ECPG 10-Q 6/30/2009

Section 1: 10-Q (FORM 10-Q)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________.

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**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)

(Not Applicable)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 21, 2009
Common Stock, $0.01 par value	23,139,790 shares

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	June 30, 2009	December 31, 2008 Adjusted
Assets		
Cash and cash equivalents	$ 5,935	$ 10,341
Accounts receivable, net	3,385	1,757
Investment in receivable portfolios, net	506,708	461,346
Deferred court costs	29,760	28,335
Property and equipment, net	6,750	6,290
Prepaid income tax	—	7,935
Forward flow asset	10,302	10,302
Other assets	5,073	5,049
Goodwill	15,985	15,985
Identifiable intangible assets, net	1,418	1,739
Total assets	$585,316	$ 549,079
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 19,410	$ 18,204
Income tax payable	686	—
Deferred tax liabilities, net	15,468	15,108
Deferred revenue and purchased servicing obligation	5,400	5,203
Debt	320,340	303,655
Other liabilities	2,648	3,483
Total liabilities	363,952	345,653
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, 23,138 shares and 23,053 shares issued and outstanding as of June 30, 2009, and December 31, 2008, respectively	231	231
Additional paid-in capital	100,321	98,521
Accumulated earnings	122,433	106,795
Accumulated other comprehensive loss	(1,621)	(2,121)
Total stockholders' equity	221,364	203,426
Total liabilities and stockholders' equity	$585,316	$ 549,079

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008 Adjusted	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 Adjusted
Revenue				
Revenue from receivable portfolios, net	$73,965	$66,275	$146,240	$130,343
Servicing fees and other related revenue	4,070	3,745	8,241	7,231
Total revenue	78,035	70,020	154,481	137,574
Operating expenses				
Salaries and employee benefits (excluding stock-based compensation expense)	14,762	15,689	28,719	30,540
Stock-based compensation expense	994	1,228	2,074	2,322
Cost of legal collections	28,626	23,829	58,573	44,135
Other operating expenses	6,598	5,987	12,578	11,638
Collection agency commissions	4,797	3,781	7,688	7,812
General and administrative expenses	7,097	4,581	12,794	9,041
Depreciation and amortization	620	766	1,243	1,488
Total operating expenses	63,494	55,861	123,669	106,976
Income before other (expense) income and income taxes	14,541	14,159	30,812	30,598
Other (expense) income				
Interest expense	(3,958)	(4,831)	(8,231)	(10,031)
Gain on repurchase of convertible notes, net	215	707	3,268	707
Other income (expense)	9	352	(72)	373
Total other expense	(3,734)	(3,772)	(5,035)	(8,951)
Income before income taxes	10,807	10,387	25,777	21,647
Provision for income taxes	(4,166)	(4,225)	(10,139)	(8,734)
Net income	$ 6,641	$ 6,162	$ 15,638	$ 12,913
Weighted average shares outstanding:				
Basic	23,168	23,007	23,145	23,000
Diluted	23,971	23,512	23,811	23,468
Earnings per share:				
Basic	$ 0.29	$ 0.27	$ 0.68	$ 0.56
Diluted	$ 0.28	$ 0.26	$ 0.66	$ 0.55

See accompanying notes to unaudited condensed consolidated financial statements

ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited, In Thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Total	Comprehensive
	Shares	Par	Capital	Earnings	(Loss) Income	Equity	Income
Balance at December 31, 2008, Adjusted	23,053	$ 231	$ 98,521	$ 106,795	$ (2,121)	$203,426	
Net income	—	—	—	15,638	—	15,638	15,638
Other comprehensive income:							
Unrealized gain on cash flow hedge, net of tax	—	—	—	—	500	500	500
Issuance of share-based awards	85	—	(231)	—	—	(231)	—
Stock-based compensation	—	—	2,074	—	—	2,074	—
Tax provision related to stock option exercises	—	—	(43)	—	—	(43)	—
Balance at June 30, 2009	23,138	$ 231	$ 100,321	$ 122,433	$ (1,621)	$221,364	$ 16,138

See accompanying notes to unaudited condensed consolidated financial statements

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 Adjusted
Operating activities:		
Net Income	$ 15,638	$ 12,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,243	1,488
Amortization of loan costs and debt discount	2,160	3,110
Stock-based compensation expense	2,074	2,322
Gain on repurchase of converitible notes, net	(3,268)	(707)
Deferred income tax expense	360	36
Tax provision from stock-based payment arrangements	43	12
Provision for impairment on receivable portfolios, net	9,991	8,725
Changes in operating assets and liabilities		
Other assets	(2,456)	1,008
Deferred court costs	(1,425)	(4,622)
Prepaid income tax and income tax payable	8,577	8,846
Deferred revenue and purchased service obligation	197	472
Accounts payable, accrued liabilities and other liabilities	611	(217)
Net cash provided by operating activities	33,745	33,386
Investing activities:		
Purchases of receivable portfolios, net of forward flow allocation	(137,946)	(94,833)
Collections applied to investment in receivable portfolios, net	81,163	67,272
Proceeds from put-backs of receivable portfolios	1,430	2,047
Purchases of property and equipment	(1,400)	(2,034)
Net cash used in investing activities	(56,753)	(27,548)
Financing activities:		
Proceeds from revolving credit facility	62,500	15,000
Repayment of revolving credit facility	(21,500)	(17,169)
Repurchase of convertible notes	(22,262)	(3,500)
Proceeds from exercise of stock options	29	8
Tax provision from stock-based payment arrangements	(43)	(12)
Repayment of capital lease obligations	(122)	(145)
Net cash provided by (used in) financing activities	18,602	(5,818)
Net (decrease) increase in cash	(4,406)	20
Cash and cash equivalents, beginning of period	10,341	8,676
Cash and cash equivalents, end of period	$ 5,935	$ 8,696
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 6,435	$ 6,792
Income tax payment (refund)	$ 1,626	$ (236)
Supplemental schedule of non-cash investing and financing activities:		
Allocation of forward flow asset to acquired receivable portfolios	$ —	$ 2,926

See accompanying notes to unaudited condensed consolidated financial statements

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ENCORE CAPITAL GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Ownership, Description of Business and Summary of Significant Accounting Policies

Encore Capital Group, Inc. (“Encore”), through its subsidiaries (collectively, the “Company”), is a systems-driven purchaser and manager of charged-off consumer receivable portfolios and, through its wholly owned subsidiary Ascension Capital Group, Inc. (“Ascension”), a provider of bankruptcy services to the finance industry. The Company acquires its receivable portfolios at deep discounts from their face values using its proprietary valuation process that is based on the consumer attributes of the underlying accounts. Based upon the Company’s ongoing analysis of these accounts, it employs a dynamic mix of collection strategies to maximize its return on investment. The receivable portfolios the Company purchases consist primarily of unsecured, charged-off domestic consumer credit card, auto deficiency and telecom receivables purchased from national financial institutions, major retail credit corporations, telecom companies and resellers of such portfolios. Acquisitions of receivable portfolios are financed by operations and by borrowings from third parties. See Note 7 for further discussion of the Company’s debt.

Financial Statement Preparation

The accompanying interim condensed consolidated financial statements have been prepared by Encore, without audit, in accordance with the instructions to Form 10-Q, and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the Company’s consolidated results of operations, financial position and cash flows. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company’s financial statements and the accompanying notes. Actual results could materially differ from those estimates.

Principles of Consolidation

The Company’s condensed consolidated financial statements include the assets, liabilities and operating results of its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Change in Accounting Principle

Effective January 1, 2009, the Company retrospectively applied Financial Accounting Standard Board (“FASB”) Staff Position APB 14-1 (“FSP APB 14-1”) “*Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*” to account for its outstanding convertible senior notes. As a result, prior years’ consolidated financial statements have been retrospectively adjusted. See Note 12 for additional information on the application of this accounting principle.

Reclassification

The prior year’s consolidated statement of cash flows has been changed to the indirect method, to conform to the current year’s presentation. Additionally, certain reclassifications have been made to the consolidated financial statements to conform to the current year’s presentation.

Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing net earnings available to common stockholders by the weighted average number of shares of common stock outstanding. Common stock outstanding includes shares of common stock and restricted stock units for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock units for which future service is required as a condition to the delivery of the underlying common stock. Employee stock options to purchase approximately 1,346,000 shares of common stock during the three and six months ended June 30, 2009, and employee stock options to purchase approximately 1,298,000 shares of common stock during the three and six months ended June 30, 2008, were outstanding but not included in the computation of diluted earnings per share because the effect on diluted earnings per share would be anti-dilutive.

New Accounting Pronouncements

In December 2008, the FASB released FSP FAS 132(R)-1, "*Employers' Disclosures about Postretirement Benefit Plan Assets,*" which amends Statement of Financial Accounting Standard No. 132R to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This FASB Staff Position is effective for financial statements issued for fiscal years ending after December 15, 2009. The Company expects to adopt this new standard and its required disclosures in its consolidated financial statements for the fiscal year ending December 31, 2009.

In June 2009, the FASB issued FAS No. 166, a revision to FAS No. 140, *"Accounting for Transfers of Financial Assets,"* and will require more information about transferred financial assets and where companies have continuing exposure to the risks related to transferred financial assets. This standard is effective at the start of a company's first fiscal year beginning after November 15, 2009, or January 1, 2010 for companies reporting earnings on a calendar-year basis. The Company is currently analyzing the impact of this statement, if any, to its consolidated financial statements.

In June 2009, the FASB issued FAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting.*" This standard represents the last numbered standard issued by FASB under the old (pre-Codification) numbering system, and amends the GAAP hierarchy. On July 1, FASB launched FASB's new Codification (*i.e.* the FASB Accounting Standards Codification). The Codification supersedes existing GAAP for nongovernmental entities. The Company will revise its financial statement disclosure in compliance with the new codification system effective in its third quarter ended September 30, 2009.

Note 2: Fair Value Measurement

On January 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, "*Fair Value Measurements*" ("FAS 157"), for financial assets and liabilities. On January 1, 2009, the Company adopted the provisions of FAS 157 for non-financial assets and non-financial liabilities that are recognized and disclosed at fair value on a nonrecurring basis. FAS 157 defines fair value, provides guidance for measuring fair value and requires certain disclosures. It does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements.

FAS 157 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company's financial instruments consist of the following:

Financial instruments recognized at fair value in the statement of financial position

The Company's financial instruments measured at fair value on a recurring basis are summarized below *(in thousands)*:

		As of June 30, 2009		As of December 31, 2008	
Financial instruments measured at fair value	**Fair Value Hierarchy**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	Level 1	$ 5,935	$ 5,935	$ 10,341	$ 10,341
Cash flow hedging instruments	Level 2	(2,648)	(2,648)	(3,483)	(3,483)

The fair value of cash and cash equivalents approximates their respective carrying value. Cash flow hedging instruments, which are considered over-the-counter derivatives, are also carried at their fair values. The Company's fair value estimate for such derivative instruments incorporates quoted market prices at the balance sheet date from the counter party using significant observable inputs and is considered a level 2 fair value measurement.

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Financial instruments not required to be carried at fair value

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "*Interim Disclosures about Fair Value of Financial Instruments.*" This FASB Staff Position amends FASB Statement No. 107, "*Disclosures about Fair Value of Financial Instruments,*" to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Company is required to estimate the fair value of financial instruments when it is practical to do so.

Borrowings under the Company's Revolving Credit Facility are carried at historical cost, adjusted for additional borrowings less principal repayments, which approximates fair value. The Company's Convertible Notes are carried at historical cost, adjusted for repurchases and debt discount. The fair value estimate incorporates quoted market prices at the balance sheet date, which was determined to be approximately $34.9 million and $51.4 million as of June 30, 2009 and December 31, 2008, respectively. For investment in receivable portfolios, there is no active market or observable inputs for the fair value estimation. The Company considers it not practical to attempt to estimate the fair value of such financial instruments due to the excessive costs that would be incurred in doing so.

The Company does not have any non-financial assets or liabilities that are measured at fair value.

