (million)	-	1.4
Share Dilution from Warrants (million)	-	0.5
Shares Repurchased (million)	(1.0)	(1.0)
Adjusted Fully Diluted Shares (million)	**24.8**	**26.7**
GAAP EPS from Continuing Operations ($)	**$3.04**	**$6.08**
Illustrative Pro Forma GAAP Accounting EPS from Continuing Operations ($)	**$3.09**	**$5.75**
Illustrative Accretion / Dilution (%)	**1.6%**	**(5.4%)**
Illustrative Pro Forma Non-GAAP Accounting EPS from Continuing Operations ($) [5]	**$3.15**	**$5.81**
Illustrative Pro Forma Non-GAAP Economic EPS from Continuing Operations ($) [5], [6]	**$3.15**	**$6.13**

Economic EPS excludes dilution from the base convertible bond

1. Pro forma adjustments give effect to the issuance of the convertible bond and the repurchase of $25 million of common stock
2. Refer to Appendix B for additional detail on the calculation of EPS
3. Represents stock price at issuance of convertible bond
4. Illustrative scenario assumes 100% growth in stock price and income
5. "Non-GAAP" EPS excludes the pro forma adjustment for after-tax amortization of bond discount (non-cash interest expense)
6. "Economic" EPS excludes dilution from the base convertible bond

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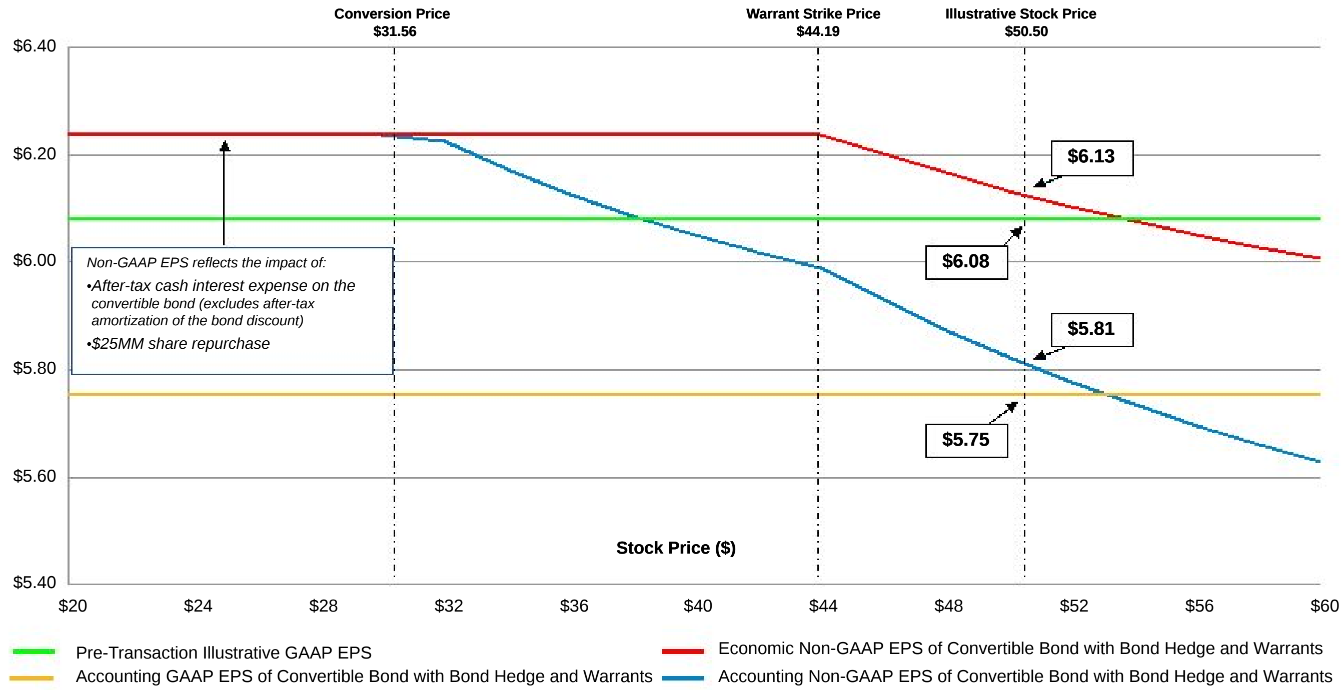
FROM AN ECONOMIC PERSPECTIVE, SHARE DILUTION RESULTING FROM THE BASE CONVERTIBLE BOND IS OFFSET BY THE BOND HEDGE

Illustrative Diluted EPS Sensitivity Analysis

Accounting vs. Economic EPS ($)



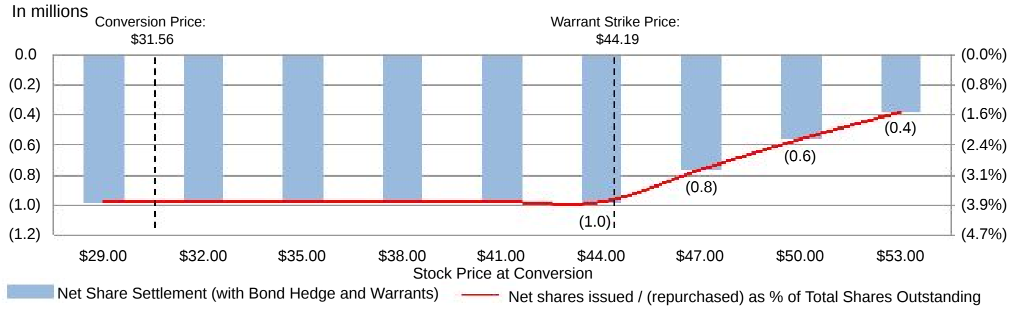
THE COMBINATION OF THE BOND HEDGE PLUS WARRANTS AND THE SHARE BUYBACK RESULTS IN A NET REDUCTION IN SHARES OUTSTANDING