Note 3: Stock-Based Compensation

On March 9, 2009, the Board of Directors approved an amendment and restatement of the 2005 Stock Incentive Plan ("2005 Plan") which was originally adopted on March 30, 2005 for Board members, employees, officers, and executives of, and consultants and advisors to, the Company. The amendment and restatement of the 2005 Plan increased by 2,000,000 shares the maximum number of shares of the Company's common stock that may be issued or subject to awards under the plan, established a new 10-year term for the plan and made certain other amendments. The 2005 Plan was approved by the Company's stockholders on June 9, 2009. The 2005 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, and performance-based awards to eligible individuals. The 2005 Plan originally authorized an aggregate of 1,500,000 shares of the Company's common stock for awards under the 2005 Plan, plus ungranted shares of stock that were available for future awards under the prior 1999 Equity Participation Plan ("1999 Plan"). In addition, shares subject to options granted under either the 1999 Plan or the 2005 Plan that terminate or expire without being exercised are available for grant under the 2005 Plan. The benefits provided under these plans are share-based compensation subject to the provisions of Statement of Financial Accounting Standard No. 123R, "*Share-Based Payment*" ("FAS 123R").

In accordance with FAS 123R, compensation expense is recognized only for those shares expected to vest, net of estimated forfeitures based on the Company's historical experience and future expectations. For the six months ended June 30, 2009, approximately $2.1 million was recognized as stock-based compensation expense.

The Company's stock-based compensation arrangements are described below:

Stock Options

The 2005 Plan permits the granting of stock options to certain employees and directors of the Company. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of issuance. Options generally vest based on three to five years of continuous service and have ten-year contractual terms.

The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards. All options are amortized ratably over the requisite service periods of the awards, which are generally the vesting periods.

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The fair value of options granted is estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions (there were no options granted during the six months ended June 30, 2008):

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Weighted average fair value of options granted	$ 1.36	—
Risk free interest rate	1.9%	—
Dividend yield	0.0%	—
Volatility factor of the expected market price of the Company's common stock	52.8%	—
Weighted-average expected life of options	5 Years	—

Unrecognized estimated compensation cost related to stock options as of June 30, 2009, was $1.5 million, which is expected to be recognized over a weighted-average period of approximately 2.0 years.

A summary of the Company's stock option activity and related information is as follows for the six months ended June 30, 2009:

	Number of Shares	Option Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value *(in thousands)*
Outstanding at December 31, 2008	2,139,503	$0.35 - $20.09	$ 9.14	
Granted	262,500	2.89	2.89	
Cancelled/forfeited	(72,000)	10.92 -16.19	12.28	
Exercised	(10,000)	2.95	2.95	
Outstanding at June 30, 2009	2,320,003	$0.35 - $20.09	$ 8.33	$ 13,012
Exercisable at June 30, 2009	1,620,506	$0.35 - $20.09	$ 8.31	$ 9,598

The total intrinsic value of options exercised during the six months ended June 30, 2009 and 2008 remained consistent at $0.1 million. As of June 30, 2009, the weighted-average remaining contractual life of options outstanding and options exercisable was 5.75 years and 4.35 years, respectively.

Restricted Stock Units

Under the Company's 2005 Plan, certain employees and directors are eligible to receive restricted stock units. In accordance with FAS 123R, the fair value of restricted stock units is equal to the closing price of the Company's common stock on the date of issuance. The total number of restricted stock unit awards expected to vest is adjusted by estimated forfeiture rates. As of June 30, 2009, 106,500 of the non-vested shares are expected to vest over approximately three to five years based on certain performance goals ("Performance-Based Awards"). The fair value of the Performance-Based Awards is expensed over the expected vesting period based on our forfeiture assumptions. If performance goals are not expected to be met, the compensation expense previously recognized would be reversed. No reversals of compensation expense related to the Performance-Based Awards have been made as of June 30, 2009. The remaining 617,540 non-vested shares are not performance-based, and will vest and are being expensed over approximately two to five years of continuous service.

For the six months ended June 30, 2009, restricted stock unit activity and related information are as follows:

Restricted Stock Units	Non-Vested Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2008	628,752	$ 11.18
Awarded	224,714	$ 4.20
Vested	(115,846)	$ 10.92
Cancelled/forfeited	(13,580)	$ 10.96
Non-vested at June 30, 2009	724,040	$ 9.06

Unrecognized estimated compensation cost related to restricted stock units as of June 30, 2009, was $3.3 million, which is expected to be recognized over a weighted-average period of approximately 2.3 years. The fair value of restricted stock units vested for the six months ended June 30, 2009 and 2008 was $1.0 million and $0.2 million, respectively.

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Note 4: Investment in Receivable Portfolios, Net

In accordance with the provisions of SOP 03-3, discrete receivable portfolio purchases during a quarter are aggregated into pools based on common risk characteristics. Once a static pool is established, the portfolios are permanently assigned to the pool. The discount (*i.e.*, the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded because the Company expects to collect a relatively small percentage of each static pool's contractual receivable balance. As a result, receivable portfolios are recorded at cost at the time of acquisition. All portfolios with common risk characteristics purchased prior to the adoption of SOP 03-3 in the first quarter of 2005 were aggregated by quarter of purchase.

In compliance with SOP 03-3, the Company accounts for its investments in consumer receivable portfolios using either the interest method or the cost recovery method. The interest method applies an effective interest rate, or IRR, to the cost basis of the pool, which remains unchanged throughout the life of the pool, unless there is an increase in subsequent, expected cash flows. Subsequent increases in expected cash flows are generally recognized prospectively through an upward adjustment of the pool's IRR over its remaining life. Subsequent decreases in expected cash flows do not change the IRR, but are recognized as an impairment of the cost basis of the pool, and are reflected in the consolidated statements of income as a reduction in revenue, with a corresponding valuation allowance, offsetting the investment in receivable portfolios in the consolidated statements of financial condition.

The Company accounts for each static pool as a unit for the economic life of the pool (similar to one loan) for recognition of revenue from receivable portfolios, for collections applied to the cost basis of receivable portfolios and for provision for loss or impairment. Revenue from receivable portfolios is accrued based on each pool's IRR applied to each pool's adjusted cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and impairments.

If the amount and timing of future cash collections on a pool of receivables are not reasonably estimable, the Company accounts for such portfolios on the cost recovery method as Cost Recovery Portfolios. The accounts in these portfolios have different risk characteristics than those included in other portfolios acquired during the same quarter, or the necessary information was not available to estimate future cash flows and, accordingly, they were not aggregated with other portfolios. Under the cost recovery method of accounting, no income is recognized until the purchase price of a Cost Recovery Portfolio has been fully recovered. As of June 30, 2009, there were five portfolios accounted for using the cost recovery method, consisting of $0.6 million in net book value of investment in receivable portfolios, representing all of the healthcare portfolios that the Company had acquired. In September 2007, the Company decided to exit its healthcare purchasing and collection activities. At that time, the Company anticipated either selling these healthcare portfolios or placing the underlying accounts with external agencies for collections. The Company no longer anticipates a sale of these receivable portfolios and has placed them with external collection agencies. Since the Company is no longer actively collecting on these accounts internally, it has classified them as Cost Recovery Portfolios. The $0.6 million net book value reflects the value the Company expects to realize through the collection activities of the external agencies.

Accretable yield represents the amount of revenue the Company expects to generate over the remaining life of its existing investment in receivable portfolios based on estimated future cash flows. Total accretable yield is the difference between future estimated collections and the current carrying value of a portfolio. All estimated cash flows on portfolios where the cost basis has been fully recovered are classified as zero basis cash flows.

The following tables summarize the Company's accretable yield and an estimate of future zero basis cash flows at the beginning and end of the current period *(in thousands)*:

	Six Months Ended June 30, 2009		
	Accretable Yield	**Estimate of Zero Basis Cash Flows**	**Total**
Beginning balance at December 31, 2008	$592,825	$ 8,337	$601,162
Revenue recognized, net	(69,775)	(2,500)	(72,275)
Additions on existing portfolios	5,715	1,032	6,747
Additions for current purchases	81,917	—	81,917
Balance at March 31, 2009	$610,682	$ 6,869	$617,551
Revenue recognized, net	(71,576)	(2,389)	(73,965)
(Reductions) additions on existing portfolios	(15,399)	2,614	(12,785)
Additions for current purchases	106,771	—	106,771
Balance at June 30, 2009	$630,478	$ 7,094	$637,572

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	Six Months Ended June 30, 2008		
	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Beginning balance at December 31, 2007	$486,652	$ 13,002	$499,654
Revenue recognized, net	(61,510)	(2,558)	(64,068)
Reductions on existing portfolios	(50,898)	(1,015)	(51,913)
Additions for 12 months curve extension	67,287	—	67,287
Additions for current purchases	112,780	—	112,780
Balance at March 31, 2008	$554,311	$ 9,429	$563,740
Revenue recognized, net	(63,652)	(2,623)	(66,275)
(Reductions) additions on existing portfolios	(3,206)	1,598	(1,608)
Additions for current purchases	79,159	—	79,159
Balance at June 30, 2008	$566,612	$ 8,404	$575,016

During the three months ended June 30, 2009, the Company purchased receivable portfolios with a face value of $1.9 billion for $82.0 million, or a purchase cost of 4.2% of face value. The estimated future collections at acquisition for these portfolios amounted to $203.3 million. During the six months ended June 30, 2009, the Company purchased receivable portfolios with a face value of $3.3 billion for $137.9 million, or a purchase cost of 4.2% of face value. The estimated future collections at acquisition for these portfolios amounted to $341.6 million.

All collections realized after the net book value of a portfolio has been fully recovered ("Zero Basis Portfolios") are recorded as revenue ("Zero Basis Revenue"). During the three months ended June 30, 2009 and 2008, approximately $2.4 million and $2.6 million were recognized as Zero Basis Revenue, respectively. During the six months ended June 30, 2009 and 2008, approximately $4.9 million and $5.1 million were recognized as Zero Basis Revenue, respectively.

During the quarter ended March 31, 2008, the Company revised the forecasting methodology it used to value a portfolio by extending the collection forecast from 72 months to 84 months. This change was made as a result of the Company's increased confidence in its ability to forecast future cash collections to 84 months. Extending the collection forecast from 72 months to 84 months resulted in an increase in the aggregate total estimated remaining collections for the receivable portfolios, as of March 31, 2008, by $67.3 million, or 7.5%. The impact of the change in estimate resulted in an increase in net income of $1.9 million, and an increase in fully diluted earnings per share of $0.08, for the quarter ended March 31, 2008.

The following tables summarize the changes in the balance of the investment in receivable portfolios during the following periods *(in thousands, except percentages):*

	For the Three Months Ended June 30, 2009			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 472,875	$ 609	$ —	$ 473,484
Purchases of receivable portfolios	82,033	—	—	82,033
Gross collections[1]	(119,823)	(56)	(2,389)	(122,268)
Put-backs and recalls[2]	(506)	—	—	(506)
Revenue recognized	76,172	—	2,357	78,529
Impairment, net	(4,596)	—	32	(4,564)
Balance, end of period	$ 506,155	$ 553	$ —	$ 506,708
Revenue as a percentage of collections[3]	63.6%	0.0%	98.7%	64.2%

	For the Three Months Ended June 30, 2008			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 396,775	$ 1,432	$ —	$ 398,207
Purchases of receivable portfolios	52,492	—	—	52,492
Gross collections[1]	(99,306)	(131)	(2,623)	(102,060)
Put-backs and recalls[2]	(357)	2	—	(355)
Revenue recognized[4]	67,042	—	2,623	69,665
Impairment, net [4]	(3,390)	—	—	(3,390)
Balance, end of period	$ 413,256	$ 1,303	$ —	$ 414,559
Revenue as a percentage of collections[3]	67.5%	0.0%	100.0%	68.3%

	For the Six Months Ended June 30, 2009			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 460,598	$ 748	$ —	$ 461,346
Purchases of receivable portfolios	137,946	—	—	137,946
Gross collections[(1)]	(232,314)	(195)	(4,885)	(237,394)
Put-backs and recalls[(2)]	(1,426)	—	(4)	(1,430)
Revenue recognized	151,374	—	4,857	156,231
Impairment, net	(10,023)	—	32	(9,991)
Balance, end of period	$ 506,155	$ 553	$ —	$ 506,708
Revenue as a percentage of collections[(3)]	65.2%	0.0%	99.4%	65.8%

	For the Six Months Ended June 30, 2008			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 390,564	$ 1,645	$ —	$ 392,209
Purchases of receivable portfolios	100,394	—	—	100,394
Gross collections[(1)]	(200,829)	(330)	(5,181)	(206,340)
Put-backs and recalls[(2)]	(2,035)	(12)	—	(2,047)
Revenue recognized[(4)]	133,887	—	5,181	139,068
Impairment, net [(4)]	(8,725)	—	—	(8,725)
Balance, end of period	$ 413,256	$ 1,303	$ —	$ 414,559
Revenue as a percentage of collections[(3)]	66.7%	0.0%	100.0%	67.4%

(1) Does not include amounts collected on behalf of others.

(2) Put-backs represent accounts that are returned to the seller in accordance with the respective purchase agreement (“Put-Backs”). Recalls represent accounts that are recalled by the seller in accordance with the respective purchase agreement (“Recalls”).

(3) Revenue as a percentage of collections excludes the effects of net impairment or net impairment reversals.

(4) Reflects additional revenue of $0.1 million and a lower net impairment of $3.1 million, as a result of extending the collection curves from 72 to 84 months.

The following table summarizes the change in the valuation allowance for investment in receivable portfolios during the six months ended June 30, 2009 (*in thousands*):

	Valuation Allowance
Balance at December 31, 2008	$ 57,152
Provision for impairment losses	5,580
Reversal of prior allowance	(153)
Balance at March 31, 2009	$ 62,579
Provision for impairment losses	4,722
Reversal of prior allowance	(158)
Balance at June 30, 2009	$ 67,143

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The Company utilizes various business channels for the collection of its receivable portfolios. The following table summarizes collections by collection channel *(in thousands)*:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Collection sites	$ 44,680	$ 38,929	$ 95,022	$ 82,218
Legal collections	61,460	49,184	117,867	94,476
Collection agencies	15,506	10,009	23,173	20,970
Sales	727	3,633	1,544	7,847
Other	—	375	—	974
Gross collections for the period	$ 122,373	$ 102,130	$ 237,606	$ 206,485

Note 5: Deferred Court Costs

The Company contracts with a nationwide network of attorneys that specialize in collection matters. The Company generally refers charged-off accounts to its contracted attorneys when it believes the related debtor has sufficient assets to repay the indebtedness and has, to date, been unwilling to pay. In connection with the Company's agreement with the contracted attorneys, it advances certain out-of-pocket court costs ("Deferred Court Costs"). The Company capitalizes Deferred Court Costs in its consolidated financial statements and provides a reserve for those costs that it believes will ultimately be uncollectible. The Company determines the reserve based on its analysis of court costs that have been advanced and those that have been recovered. Deferred Court Costs not recovered within three years of placement are fully written off. Collections received from these debtors are first applied against related court costs with the balance applied to the debtors' account.

Deferred Court Costs for the three year deferral period consist of the following as of the dates presented (*in thousands*):

	June 30, 2009	December 31, 2008
Court costs advanced	$167,721	$ 145,579
Court costs recovered	(42,282)	(36,929)
Court costs reserve	(95,679)	(80,315)
	$ 29,760	$ 28,335

Note 6: Other Assets

Other assets consist of the following *(in thousands):*

	June 30, 2009	December 31, 2008 Adjusted
Debt issuance costs	$ 1,132	$ 1,953
Deferred compensation assets	638	1,206
Prepaid expenses	1,448	973
Security deposit – India building lease	782	—
Other	1,073	917
	$ 5,073	$ 5,049

Note 7: Debt

The Company is obligated under borrowings as follows *(in thousands)*:

	June 30, 2009	December 31, 2008 Adjusted
Convertible Senior Notes	$ 42,920	$ 71,422
Less: Debt discount	(3,354)	(7,664)
Revolving Credit Facility	279,000	238,000
Capital Lease Obligations	1,774	1,897
	$320,340	$ 303,655

Convertible Senior Notes

In 2005, the Company issued $100.0 million of 3.375% Convertible Notes due September 19, 2010. Interest on the Convertible Notes is payable semi-annually, in arrears, on March 19 and September 19 of each year. The Convertible Notes rank equally with the Company's existing and future senior indebtedness and are senior to the Company's potential future subordinated indebtedness. Prior to the implementation of the net-share settlement feature discussed below, the Convertible Notes were convertible, prior to maturity, subject to certain conditions described below, into shares of the Company's common stock at an initial conversion rate of 44.7678 per $1,000 principal amount of notes, which represented an initial conversion price of approximately $22.34 per share, subject to adjustment.

In October 2005, the Company obtained stockholder approval of a net-share settlement feature that allows the Company to settle conversion of the Convertible Notes through a combination of cash and stock. Based on the provisions of Emerging Issues Task Force No. 90-19, "*Convertible Bonds with Issuer Option to Settle for Cash upon Conversion"* ("EITF 90-19"), and Emerging Issues Task Force No. 00-19, *"Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock"* ("EITF 00-19"), the net-settlement feature is accounted for as convertible debt and is not subject to the provisions of Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities"* ("FAS 133"). As a result of the net-settlement feature, the Company will be able to substantially reduce the number of shares issuable in the event of conversion of the Convertible Notes by repaying principal in cash instead of issuing shares of common stock for that amount. Additionally, the Company will not be required to include the underlying shares of common stock in the calculation of the Company's diluted weighted average shares outstanding for earnings per share until the Company's common stock price exceeds $22.34.

Effective January 1, 2009, the Company retrospectively adopted FSP APB 14-1 to account for its Convertible Notes. This FSP requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash, must separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively. This FSP requires retrospective application and, accordingly, the prior periods' financial statements included herein have been adjusted. See Note 12 for additional information and the effect of the change in accounting principle on the Company's condensed consolidated financial statements.

During the three months ended June 30, 2009, the Company repurchased $2.9 million principal amount of its outstanding Convertible Notes for a total price of $2.4 million plus accrued interest. During the six months ended June 30, 2009, the Company repurchased $28.5 million principal amount of its outstanding Convertible Notes for a total price of $22.3 million plus accrued interest. These repurchases left $42.9 million principal amount of the Company's Convertible Notes outstanding as of June 30, 2009, and resulted in a net gain of $0.2 million and $3.3 million for the three and six months ended June 30, 2009, respectively. The Company has written-off less than $0.1 million and approximately $0.2 million in debt issuance costs and approximately $0.3 million and $2.7 million in debt discount in connection with the repurchase of its Convertible Notes during the three and six months ended June 30, 2009, respectively.

During the three and six months ended June 30, 2008, the Company repurchased $5.0 million principal amount of its outstanding Convertible Notes for a total price of $3.5 million plus accrued interest. The repurchase resulted in a net gain of $0.7 million. The Company wrote-off approximately $0.1 million in debt issuance costs and approximately $0.7 million in debt discount in connection with the repurchase of its Convertible Notes during the three and six months ended June 30, 2008.

In accordance with the provisions of FSP APB 14-1, the Company determined that the fair value of the Convertible Notes at issuance in 2005 was approximately $73.2 million, and designated the residual value of approximately $26.8 million as the equity component. Additionally, the Company allocated approximately $2.5 million of the $3.4 million original Convertible Notes issuance cost as debt issuance cost and the remaining $0.9 million as equity issuance cost.

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The balances of the liability and equity components as of each period presented are as follows *(in thousands):*

	June 30, 2009	December 31, 2008 Adjusted
Liability component – principal amount	$42,920	$ 71,422
Unamortized debt discount	(3,354)	(7,664)
Liability component – net carrying amount	39,566	63,758
Equity component	25,878	25,878

The remaining debt discount is being amortized into interest expense over the remaining life of the Convertible Notes using the effective interest rate. The Convertible Notes are due on September 19, 2010. The effective interest rate on the liability component was 10.38% for the six months ended June 30, 2009 and 2008.

Interest expense related to the Convertible Notes was as follows *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008 Adjusted	2009	2008 Adjusted
Interest expense – stated coupon rate	$ 369	$ 810	$ 908	$ 1,653
Interest expense – amortization of debt discount	650	1,290	1,560	2,589
Total interest expense – convertible notes	$ 1,019	$ 2,100	$ 2,468	$ 4,242

As of June 30, 2009, the Company is making the required interest payments on the Convertible Notes and no other changes in the balance or structure of the Convertible Notes has occurred.

The Convertible Notes also contain a restricted convertibility feature that does not affect the conversion price of the Convertible Notes but, instead, places restrictions on a holder's ability to convert their Convertible Notes into shares of the Company's common stock. A holder may convert the Convertible Notes prior to March 19, 2010, only if one or more of the following conditions are satisfied:

- the average of the trading prices of the Convertible Notes for any five consecutive trading day period is less than 103% of the average of the conversion values of the Convertible Notes during that period;
- the Company makes certain significant distributions to holders of the Company's common stock;
- the Company enters into specified corporate transactions; or
- the Company's common stock ceases to be approved for listing on the NASDAQ Global Market and is not listed for trading on a U.S. national securities exchange or any similar U.S. system of automated securities price dissemination.

Holders may also surrender their Convertible Notes for conversion anytime on or after March 19, 2010, until the close of business on the trading day immediately preceding September 19, 2010, regardless of whether any of the foregoing conditions have been satisfied. Upon the satisfaction of any of the foregoing conditions, on the last day of a reporting period, or during the twelve months prior to September 19, 2010, the Company would write off to expense all remaining unamortized debt issuance costs in that period.

If the Convertible Notes are converted in connection with certain fundamental changes that occur prior to March 19, 2010, the Company may be obligated to pay an additional make-whole premium with respect to the Convertible Notes.

Convertible Notes Hedge Strategy. Concurrent with the sale of the Convertible Notes, the Company purchased call options to purchase from the counterparties an aggregate of 4,476,780 shares of the Company's common stock at a price of $22.34 per share. The cost of the call options totaled $27.4 million. The Company also sold warrants to the same counterparties to purchase from the Company an aggregate of 3,984,334 shares of the Company's common stock at a price of $29.04 per share and received net proceeds from the sale of these warrants of $11.6 million. Taken together, the call option and warrant agreements have the effect of increasing the effective conversion price of the Convertible Notes to $29.04 per share. The call options and warrants must be settled in net shares, except in connection with certain termination events, in which case they would be settled in cash based on the fair market value of the instruments. On the date of settlement, if the market price per share of the Company's common stock is above $29.04 per share, the Company will be required to deliver shares of its common stock representing the value of the call options and warrants in excess of $29.04 per share.

The warrants have a strike price of $29.04 and are generally exercisable at any time. The Company issued and sold the warrants in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, because the offer and sale did not involve a public offering. There were no underwriting commissions or discounts in connection with the sale of the warrants. In accordance with EITF No. 00-19 and Statement of Financial Accounting Standards No. 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*," the Company recorded the net call options and warrants as a reduction in additional paid in capital as of December 31, 2005, and will not recognize subsequent changes in fair value of the call options and warrants in its consolidated financial statements.

Revolving Credit Facility

During 2005, the Company entered into a three-year Revolving Credit Facility, to be used for the purposes of purchasing receivable portfolios and for general working capital needs. This Revolving Credit Facility has been amended several times to meet the needs of the Company and is due to expire in May 2010.

Effective February 27, 2007, the Company amended the Revolving Credit Facility to allow for the Company to repurchase up to $50.0 million of its common stock and Convertible Notes, with no more than $25.0 million to repurchase Convertible Notes. Effective May 9, 2008, the Company amended the Revolving Credit Facility to remove the $25.0 million cap on Convertible Note repurchases and allow for the Company to repurchase up to $50.0 million in any combination of its common stock and Convertible Notes, subject to compliance with certain covenants and available borrowing capacity.

Effective May 7, 2007, the Company amended the Revolving Credit Facility in connection with an agreement reached with the lender under the Company's prior Secured Financing Facility. This amendment allows the Company to exclude the expense associated with a one-time payment of $16.9 million in connection with its termination of all future obligations under its Secured Financing Facility as further discussed below.

Effective October 19, 2007, the Company amended the Revolving Credit Facility to change the definition of "change of control" to exclude from that definition, acquisitions of stock by Red Mountain Capital Partners LLC ("Red Mountain"), JCF FPK I LP ("JCF FPK") and their respective affiliates.

Effective July 3, 2008, the Company amended the Revolving Credit Facility to expand the capacity from $230.0 million to $335.0 million. This amendment added three additional lenders to the syndicate of lenders in the Revolving Credit Facility and increased the applicable margin under certain circumstances between 25 and 75 basis points.