Net Share Settled Convertible with Bond Hedge and Warrants

- With the net share settlement feature, Encore would repay the original issue amount in cash and the in-the-money amount *above the warrants strike* price in stock, reducing the number of shares issued upon conversion
- Given the upfront buyback and the net share settlement option, Encore's total shares outstanding decrease as a result of the transaction

Net Change in Share Count at Maturity (1)

In millions



Net Change in Share Count at Maturity - Net Share Settled Convertible with Bond Hedge and Warrants alongside upfront buyback

3.000% up 25.0%, $44.19 upper strike (75.0% effective premium), $25MM Buyback

A	B	C = Max(0, A-$44.19)	D = B*C	E = D/A	F	G = E - F
Stock Price At Conversion	Shares Underlying	In-the-Money Amount incl. Bond Hedge Plus Warrants ($ per share)	($MM)	Number of Shares (MM)	Shares Repurchased (MM)	Net Shares Issued (MM)
$29.00	3.6	$0.00	0.0	0.0	1.0	(1.0)
$32.00	3.6	$0.00	0.0	0.0	1.0	(1.0)
$35.00	3.6	$0.00	0.0	0.0	1.0	(1.0)
$38.00	3.6	$0.00	0.0	0.0	1.0	(1.0)
$41.00	3.6	$0.00	0.0	0.0	1.0	(1.0)
$44.00	3.6	$0.00	0.0	0.0	1.0	(1.0)
$47.00	3.6	$2.81	10.2	0.2	1.0	(0.8)
$50.00	3.6	$5.81	21.2	0.4	1.0	(0.6)
$53.00	3.6	$8.81	32.1	0.6	1.0	(0.4)

1. $25.25 stock price at issuance. 25.8 million weighted average diluted shares outstanding

APPENDIX A: AFTER-TAX INTEREST RATE CALCULATION DETAIL

After-tax Interest Rate[1]
$ millions

Year	Interest [2]	Coupon Payment	Amortization of Discount	Debt Proceeds / Paydown	End of Period Accounting Debt Balance	Interest Tax Shield	Net Cash Flow
	A	B	C	D	E	F	B+D+F
	6.0%*$E_{(t-1)}$	3.0%*Par	A + B		$E_{(t-1)}$+C+D	39.0%*A	
0	0.0			103.4	**100.3** [3]		**103.4**
1	6.1	(3.5)	2.6		**102.9**	2.4	**(1.1)**
2	6.2	(3.5)	2.8		**105.7**	2.4	**(1.0)**
3	6.4	(3.5)	2.9		**108.6**	2.5	**(1.0)**
4	6.6	(3.5)	3.1		**111.7**	2.6	**(0.9)**
5	6.8	(3.5)	3.3	(115.0)	**-**	2.6	**(115.8)**
After-tax Interest Rate							**3.03%**

$E_{(t-1)}$: Previous Period Accounting Debt Balance

1. Amounts may not total due to rounding
2. Interest calculated on a semi-annual basis
3. At period 0, the end of period accounting debt balance represents the present value of the convertible bond cash flows discounted at an implied straight cost of debt of 6%

APPENDIX B: EPS CALCULATION DETAIL

EPS Accretion / (Dilution) Calcluation Detail	Net Share Settled [1]	
$million, unless otherwise stated	**Formula**	**Illustrative Annual Impact**
GAAP Income from Continuing Operations	**A**	**157.1**
Pro Forma Adjustments		
After-Tax Cash Interest Expense from Convertible Bond	B	(2.1)
After-Tax Amortization Expense	C	(1.6)
After-Tax Interest Savings from Debt Paydown	D	0.0
Adjusted GAAP Income from Continuing Operations	**E = A+B+C+D**	**153.4**
Adjusted Non-GAAP Income from Continuing Operations [2]	**F = E-C**	**155.0**
Underlying Shares (million)	G	3.6
Stock Price ($)	H	$50.50
Conversion Price ($)	I	$31.56
Warrants Strike Price ($)	J	$44.19
Fully Diluted Shares Outstanding (million)	**K**	**25.8**
Pro Forma Adjustments		
Share Dilution from Base Convertible (million)	**L=G*(H-I)/H**	1.4
Share Dilution from Warrants (million)	**M=G*(H-J)/H**	0.5
Shares Repurchased (million)	**N**	(1.0)
Adjusted Fully Diluted Shares (million)	**O=K+L+M+N**	**26.7**
GAAP EPS from Continuing Operations ($)	**P=A/K**	**6.08**
Illustrative Pro Forma GAAP Accounting EPS from Continuing Operations ($)	**Q=E/O**	**5.75**
Illustrative Accretion / Dilution (%)	**(Q-P)/P**	**(5.38%)**
Illustrative Pro Forma Non-GAAP Accounting EPS from Continuing Operations ($) [2]	**F/O**	**5.81**
Illustrative Pro Forma Non-GAAP Economic EPS from Continuing Operations ($) [2], [3]	**F/(O-L)**	**6.13**

1. Pro forma adjustments give effect to the issuance of the convertible bond and the repurchase of $25 million of common stock
2. “Non-GAAP” EPS excludes the pro forma adjustment for after-tax amortization of bond discount (non-cash interest expense)
3. “Economic” EPS excludes dilution from the base convertible bond