Other provisions of the amended Revolving Credit Facility include:

- Interest at a floating rate equal to, at the Company's option, either: (a) reserve adjusted LIBOR plus a spread that ranges from 225 to 275 basis points, depending on the Company's leverage; or (b) the higher of the federal funds rate then in effect plus a spread of 50 basis points or the prime rate plus a spread that ranges from 25 to 75 basis points.
- $5.0 million sub-limits for swingline loans and letters of credit.
- A borrowing base that provides for an 85.0% initial advance rate for the purchase of qualified receivable portfolios. The borrowing base reduces for each qualifying portfolio by 3% per month beginning after the third complete month subsequent to the initial purchase. The aggregate borrowing base is equal to the lesser of (a) the sum of all of the borrowing bases of all qualified receivable portfolios under this facility, as defined above, or (b) 95% of the net book value of all receivable portfolios acquired on or after January 1, 2005.
- Restrictions and covenants, which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens.
- Events of default which, upon occurrence, may permit the lenders to terminate the Revolving Credit Facility and declare all amounts outstanding to be immediately due and payable.
- Collateralization by all assets of the Company.

At June 30, 2009, the outstanding balance on the Revolving Credit Facility was $279.0 million, which bore a weighted average interest rate of 3.84% and 3.92% for the three and six months ended June 30, 2009, respectively. The aggregate borrowing base as of June 30, 2009, was $303.8 million, of which $24.8 million was available for future borrowings.

Derivative Instruments

The Company entered into two separate interest rate swap agreements intended to manage interest rates more effectively by establishing a set level of fixed rates associated with a portion of the borrowings under its Revolving Credit Facility. Under the swap agreements, the Company receives floating interest rate payments and makes interest payments based on fixed interest rates. The first agreement is for a notional amount of $25.0 million, a term of three years and a fixed interest rate of 4.99%. The second agreement is for a notional amount of $25.0 million, a term of four years and a fixed interest rate of 5.01%. No credit spread was hedged. The Company intends to continue electing the one-month reserve-adjusted LIBOR as the benchmark interest rate on the debt being hedged through its term. The Company does not intend to repay the Revolving Credit Facility below the notional amounts of the interest rate swaps before the maturity of these swaps. In accordance with FAS 133, the Company designates its interest rate swap instruments as cash flow hedges.

FAS 133 requires companies to recognize derivative instruments as either an asset or liability measured at fair value in the statement of financial position. The effective portion of the change in fair value of the derivative instrument is recorded in other comprehensive income. The ineffective portion of the change in fair value of the derivative instrument, if any, is recognized in interest expense in the period of change. From the inception of the hedging program, the Company has determined that the hedging instruments are highly effective.

The following tables summarize the fair value and the effect of the interest rate swaps on the Company's statements of income *(in thousands):*

Fair Values of Derivative Instruments
Liability Derivatives

	As of June 30, 2009		As of December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under FAS 133				
Interest rate swaps	Other liabilities	$ 2,648	Other liabilities	$ 3,483

The Effect of Derivative Instruments on the Statements of Income for the Three and Six Months Ended June 30, 2009 and 2008

Periods Reported	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) 2009	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) 2008	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2009	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2008	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) 2009	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) 2008
Three months ended June 30	$ 528	$ 1,404	Interest expense	$ —	$ —	Other income (expense)	$ —	$ —
Six months ended June 30	$ 835	$ (26)	Interest expense	$ —	$ —	Other income (expense)	$ —	$ —

Capital Lease Obligations

The Company has capital lease obligations for certain computer equipment. These lease obligations require monthly payments that range from approximately $1,000 to $20,000 through June 2013 and have implicit interest rates that range from approximately 5.9% to 6.9%.

The Company finances certain leasehold improvement projects with its lessors in its Phoenix and St. Cloud facilities. As of June 30, 2009, the Company's combined obligation was approximately $1.1 million. These financing agreements require monthly principal and interest payments, accrue interest at 8% to 9% per annum and will mature in June and September 2013.

Note 8: Income Taxes

The Company recorded an income tax provision of $4.2 million, reflecting an effective rate of 38.5% of pretax income during the three months ended June 30, 2009. The effective tax rate for the three months ended June 30, 2009, consists primarily of a provision for federal income taxes of 32.3% (which is net of a benefit for state taxes of 2.7%), a provision for state taxes of 7.8%, the benefit of permanent book versus tax differences and a state refund of 1.6%. Effective January 1, 2009, the Company retrospectively adjusted its prior years' income tax provisions for the change in accounting principle related to its accounting for Convertible Notes. See Note 12 for additional information on the change in accounting principle. The adjusted income tax provision for the three months ended June 30, 2008, was $4.2 million, reflecting an effective rate of 40.7% of pretax income. The effective tax rate for the three months ended June 30, 2008, consists primarily of a provision for federal income taxes of 32.1% (which is net of a benefit for state taxes of 2.9%), a provision for state taxes of 8.2%, and a provision for the effect of permanent book verses tax differences of 0.4%.

The Company recorded an income tax provision of $10.1 million, reflecting an effective rate of 39.3% of pretax income during the six months ended June 30, 2009. The effective tax rate for the six months ended June 30, 2009, consists primarily of a provision for federal income taxes of 32.3% (which is net of a benefit for state taxes of 2.7%), a provision for state taxes of 7.8%, the benefit of permanent book versus tax differences and a state refund of 0.8%. Effective January 1, 2009, the Company retrospectively adjusted its prior years' income tax provisions for the change in accounting principle related to its accounting for Convertible Notes. See Note 12 for additional information on the change in accounting principle. The adjusted income tax provision for the six months ended June 30, 2008, was $8.7 million, reflecting an effective rate of 40.3% of pretax income. The effective tax rate for the six months ended June 30, 2008, consists primarily of a provision for federal income taxes of 32.1% (which is net of a benefit for state taxes of 2.9%), and a provision for state taxes of 8.2%.

Effective January 1, 2007, the Company adopted the provisions of Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). As of June 30, 2009, the Company had a gross unrecognized tax benefit of $1.2 million that, if recognized, would result in a net tax benefit of approximately $0.9 million and would have a positive effect on the Company's effective tax rate. During the three and six months ended June 30, 2009, there were no material changes to the unrecognized tax benefit.

For the three and six months ended June 30, 2009, the Company has not provided for the United States income taxes or foreign withholding taxes on the quarterly undistributed earnings from continuing operations of its subsidiary operating outside of the United States. Undistributed earnings of the subsidiary for the three and six months ended June 30, 2009, were approximately $0.2 million and $0.4 million, respectively. Such undistributed earnings are considered permanently reinvested.

The Company's subsidiary operating outside of the United States is currently operating under a tax holiday in India. The tax holiday is due to expire on March 31, 2010. The impact of the tax holiday on the Company's condensed consolidated financial statements is not material.

Note 9: Purchase Concentrations

The following table summarizes the concentration of our purchases by seller sorted by total aggregate costs *(in thousands, except percentages):*

	Concentration of Initial Purchase Cost by Seller for the Six Months Ended June 30, 2009	
	Cost	%
Seller 1	$ 42,379	30.7%
Seller 2	32,488	23.6%
Seller 3	28,063	20.3%
Seller 4	18,174	13.2%
Seller 5	5,585	4.0%
Other	11,257	8.2%
	$ 137,946	100.0%
Adjustments(1)	(1)	
Purchases, net	$ 137,945	

(1) Adjusted for Put-backs and Recalls.

Note 10: Commitments and Contingencies

Litigation

On October 18, 2004, Timothy W. Moser, one of the Company's former officers, filed an action in the United States District Court for the Southern District of California against the Company, and certain individuals, including several of the Company's officers and directors. On February 14, 2005, the Company was served with an amended complaint in this action alleging defamation, intentional interference with contractual relations, breach of contract, breach of the covenant of good faith and fair dealing, intentional and negligent infliction of emotional distress and civil conspiracy arising out of certain statements in the Company's Registration Statement on Form S-1, originally filed in September 2003, and alleged to be included in the Company's Registration Statement on Form S-3 originally filed in May 2004. The amended complaint seeks injunctive relief, economic and punitive damages in an unspecified amount plus an award of profits allegedly earned by the defendants and alleged co-conspirators as a result of the alleged conduct, in addition to attorney's fees and costs. On May 2, 2006, the court denied the Company's special motion to strike pursuant to California's anti-SLAPP statute, denied in part and granted in part the Company's motion to dismiss, denied a variety of *ex parte* motions and applications filed by the plaintiff and denied the plaintiff's motion for leave to conduct discovery or file supplemental briefing. The court granted the plaintiff 30 days in which to further amend his complaint, and on June 1, 2006, the plaintiff filed a second amended complaint in which he amended his claim for negligent infliction of emotional distress. On May 25, 2006, the Company filed a notice of appeal of the court's order denying the anti-SLAPP motion and on June 16, 2006, the Company filed a motion to stay the case pending the outcome of the appeal, which was granted. Oral argument on the appeal was heard on July 17, 2008, and on July 28, 2008, the appellate court affirmed the trial court's denial of the Company's anti-SLAPP motion. The appellate court denied the Company's request for a rehearing and the case has been returned to the district court where it is proceeding from the point at which it was stayed. Discovery is in the final stages and the parties have filed various motions. Management believes the claims are without merit and intends to defend the action vigorously. Although the outcome of this matter cannot be predicted with certainty, management does not currently believe that this matter will have a material adverse effect on the Company's consolidated financial position or results of operations.

On September 7, 2005, Mr. Moser filed a related action in the United States District Court for the Southern District of California against Triarc Companies, Inc. ("Triarc"), which at the time was a significant stockholder of the Company, alleging intentional interference with contractual relations and intentional infliction of emotional distress. The case arises out of the same statements made or alleged to have been made in the Company's Registration Statements mentioned above. On January 7, 2006, Triarc was served with an amended complaint seeking injunctive relief, an order directing Triarc to issue a statement of retraction or correction of the allegedly false statements, economic and punitive damages in an unspecified amount and attorney's fees and costs. Triarc tendered the defense of this action to the Company, and the Company accepted the defense and will indemnify Triarc, pursuant to the indemnification provisions of the Registration Rights Agreements dated as of October 31, 2000 and February 21, 2002, and the Underwriting Agreements dated September 25, 2004 and January 20, 2005 to which Triarc is a party. Although the outcome of this matter cannot be predicted with certainty, management does not currently believe that this matter will have a material adverse effect on the Company's consolidated financial position or results of operations.

Claims based on the Fair Debt Collection Practices Act ("FDCPA") and comparable state statutes may result in class action lawsuits, which can be material to the Company due to the remedies available under these statutes, including punitive damages. A number of cases styled as class actions have been filed against the Company. A class has been certified in several of these cases. Several of these cases present novel issues on which there is no legal precedent. As a result, the Company is unable to predict the range of possible outcomes. There are a number of other lawsuits, claims and counterclaims pending or threatened against the Company. In general, these lawsuits, claims or counterclaims have arisen in the ordinary course of business and involve claims for actual damages arising from alleged misconduct or improper reporting of credit information by the Company or its employees or agents. Although litigation is inherently uncertain, based on past experience, the information currently available and the possible availability of insurance and/or indemnification in some cases, management of the Company does not believe that the currently pending and threatened litigation or claims will have a material adverse effect on the Company's consolidated financial position or results of operations. However, future events or circumstances, currently unknown to management, will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on the Company's consolidated financial position, liquidity or results of operations in any future reporting periods.

Purchase Commitments

In the normal course of business, the Company enters into forward flow purchase agreements and other purchase commitment agreements. As of June 30, 2009, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately $1.8 billion for a purchase price of approximately $70.8 million. Certain of these agreements allow the Company to terminate the commitment with 60 days notice or by paying a one-time cancellation fee. The Company does not anticipate cancelling any of these commitments at this time. The Company has no purchase commitments extending past one year, except as discussed below.

In connection with the Company's acquisition of certain assets of Jefferson Capital in June 2005, the Company entered into a forward flow agreement to purchase a minimum of $3.0 billion in face value of credit card charge-offs over a five-year period at a fixed price.

On June 10, 2008, the Federal Trade Commission (the “FTC”) announced that it had sued Jefferson Capital and its parent company, CompuCredit Corporation, alleging, among other allegations, that Jefferson Capital and CompuCredit had violated the FTC Act with deceptive marketing practices when issuing credit cards. The FTC announced on December 19, 2008, that it had agreed to a settlement of the litigation with Jefferson Capital and CompuCredit, whereby those companies will credit approximately $114.0 million to certain customer accounts. Jefferson Capital and CompuCredit have advised the Company that a substantial number of the accounts affected by the settlement had been sold to the Company.

On July 15, 2008, the Company gave Jefferson Capital and CompuCredit Corporation, notice of breach by Jefferson Capital and CompuCredit of the Asset Purchase and Forward Flow Agreement dated June 2, 2005, as amended, as well as a related Balance Transfer Agreement dated the same date, based upon the actions noted in the FTC complaint and other claims. On July 16, 2008, the Company initiated arbitration as a result of the breach, pursuant to the arbitration provisions of the Agreements. The Company asserts that the litigation initiated by the FTC and related conduct violates the Asset Purchase and Forward Flow Agreement and Balance Transfer Agreement in several respects. The Company seeks an arbitral award that (i) Jefferson Capital and CompuCredit are in material breach of the Agreements, (ii) declares the Company’s obligations to purchase forward flow accounts under the Agreements is thereby excused or discharged, (iii) confirms the Company’s rights to cause Jefferson Capital to repurchase certain accounts previously sold to the Company under the Agreements, and other appropriate relief, including return of prepaid amounts relating to forward flow purchases, (iv) confirms the Company’s rights to indemnity by Jefferson Capital and CompuCredit and (v) awards compensatory damages, attorney fees, interest, arbitration costs and other appropriate relief.

Arbitrators have been identified and the proceeding continues in the discovery stage. The Company has ceased forward flow purchases of accounts from Jefferson Capital, the sale of bankrupt accounts to Jefferson Capital and participation in a balance transfer program with CompuCredit. The Company’s remaining purchase commitment at the time of the breach by Jefferson Capital was approximately $51.3 million. In response to the Notice of Breach from the Company, Jefferson Capital and CompuCredit delivered its own Notice of Default to the Company alleging the breach by the Company of the Company’s forward flow purchase, bankruptcy sale and balance transfer obligations and initiated a separate arbitration of the Company’s alleged breach of its bankruptcy sale obligations.

This matter continues to develop and any impact on the recoverability of the Company’s forward flow asset, currently stated at $10.3 million, is uncertain. The condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty. In accordance with the provisions of Statement of Financial Accounting Standard No. 144 *“Accounting for the Impairment or Disposal of Long-Lived Assets,”* the Company does not believe that the forward flow asset is impaired as a result of the arbitration.

Note 11: Securities Repurchase Program

On February 27, 2007, the Company’s board of directors authorized a securities repurchase program under which the Company may buy back up to $50.0 million (at cost) of a combination of its common stock and Convertible Notes. The purchases may be made from time to time in the open market or through privately negotiated transactions and will be dependent upon various business and financial considerations. Securities repurchases are subject to compliance with applicable legal requirements and other factors. During the six months ended June 30, 2009, the Company repurchased $28.5 million principal amount of its outstanding Convertible Notes, for a total price of $22.6 million, plus accrued interest. From the inception of the securities repurchase program, the Company has repurchased $57.1 million principal amount of its Convertible Notes, for a total cash payment of $42.4 million. The Company has not repurchased any common stock under this program.

Note 12: Change in Accounting Principle

Effective January 1, 2009, the Company adopted the provisions of FASB Staff Position No. APB 14-1 (“FSP APB 14-1”), *“Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).”* FSP APB 14-1 applies to convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, when the conversion option does not need to be bifurcated and accounted for separately as a derivative instrument in accordance with FAS 133.

FSP APB 14-1 requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash, must separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively. FSP APB 14-1 requires retrospective application and, accordingly, the prior periods’ financial statements included herein have been adjusted.

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Effect of Change in Accounting Principle to Consolidated Financial Statements

The 2008 condensed consolidated financial statements presented in this quarterly report have been retroactively adjusted to reflect the change in accounting principle related to the Company’s Convertible Notes. The following table provides the impact of FSP APB 14-1 on the 2008 condensed consolidated financial statements *(in thousands, except per share amounts):*

	As Previously Reported	As Adjusted by FSP APB 14-1	Effect of Change
Condensed Consolidated Statements of Financial Condition			
(As of December 31, 2008)			
Assets:			
Other assets(1)	$ 5,268	$ 5,049	$ (219)
Total assets	549,298	549,079	(219)
Liabilities:			
Deferred tax liabilities, net	$ 15,199	$ 15,108	$ (91)
Debt	311,319	303,655	(7,664)
Total liabilities	353,408	345,653	(7,755)
Stockholders’ equity:			
Additional paid-in capital	$ 79,971	$ 98,521	$ 18,550
Accumulated earnings	117,809	106,795	(11,014)
Total stockholders’ equity	195,890	203,426	7,536
Total liabilities and stockholders’ equity	549,298	549,079	(219)
Condensed Consolidated Statements of Income			
(Three months ended June 30, 2008)			
Interest expense	$ (3,583)	$ (4,831)	$ (1,248)
Gain on repurchase of convertible notes, net	1,417	707	(710)
Income before income taxes	12,345	10,387	(1,958)
Provision for income taxes	(5,015)	(4,225)	790
Net Income	7,330	6,162	(1,168)
Earnings Per Share:			
Basic	$ 0.32	$ 0.27	$ (0.05)
Diluted	0.31	0.26	(0.05)
(Six months ended June 30, 2008)			
Interest expense	$ (7,529)	$ (10,031)	$ (2,502)
Gain on repurchase of convertible notes, net	1,417	707	(710)
Income before income taxes	24,859	21,647	(3,212)
Provision for income taxes	(10,029)	(8,734)	1,295
Net Income	14,830	12,913	(1,917)
Earnings Per Share:			
Basic	$ 0.64	$ 0.56	$ (0.08)
Diluted	0.63	0.55	(0.08)
Condensed Consolidated Statements of Cash Flows			
(Six months ended June 30, 2008)			
Net Income	$ 14,830	$ 12,913	$ (1,917)
Amortization of loan costs and debt discount	608	3,110	2,502
Deferred income tax expense (benefit)	(10)	36	46
Change in prepaid income tax(1)	10,187	8,846	(1,341)
Gain on repurchase of convertible notes, net	(1,417)	(707)	710
Net cash provided by operating activities(1)	33,386	33,386	—

(1) Certain reclassifications other than the impact of FSP APB 14-1 have been made to conform to the current year’s presentation.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2008 contained in our 2008 Annual Report on Form 10-K. The Form 10-K contains a general description of our industry and a discussion of recent trends affecting the industry. Certain statements herein may constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 (the "Reform Act"), for which we claim the protection of the safe harbor of the Reform Act. See "Part II, Item 1A—Risk Factors" for more discussion on our forward-looking statements.

Introduction

We are a systems-driven purchaser and manager of charged-off consumer receivable portfolios and a provider of bankruptcy services to the finance industry. We acquire receivable portfolios at deep discounts from their face values using our proprietary valuation process that is based on the consumer attributes of the underlying accounts. Based upon the ongoing analysis of these accounts, we employ a dynamic mix of collection strategies to maximize our return on investment.

Market Overview

The United States and global economies are currently in a recession. In the U.S., the availability of credit is limited, unemployment rates are at 25-year highs, credit card charge-offs and delinquencies have reached a 20-year high increasing approximately 60% from second quarter 2008 levels, home foreclosures have dramatically increased and the housing market is experiencing a significant downturn. These conditions present both opportunities and challenges for Encore.

On the opportunities side, the increase in credit card charge-offs and delinquencies (which contribute to an increase in supply), combined with the challenges some of our competitors are facing in (i) generating sufficient returns on receivables they purchased in 2005 – 2007, when prices were high and (ii) obtaining sufficient capital to fund future purchases (which contributes to a decrease in demand) have resulted in a significant reduction in the market price for portfolios of charged-off receivables. For example, prices for fresh charge-offs (receivables that are sold immediately after charge-off) have declined from 8%—13% of face value in early 2008 to 5% - 8% of face value in early 2009. We have seen similar pricing declines across all ages of charge-offs and the decline is more pronounced in the resale market. While this is generally positive for our business, as a result of the significant price decline, some sellers of portfolios have chosen not to sell and, as an alternative to selling their charge-offs, have collected on accounts internally or placed accounts with third-party collection agencies. As such, the full impact the price reduction will have on our purchasing volumes is presently unclear.

On the challenges side, increases in unemployment, high foreclosure rates and the difficulties consumers are experiencing in obtaining credit may, for a period of time, negatively impact collections on receivables that we currently own or that we purchase during these challenging economic times. Despite these market conditions, during 2009, most of the collection metrics we track have remained relatively consistent, as compared to 2008. For example, payer rates and average payment size, adjusted for the change in single payment/payment plan mix, have remained relatively constant. One change we have noted is that more consumers are settling their debts through payment plans rather than in one-time settlements. While settlement rates remain consistent, payments made over longer periods of time impact our business in two ways. First, when payments are extended over longer periods of time rather than received up front, this delay in cash flows could result in a provision for impairment. This is because discounting a long-term payment stream using our pool group IRRs rather than discounting a one-time settlement payment using the same IRR will result in a lower net present value. As a result, even if the cash received through long-term payment plans is the same as the cash received through one-time settlements, accounting for the stream of payments under SOP 03-3 may result in a provision for impairment. Second, when debts are settled through payment plans, there is a possibility that consumers will not make all of the payments required by those plans. We refer to consumers who do not make all of their payments as "broken payers." When this happens, we are often successful in getting the consumer back on plan, but this is not always the case and, in those instances where we are unable to get the consumer back on plan, we experience a shortfall in collections. Despite the current economic environment, we have not experienced an increase in the broken payer rate in the first half of 2009 as compared to the same period in 2008. Please refer to Management's Discussion and Analysis – Revenue below for a more detailed explanation of the provision for impairment for the three and six months ended June 30, 2009.

As a result of the uncertainties presented by the current economic environment, we believe we are applying conservative assumptions when valuing portfolios for purchase and when establishing our forecasted collections. Additionally, while we believe that consumers who are currently charging off their debt (when economic conditions are bad) are more likely to recover faster than consumers who charged off their debt historically (when economic times were good), we have not factored any such recovery into our forecasts.

When evaluating the overall long-term returns of our business, we believe that the benefits resulting from the current lower portfolio pricing will outweigh the negative impacts from the collection shortfalls we may experience from a more distressed consumer. However, if the lower pricing environment re-attracts significant capital to our industry and prices are bid up, or if the ability of the consumer to repay their debt deteriorates further, our returns would be negatively impacted.

Purchases and Collections

Purchases by Paper Type

The following table summarizes the types of charged-off consumer receivable portfolios we purchased for the three and six months ended June 30, 2009 and 2008 *(in thousands):*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Credit card	$ 82,033	$ 40,165	$137,946	$ 85,445
Other	—	12,327	—	14,949
	$ 82,033	$ 52,492	$137,946	$100,394

During the three months ended June 30, 2009, we invested $82.0 million for portfolios with face values aggregating $1.9 billion for an average purchase price of 4.2% of face value. This is a $29.5 million increase, or 56.3%, in the amount invested, compared with the $52.5 million invested during the three months ended June 30, 2008, to acquire portfolios with a face value aggregating $1.8 billion for an average purchase price of 2.9% of face value. During the six months ended June 30, 2009, we invested $137.9 million for portfolios with face values aggregating $3.3 billion for an average purchase price of 4.2% of face value. This is a $37.5 million increase, or 37.4%, in the amount invested compared with the $100.4 million invested during the six months ended June 30, 2008, to acquire portfolios with a face value aggregating $3.0 billion for an average purchase price of 3.3% of face value. Average purchase price, as a percentage of face value, varies from period to period depending on, among other things, the quality of the accounts purchased and the length of time from charge off to the time we purchase the portfolios.

Collections by Channel

During the three and six months ended June 30, 2009 and 2008, we utilized several business channels for the collection of charged-off credit card receivables and other charged-off receivables. The following table summarizes gross collections by collection channel *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Collection sites	$ 44,680	$ 38,929	$ 95,022	$ 82,218
Legal collections	61,460	49,184	117,867	94,476
Collection agencies	15,506	10,009	23,173	20,970
Sales	727	3,633	1,544	7,847
Other	—	375	—	974
Gross collections for the period	$ 122,373	$ 102,130	$ 237,606	$ 206,485

Gross collections increased $20.3 million, or 19.8%, to $122.4 million during the three months ended June 30, 2009, from $102.1 million during the three months ended June 30, 2008.

Gross collections increased $31.1 million, or 15.1%, to $237.6 million during the six months ended June 30, 2009, from $206.5 million during the six months ended June 30, 2008.

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Results of Operations

Results of operations in dollars and as a percentage of revenue were as follows *(in thousands, except percentages)*:

	Three Months Ended June 30,			
	2009		2008 Adjusted[(1)]	
Revenue				
Revenue from receivable portfolios, net	$ 73,965	94.8%	$ 66,275	94.7%
Servicing fees and other related revenue	4,070	5.2%	3,745	5.3%
Total revenue	78,035	100.0%	70,020	100.0%
Operating expenses				
Salaries and employee benefits	14,762	18.9%	15,689	22.4%
Stock-based compensation expense	994	1.3%	1,228	1.8%
Cost of legal collections	28,626	36.7%	23,829	34.0%
Other operating expenses	6,598	8.5%	5,987	8.6%
Collection agency commissions	4,797	6.1%	3,781	5.4%
General and administrative expenses	7,097	9.1%	4,581	6.5%
Depreciation and amortization	620	0.8%	766	1.1%
Total operating expenses	63,494	81.4%	55,861	79.8%
Income before other (expense) income and income taxes	14,541	18.6%	14,159	20.2%
Other (expense) income				
Interest expense	(3,958)	(5.1)%	(4,831)	(6.9)%
Gain on repurchase of convertible notes	215	0.3%	707	1.0%
Other (expense) income	9	0.0%	352	0.5%
Total other expense	(3,734)	(4.8)%	(3,772)	(5.4)%
Income before income taxes	10,807	13.8%	10,387	14.8%
Provision for income taxes	(4,166)	(5.3)%	(4,225)	(6.0)%
Net income	$ 6,641	8.5%	$ 6,162	8.8%

	Six Months Ended June 30,			
	2009		2008 Adjusted[(1)]	
Revenue				
Revenue from receivable portfolios, net	$146,240	94.7%	$130,343	94.7%
Servicing fees and other related revenue	8,241	5.3%	7,231	5.3%
Total revenue	154,481	100.0%	137,574	100.0%
Operating expenses				
Salaries and employee benefits	28,719	18.6%	30,540	22.2%
Stock-based compensation expense	2,074	1.3%	2,322	1.7%
Cost of legal collections	58,573	37.9%	44,135	32.1%
Other operating expenses	12,578	8.1%	11,638	8.4%
Collection agency commissions	7,688	5.0%	7,812	5.7%
General and administrative expenses	12,794	8.3%	9,041	6.6%
Depreciation and amortization	1,243	0.8%	1,488	1.1%
Total operating expenses	123,669	80.0%	106,976	77.8%
Income before other (expense) income and income taxes	30,812	20.0%	30,598	22.2%
Other (expense) income				
Interest expense	(8,231)	(5.4)%	(10,031)	(7.3)%
Gain on repurchase of convertible notes	3,268	2.1%	707	0.5%

	Six Months Ended June 30, 2009		2008 Adjusted[1]	
Other (expense) income	(72)	(0.0)%	373	0.3%
Total other expense	(5,035)	(3.3)%	(8,951)	(6.5)%
Income before income taxes	25,777	16.7%	21,647	15.7%
Provision for income taxes	(10,139)	(6.7)%	(8,734)	(6.3)%
Net income	$ 15,638	10.0%	$12,913	9.4%

(1) Adjusted for change in accounting principle related to our convertible senior notes. See Note 12 to our unaudited condensed consolidated financial statements for additional information and the effect of the change in accounting principle to our financial statements.

Comparison of Results of Operations

Revenue

Our revenue consists primarily of portfolio revenue and bankruptcy servicing revenue. Portfolio revenue consists of accretion revenue and zero basis revenue. Accretion revenue represents revenue derived from pools (quarterly groupings of purchased receivable portfolios) with a cost basis that has not been fully amortized. Revenue from pools with a remaining unamortized cost basis is accrued based on each pool's effective interest rate applied to each pool's remaining unamortized cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and impairments. The effective interest rate is the internal rate of return derived from the timing and amounts of actual cash received and anticipated future cash flow projections for each pool. All collections realized after the net book value of a portfolio has been fully recovered ("Zero Basis Portfolios") are recorded as revenue ("Zero Basis Revenue"). We account for our investment in receivable portfolios utilizing the interest method in accordance with the provisions of the AICPA's Statement of Position 03-3, "*Accounting for Certain Debt Securities Acquired in a Transfer*" ("SOP 03-3"). Servicing fee revenue is revenue primarily associated with bankruptcy servicing fees earned from our subsidiary, Ascension Capital Group, Inc. ("Ascension"), a provider of bankruptcy services to the finance industry.

Effective January 1, 2008, we revised our Unified Collection Score ("UCS") and Behavioral Liquidation Score ("BLS") methodologies by extending our collection forecast from 72 months to 84 months. UCS is a proprietary forecasting tool that generates portfolio level expectations of liquidation for portfolios that we have owned and serviced for more than six months. BLS forecasts portfolio level expectations based on credit characteristics for portfolios owned and serviced less than six months. We have observed that receivable portfolios purchased in 2001 and prior have consistently experienced cash collections beyond 72 months from the date of purchase. When we first developed our cash forecasting models in 2001, limited historical collection data was available with which to accurately model projected cash flows beyond 60 months. During the quarter ended June 30, 2006, we determined there was enough additional collection data accumulated over the previous several years, in addition to improvements in our forecasting tools, allowing us to extend the collection forecast to 72 months. During the quarter ended March 31, 2008, we determined that there was enough additional collection data to accurately extend the collection forecast in both our UCS and BLS models to 84 months. The increase in the collection forecast from 72 to 84 months was applied, effective January 1, 2008, to each portfolio for which we could accurately forecast through such term and resulted in an increase in the aggregate total estimated remaining collections for the receivable portfolios by $67.3 million, or 7.5%, as of March 31, 2008. We did not extend the forecast on telecom portfolios as we do not anticipate significant collections past 72 months on these portfolios. The extension of the collection forecast is treated as a change in estimate and, in accordance with Statement of Financial Accounting Standard No. 154, "*Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No.3,*" is being recognized prospectively in our consolidated financial statements. This prospective treatment resulted in a reduction in our net impairment provision of $3.1 million and an increase in revenue of $0.1 million for the quarter ended March 31, 2008. The impact of the change in estimate resulted in an increase in net income of $1.9 million and an increase in fully diluted earnings per share of $0.08 for the quarter ended March 31, 2008.

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The following tables summarize collections, revenue, end of period receivable balance and other related supplemental data by year of purchase (*in thousands, except percentages*):

	For the Three Months Ended June 30, 2009					As of June 30, 2009	
	Collections(1)	Gross Revenue(2)	Revenue Recognition Rate(3)	Net (Impairment) Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR(4)
ZBA	$ 2,357	$ 2,357	100.0%	$ —	3.0%	$ —	—
2002	802	302	37.7%	100	0.4%	90	34.8%
2003	2,247	1,744	77.6%	—	2.2%	1,585	30.8%
2004	2,941	1,844	62.7%	(60)	2.3%	6,914	8.1%
2005	11,129	6,896	62.0%	(156)	8.8%	38,714	5.6%
2006	11,348	8,202	72.3%	(1,904)	10.5%	51,585	5.1%
2007	30,210	16,892	55.9%	(1,133)	21.5%	92,755	5.5%
2008	43,389	29,121	67.1%	(1,411)	37.1%	184,676	5.0%
2009	17,845	11,171	62.6%	—	14.2%	130,389	4.3%
Total	$ 122,268	$ 78,529	64.2%	$ (4,564)	100.0%	$ 506,708	5.1%

	For the Three Months Ended June 30, 2008					As of June 30, 2008	
	Collections(1)	Gross Revenue(2)	Revenue Recognition Rate(3)	Net (Impairment) Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR(4)
ZBA	$ 2,623	$ 2,623	100.0%	$ —	3.8%	$ —	—
2002	1,603	1,108	69.1%	140	1.6%	1,080	28.9%
2003	3,880	3,170	81.7%	(24)	4.5%	2,976	30.7%
2004	5,316	4,127	77.6%	(721)	5.9%	16,575	7.9%
2005	18,576	12,383	66.7%	(2,342)	17.8%	69,527	5.6%
2006	19,497	12,608	64.7%	(336)	18.1%	79,001	5.1%
2007	37,059	23,977	64.7%	(107)	34.4%	152,669	5.0%
2008	13,506	9,669	71.6%	—	13.9%	92,731	4.6%
Total	$ 102,060	$ 69,665	68.3%	$ (3,390)	100.0%	$ 414,559	5.4%

	For the Six Months Ended June 30, 2009					As of June 30, 2009	
	Collections(1)	Gross Revenue(2)	Revenue Recognition Rate(3)	Net (Impairment) Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR(4)
ZBA	$ 4,857	$ 4,857	100.0%	$ —	3.1%	$ —	—
2002	1,711	872	51.0%	253	0.6%	90	34.8%
2003	4,596	3,929	85.5%	(409)	2.5%	1,585	30.8%
2004	6,316	4,055	64.2%	(497)	2.6%	6,914	8.1%
2005	23,163	14,678	63.4%	(1,413)	9.4%	38,714	5.6%
2006	24,132	17,251	71.5%	(2,894)	11.0%	51,585	5.1%
2007	63,431	35,977	56.7%	(1,981)	23.0%	92,755	5.5%
2008	88,333	60,928	69.0%	(3,050)	39.0%	184,676	5.0%
2009	20,855	13,684	65.6%	—	8.8%	130,389	4.3%
Total	$ 237,394	$156,231	65.8%	$ (9,991)	100.0%	$ 506,708	5.1%

	For the Six Months Ended June 30, 2008					As of June 30, 2008	
	Collections[1]	Gross Revenue[2]	Revenue Recognition Rate[3]	Net (Impairment) Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR[4]
ZBA	$ 5,181	$ 5,181	100.0%	$ —	3.7%	$ —	—
2002	3,268	2,459	75.2%	71	1.8%	1,080	28.9%
2003	8,069	6,951	86.1%	(313)	4.9%	2,976	30.8%
2004	11,353	8,792	77.4%	(1,577)	6.3%	16,575	7.9%
2005	39,512	26,359	66.7%	(4,645)	19.0%	69,527	5.6%
2006	41,072	26,548	64.6%	(2,154)	19.1%	79,001	5.1%
2007	77,091	49,594	64.3%	(107)	35.7%	152,669	5.0%
2008	20,794	13,184	63.4%	—	9.5%	92,731	4.6%
Total	$ 206,340	$139,068	67.4%	$ (8,725)	100.0%	$ 414,559	5.4%

(1) Does not include amounts collected on behalf of others.

(2) Gross revenue excludes the effects of net impairment or net impairment reversals.

(3) Revenue recognition rate excludes the effects of net impairment or net impairment reversals.

(4) Our monthly IRR is calculated based on the weighted average of each pool's IRR relative to each pool's percentage of the unamortized balance for each year of purchase. Therefore, it is possible for the monthly IRR to be lower than that reported in the prior quarter due to this weighted average calculation.

Total revenue was $78.0 million for the three months ended June 30, 2009, an increase of $8.0 million, or 11.4%, compared to total revenue of $70.0 million for the three months ended June 30, 2008. Portfolio revenue was $74.0 million for the three months ended June 30, 2009, an increase of $7.7 million, or 11.6%, compared to portfolio revenue of $66.3 million for the three months ended June 30, 2008.

Total revenue was $154.5 million for the six months ended June 30, 2009, an increase of $16.9 million, or 12.3%, compared to total revenue of $137.6 million for the six months ended June 30, 2008. Portfolio revenue was $146.2 million for the six months ended June 30, 2009, an increase of $15.9 million, or 12.2%, compared to portfolio revenue of $130.3 million for the six months ended June 30, 2008.

The increase in portfolio revenue for the three and six months ended June 30, 2009, was primarily the result of additional accretion revenue associated with a higher portfolio balance during the three and six months ending June 30, 2009, compared to the three and six months ending June 30, 2008, respectively. During the three months ended June 30, 2009, we recorded a net impairment provision of $4.6 million, compared to a net impairment provision of $3.4 million during the same period in the prior year. During the six months ended June 30, 2009, we recorded a net impairment provision of $10.0 million, compared to a net impairment provision of $8.7 million during the same period in the prior year. The impairments for the three and six months ended June 30, 2009 and 2008, were primarily due to a shortfall in collections in certain pool groups against our forecast. While our total collections during the three and six months ended June 30, 2009 have met or exceeded our forecast, there is often variability at the pool group level between our actual collections and our forecasts. This is the result of several factors, including changes in internal operating strategy, shifts in consumer payment patterns and the inherent challenge of forecasting collections at the granular, pool group level.

Revenue associated with bankruptcy servicing fees earned from Ascension, was $4.0 million for the three months ended June 30, 2009, an increase of $0.3 million, or 8.6%, compared to revenue of $3.7 million for the three months ended June 30, 2008. Revenue associated with bankruptcy servicing fees earned from Ascension was $8.2 million for the six months ended June 30, 2009, an increase of $1.0 million, or 14.3%, compared to revenue of $7.2 million for the six months ended June 30, 2008. The increase in Ascension revenue for the three and six months ended June 30, 2009, is due to a slightly higher volume of bankruptcy placements.

Operating Expenses

Total operating expenses were $63.5 million for the three months ended June 30, 2009, an increase of $7.6 million, or 13.7%, compared to total operating expenses of $55.9 million for the three months ended June 30, 2008.

Total operating expenses were $123.7 million for the six months ended June 30, 2009, an increase of $16.7 million, or 15.6%, compared to total operating expenses of $107.0 million for the six months ended June 30, 2008.

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

Total salaries and employee benefits decreased by $0.9 million, or 5.9%, to $14.8 million during the three months ended June 30, 2009, from $15.7 million during the three months ended June 30, 2008. The decrease was primarily the result of a decrease of $0.8 million in compensation related expense, primarily due to a shift in our collection workforce from the United States to India and a change in our compensation plan structure, and a decrease of $0.2 million related to deferred compensation expense which was fully amortized in 2008, offset by an increase of $0.1 million in personnel severance costs.

Total salaries and employee benefits decreased by $1.9 million, or 6.0%, to $28.7 million during the six months ended June 30, 2009, from $30.6 million during the six months ended June 30, 2008. The decrease was primarily the result of a decrease of $2.0 million in compensation related expense, primarily due to a shift in our collection workforce from the United States to India and a change in our compensation plan structure, and a decrease of $0.3 million related to deferred compensation expense which was fully amortized in 2008, offset by an increase of $0.2 million in personnel severance costs and an increase of $0.4 million in health related expenses.

Stock-Based Compensation Expenses

Stock-based compensation expense decreased by $0.2 million, or 19.1%, to $1.0 million during the three months ended June 30, 2009, from $1.2 million for the three months ended June 30, 2008. This decrease was a result of fewer grants and the decreased fair value of stock options granted in recent years.

Stock-based compensation expense decreased by $0.2 million, or 10.7%, to $2.1 million during the six months ended June 30, 2009, from $2.3 million for the six months ended June 30, 2008. This decrease was a result of fewer grants and the decreased fair value of stock options granted in recent years.

Cost of Legal Collections

The cost of legal collections increased $4.8 million, or 20.1%, to $28.6 million during the three months ended June 30, 2009, compared to $23.8 million during the three months ended June 30, 2008. These costs represent contingent fees paid to our nationwide network of attorneys and costs of litigation. The increase in the cost of legal collections was primarily the result of an increase of $12.3 million, or 25.0%, in gross collections through our legal channel and upfront litigation costs. Gross legal collections amounted to $61.5 million during the three months ended June 30, 2009, up from $49.2 million collected during the three months ended June 30, 2008. The cost of legal collections decreased as a percent of gross collections through this channel to 46.6% during the three months ended June 30, 2009, from 48.4% during the three months ended June 30, 2008, primarily due to a decrease in upfront court costs expense, as a percentage of collections, associated with our pursuit of legal collections.

The cost of legal collections increased $14.5 million, or 32.7%, to $58.6 million during the six months ended June 30, 2009, compared to $44.1 million during the six months ended June 30, 2008. These costs represent contingent fees paid to our nationwide network of attorneys and costs of litigation. The increase in the cost of legal collections was primarily the result of an increase of $23.4 million, or 24.8%, in gross collections through our legal channel and upfront litigation costs. Gross legal collections amounted to $117.9 million during the six months ended June 30, 2009, compared to $94.5 million collected during the six months ended June 30, 2008. The cost of legal collections as a percent of gross collections through this channel increased to 49.7% during the six months ended June 30, 2009, from 46.7% during the six months ended June 30, 2008, due to an increase in upfront court costs expensed, as a percentage of collections, (and an increase in total dollars expensed) associated with our pursuit of legal collections.

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The following table summarizes our external collection channel performance and related direct costs *(in thousands, except percentages)*:

	Legal Collections and related costs Three Months Ended June 30,				Legal Collections and related costs Six Months Ended June 30,			
	2009		2008		2009		2008	
Collections	$61,460	100.0%	$49,184	100.0%	$117,867	100.0%	$ 94,476	100.0%
Court costs advanced	15,576	25.3%	15,278	31.0%	35,839	30.4%	29,173	30.8%
Court costs deferred	(5,023)	(8.1)%	(6,063)	(12.3)%	(11,983)	(10.2)%	(13,156)	(13.9)%
Court cost expense(1)	10,553	17.2%	9,215	18.7%	23,856	20.2%	16,017	16.9%
Other(2)	484	0.8%	445	0.9%	1,028	0.9%	1,133	1.2%
Commissions	17,589	28.6%	14,169	28.8%	33,689	28.6%	26,985	28.6%
Total Costs	$28,628	46.6%	$23,829	48.4%	$ 58,573	49.7%	$ 44,135	46.7%

(1) In connection with our agreement with contracted attorneys, we advance certain out-of-pocket court costs. We capitalize these costs in our consolidated financial statements and provide a reserve and corresponding court cost expense for the costs that we believe will be ultimately uncollectible. This amount includes changes in our anticipated recovery rate of court costs expensed.

(2) Other costs consist of costs related to counter claims and legal network subscription fees.

Other Operating Expenses

Other operating expenses increased $0.6 million, or 10.2%, to $6.6 million during the three months ended June 30, 2009, from $6.0 million during the three months ended June 30, 2008. The increase was primarily the result of an increase of $0.4 million in skip tracing expenses and an increase of $0.5 million in direct mail campaign expenses. The increase was partially offset by a net decrease of $0.3 million in various other operating expenses.

Other operating expenses increased $1.0 million, or 8.1%, to $12.6 million during the six months ended June 30, 2009, from $11.6 million during the six months ended June 30, 2008. The increase was primarily the result of an increase of $0.3 million in skip tracing expenses, an increase of $0.5 million in direct mail campaign expenses and an increase of $0.4 million in Ascension legal expense. The increase was partially offset by a net decrease of $0.2 million in various other operating expenses.

Collection Agency Commissions

During the three months ended June 30, 2009, we incurred $4.8 million in commissions to third party collection agencies, or 30.9% of the related gross collections of $15.5 million compared to $3.8 million in commissions, or 37.8% of the related gross collections of $10.0 million, during the three months ended June 30, 2008. The increase in commissions was due to the increase in collections through this channel, partially offset by a lower net commission rate. The decrease in the net commission rate as a percentage of the related gross collections was primarily due to the mix of accounts placed with the agencies. Commissions, as a percentage of collections in this channel, vary from period to period depending on, among other things, the time from charge-off of the accounts placed with an agency. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time. During the three months ended June 30, 2009, the Company placed more freshly charged-off accounts with the agencies as compared to the same period in the prior year.

During the six months ended June 30, 2009, we incurred $7.7 million in commissions to third party collection agencies, or 33.2% of the related gross collections of $23.2 million, compared to $7.8 million in commissions, or 37.3% of the related gross collections of $21.0 million, during the six months ended June 30, 2008. The decrease in commissions was due to the decreased commission driven by a lower net commission rate, partially offset by increased collections through this channel. The decrease in the net commission rate as a percentage of the related gross collections was primarily due to the mix of accounts placed with the agencies. Commissions, as a percentage of collections in this channel, vary from period to period depending on, among other things, the time from charge-off of the accounts placed with an agency. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time. During the six months ended June 30, 2009, the Company placed more freshly charged-off accounts with the agencies as compared to the same period in the prior year.

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General and Administrative Expenses

General and administrative expenses increased $2.5 million, or 54.9%, to $7.1 million during the three months ended June 30, 2009, from $4.6 million during the three months ended June 30, 2008. The increase was primarily the result of an increase of $2.2 million in corporate legal expenses related primarily to our Jefferson Capital arbitration and an increase of $0.4 million in building rent primarily in India where we are in the process of developing a larger site as described below under India Expansion. The increase was partially offset by a net decrease of $0.1 million in other general and administrative expenses.

General and administrative expenses increased $3.8 million, or 41.5%, to $12.8 million during the six months ended June 30, 2009, from $9.0 million during the six months ended June 30, 2008. The increase was primarily the result of an increase of $3.6 million in corporate legal expenses related primarily to our Jefferson Capital arbitration and an increase of $0.2 million in building rent.

Depreciation and Amortization

Depreciation and amortization expense decreased $0.2 million, or 19.1%, to $0.6 million during the three months ended June 30, 2009, from $0.8 million during the three months ended June 30, 2008. Depreciation expense was $0.4 million for the three months ended June 30, 2009, compared to $0.6 million for the three months ended June 30, 2008. Amortization expense relating to intangible assets acquired in conjunction with the acquisition of Ascension remained consistent at $0.2 million for the three months ended June 30, 2009 and 2008.

Depreciation and amortization expense decreased $0.3 million, or 16.5%, to $1.2 million during the six months ended June 30, 2009, from $1.5 million during the six months ended June 30, 2008. Depreciation expense was $0.9 million for the six months ended June 30, 2009, compared to $1.1 million for the six months ended June 30, 2008. Amortization expense relating to intangible assets acquired in conjunction with the acquisition of Ascension was $0.3 million for the six months ended June 30, 2009, compared to $0.4 million for the six months ended June 30, 2008.

Cost per Dollar Collected

The following table summarizes our cost per dollar collected *(in thousands, except percentages*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Gross collections	$ 122,373	$ 102,130	$ 237,606	$ 206,485
Operating expenses[1]	$ 59,046	$ 51,057	$ 114,755	$ 98,340
Cost per dollar collected	48.3%	50.0%	48.3%	47.6%

(1) Represent all operating expenses excluding stock-based compensation expense ($1.0 million and $1.2 million for the three months ended June 30, 2009 and 2008, and $2.1 million and $2.3 million for the six months ended June 30, 2009 and 2008, respectively) and costs related to Ascension ($3.5 million and $3.6 million for the three months ended June 30, 2009 and 2008, $6.3 million and $6.8 million for the six months ended June 30, 2009 and 2008, respectively).

During the three months ended June 30, 2009, cost per dollar collected decreased to 48.3% of gross collections from 50.0% of gross collections during the three months ended June 30, 2008. This decrease was primarily due to several factors, including:

- salaries and employee benefits, as a percentage of total collections, decreased 2.9% from 13.3% to 10.4%, primarily due to a shift in our collection workforce from the United States to India and a change in our compensation plan structure
- general and administrative expenses, as a percentage of total collections, increased 1.4% from 4.2% to 5.6%, primarily due to an increase of $2.2 million in corporate legal expenses related primarily to our Jefferson Capital arbitration

During the six months ended June 30, 2009, cost per dollar collected increased to 48.3% of gross collections from 47.6% of gross collections during the six months ended June 30, 2008. This increase was primarily due to several factors, including:

- salaries and employee benefits, as a percentage of total collections, decreased 2.6% from 13.0% to 10.4%, primarily due to a shift in our collection workforce from the United States to India and a change in our compensation plan structure
- collection agency commissions, as a percentage of total collections, decreased 0.6% from 3.8% to 3.2%, primarily due to a decrease in the net commission rate paid to agencies
- cost of legal collections, as a percentage of total collections, increased 3.3% from 21.4% to 24.7%, primarily due to an increase in upfront court costs expensed, associated with our pursuit of legal collections
- general and administrative expenses, as a percentage of total collections, increased 1.1% from 4.1% to 5.2%, primarily due to an increase of $3.6 million in corporate legal expenses related primarily to our Jefferson Capital arbitration

India Expansion

Due to the strong performance of our team in India and our ability to reduce our overall site cost to collect through the expansion of our offshore collection efforts, on April 22, 2009, we signed a lease for a new, larger site in India. This facility, which is close to our existing site in Gurgaon, India, will allow us to expand our collector headcount from approximately 350 (capacity at our current site) to 1,100. Over the next several months we will be building out this new facility and expect to occupy it in October 2009. During this period, we will incur lease costs at our existing and new sites, which will result in incremental lease expense totaling approximately $1.0 million for the period April 2009 through October 2009. Additionally, there will be costs associated with expanding our workforce in India.

Our plan is to continue to maintain headcount at current levels in our domestic collection sites and focus our future growth on India. As we ramp up headcount in our new, larger India site and migrate more of our collections there, we expect that our overall variable cost to collect will increase and our overall collector productivity will decline. Once we are fully ramped up, we expect that this expansion will have a positive long-term impact on both our overall cost to collect and our productivity.

Interest Expense

Total interest expense decreased $0.8 million, or 17.7%, to $4.0 million during the three months ended June 30, 2009, from $4.8 million during the three months ended June 30, 2008.

Total interest expense decreased $1.8 million, or 17.8%, to $8.2 million during the six months ended June 30, 2009, from $10.0 million during the six months ended June 30, 2008.

The following tables summarize our interest expense *(in thousands, except percentages):*

	For the Three Months Ended June 30,			
	2009	2008 Adjusted	$ Change	% Change
Stated interest on debt obligations	$3,019	$ 3,289	$ (270)	(8.2)%
Amortization of loan fees and other loan costs	289	252	37	14.7%
Amortization of debt discount – convertible notes	650	1,290	(640)	(49.6)%
Total interest expense	$3,958	$ 4,831	$ (873)	(18.1)%

	For the Six Months Ended June 30,			
	2009	2008 Adjusted	$ Change	% Change
Stated interest on debt obligations	$6,071	$ 6,921	$ (850)	(12.3)%
Amortization of loan fees and other loan costs	600	521	79	15.2%
Amortization of debt discount – convertible notes	1,560	2,589	(1,029)	(39.7)%
Total interest expense	$8,231	$10,031	$ (1,800)	(17.9)%

Interest expense during the three and six months ended June 30, 2008 was retrospectively adjusted as a result of a change in accounting principle. Effective January 1, 2009, we adopted FASB Staff Position APB 14-1, (“FSP APB 14-1”) *“Accounting for*

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Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." In accordance with the provisions of FSP APB 14-1, we adjusted our prior years' financial statements to separately account for the liability and equity components of our convertible senior notes in a manner that reflects our nonconvertible debt borrowing rate at the time of the issuance. As a result, we created a debt discount for our convertible senior notes and incurred additional interest expense due to the amortization of debt discount. See Note 12 to our unaudited condensed consolidated financial statements for a further discussion of this change in accounting principle.

The following table summarizes the impact of adopting FSP APB 14-1 on our interest expense, net debt balance and total stockholders' equity related to our Convertible Notes during the previous reporting periods *(in thousands):*

	Interest Expense For the Three Months ended		Net Convertible Note Balance		Total Stockholders' Equity	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
September 30, 2005	$ 101	$ 230	$ 100,000	$ 73,347	$ 111,078	$ 137,211
December 31, 2005	842	1,914	100,000	74,419	118,352	143,439
March 31, 2006	857	1,912	100,000	75,474	125,890	149,948
June 30, 2006	844	1,942	100,000	76,572	135,296	158,282
September 30, 2006	844	1,963	100,000	77,691	142,561	164,454
December 31, 2006	844	2,031	100,000	78,878	151,136	171,870
March 31, 2007	844	2,011	100,000	80,045	158,137	177,730
June 30, 2007	844	2,059	100,000	81,260	159,675	178,079
September 30, 2007	844	2,081	100,000	82,497	166,042	183,235
December 31, 2007	844	2,150	100,000	83,803	171,520	187,435
March 31, 2008	844	2,143	100,000	85,102	179,804	194,446
June 30, 2008	809	2,099	95,000	82,124	189,987	202,644
September 30, 2008	801	2,103	95,000	83,426	195,248	206,628
December 31, 2008	704	1,920	71,422	63,758	195,890	203,426

Stated interest on debt obligations decreased $0.3 million during the three months ended June 30, 2009, as compared to the same period in the prior year. Stated interest on debt obligations decreased $0.9 million during the six months ended June 30, 2009, as compared to the same period in the prior year. The decreases in stated interest on debt obligations for the three and six months ended June 30, 2009, were primarily due to decreases in our variable interest rate on our Revolving Credit Facility and decreased stated interest expense on our convertible senior notes due to a reduced principal balance as a result of buybacks of a portion of our convertible senior notes, offset by increases in amounts borrowed under our Revolving Credit Facility to fund our purchases of receivable portfolios and general working capital needs.

Other Income and Expense

During the three months ended June 30, 2009, total other income was less than $0.1 million, compared to other income of $0.4 million during the three months ended June 30, 2008. The other income of $0.4 million during the three months ended June 30, 2008, was primarily attributable to a $0.3 million gain recognized in connection with the early termination of a contract.

During the six months ended June 30, 2009, total other expense was less than $0.1 million, compared to other income of $0.4 million for the six months ended June 30, 2008. The other income of $0.4 million during the three months ended June 30, 2008, was primarily attributable to a $0.3 million gain recognized in connection with the early termination of a contract.

Provision for Income Taxes

During the three months ended June 30, 2009, we recorded an income tax provision of $4.2 million, reflecting an effective tax rate of 38.5% of pretax income. Our effective tax rate for the three months ended June 30, 2009, differed from the federal statutory rate, primarily due to the net effect of state taxes, the effect of permanent book versus tax differences and a state tax refund. Effective January 1, 2009, we retrospectively adjusted our prior years' income tax provisions upon adoption of FSP APB 14-1. See interest expense above and Note 12 to our unaudited condensed consolidated financial statements for a further discussion of the change in accounting principle related to the adoption of FSP APB 14-1. The adjusted income tax provision for the three months ended June 30, 2008, was $4.2 million, which reflected an effective rate of 40.7% of pretax income. Our effective tax rate for the three months ended June 30, 2008, differed from the federal statutory rate primarily due to the net effect of state taxes and the effect of permanent book versus tax differences.

During the six months ended June 30, 2009, we recorded an income tax provision of $10.1 million, reflecting an effective tax rate of 39.3% of pretax income. Our effective tax rate for the six months ended June 30, 2009, differed from the federal statutory rate primarily due to the net effect of state taxes, the benefit of permanent book verses tax differences and a state tax refund. For the six months ended June 30, 2008, as a result of adopting FSP APB 14-1, we retrospectively adjusted our income tax provision to $8.7 million, reflecting an effective rate of 40.7% of pretax income. Our effective tax rate for the six months ended June 30, 2008, differed from the federal statutory rate primarily due to the net effect of state taxes. See Note 8 to the unaudited condensed consolidated financial statements for a further discussion of income taxes.

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Supplemental Performance Data

Cumulative Collections to Purchase Price Multiple

The following table summarizes our purchases and related gross collections by year of purchase *(in thousands, except multiples):*

		Cumulative Collections through June 30, 2009										
Year of Purchase	**Purchase Price[1]**	**<2002**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**Total[2]**	**CCM[3]**
<2000	$ 89,829[4]	$ 159,511	$ 31,266	$ 19,054	$ 12,856	$ 7,199	$ 5,026	$ 2,943	$ 1,650	$ 723	$ 240,228	2.7
2000	6,153	12,661	4,542	4,377	2,293	1,323	1,007	566	324	137	27,230	4.4
2001	38,186	21,197	54,184	33,072	28,551	20,622	14,521	5,644	2,984	1,074	181,849	4.8
2002	61,494	—	48,322	70,227	62,282	45,699	33,694	14,902	7,922	2,737	285,785	4.6
2003	88,507	—	—	59,038	86,958	69,932	55,131	26,653	13,897	4,603	316,212	3.6
2004	101,333	—	—	—	39,400	79,845	54,832	34,625	19,116	6,316	234,134	2.3
2005	192,593	—	—	—	—	66,491	129,809	109,078	67,346	23,362	396,086	2.1
2006	141,991	—	—	—	—	—	42,354	92,265	70,743	24,132	229,494	1.6
2007	204,331	—	—	—	—	—	—	68,048	145,272	63,433	276,753	1.4
2008	228,272	—	—	—	—	—	—	—	69,049	89,670	158,719	0.7
2009	137,560	—	—	—	—	—	—	—	—	21,207	21,207	0.2
Total	$ 1,290,249	$ 193,369	$ 138,314	$ 185,768	$ 232,340	$ 291,111	$ 336,374	$ 354,724	$ 398,303	$ 237,394	$ 2,367,697	1.8

(1) Adjusted for put-backs, account recalls, purchase price rescissions, and the impact of an acquisition in 2000. Put-backs represent accounts that are returned to the seller in accordance with the respective purchase agreement ("Put-Backs"). Recalls represents accounts that are recalled by the seller in accordance with the respective purchase agreement ("Recalls").

(2) Cumulative collections from inception through June 30, 2009.

(3) Cumulative Collections Multiple ("CCM") through June 30, 2009 – collections as a multiple of purchase price.

(4) From inception through December 31, 1998.

Total Estimated Collections to Purchase Price Multiple

The following table summarizes our purchases, resulting historical gross collections and estimated remaining gross collections, by year of purchase *(in thousands, except multiples)*:

	Purchase Price[1]	**Historical Gross Collections[2]**	**Estimated Remaining Collections [3]**	**Total Estimated Gross Collections**	**Total Estimated Gross Collections to Purchase Price**
<2000	$ 89,829[4]	$ 240,228	$ 46	$ 240,274	2.7
2000	6,153	27,230	34	27,264	4.4
2001	38,186	181,849	561	182,410	4.8
2002	61,494	285,785	1,376	287,161	4.7
2003	88,507	316,212	5,541	321,753	3.6
2004	101,333	234,134	13,545	247,679	2.4
2005	192,593	396,086	77,819	473,905	2.5
2006	141,991	229,494	116,951	346,445	2.4
2007	204,331	276,753	200,635	477,388	2.3
2008	228,272	158,719	424,162	582,881	2.6
2009	137,560	21,207	303,610	324,817	2.4
Total	$ 1,290,249	$ 2,367,697	$ 1,144,280	$ 3,511,977	2.7

(1) Adjusted for Put-Backs, Recalls, purchase price rescissions, and the impact of an acquisition in 2000.

(2) Cumulative collections from inception through June 30, 2009.

(3) Includes $0.6 million in expected collections for the healthcare portfolios on cost recovery.

(4) From inception through December 31, 1998.

Estimated Remaining Gross Collections by Year of Purchase

The following table summarizes our estimated remaining gross collections by year of purchase *(in thousands)*:

	Estimated Remaining Gross Collections by Year of Purchase								
	2009[2]	2010	2011	2012	2013	2014	2015	2016	Total
<2000[1]	$ 46	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 46
2000[1]	34	—	—	—	—	—	—	—	34
2001[1]	461	100	—	—	—	—	—	—	561
2002[1]	1,068	256	52	—	—	—	—	—	1,376
2003[1]	3,104	2,437	—	—	—	—	—	—	5,541
2004	4,959	6,450	2,136	—	—	—	—	—	13,545
2005	18,916	31,330	20,366	7,207	—	—	—	—	77,819
2006	20,541	38,174	28,036	20,317	9,883	—	—	—	116,951
2007	48,064	65,955	40,833	26,636	15,089	4,058	—	—	200,635
2008	78,619	137,358	88,896	56,447	35,861	20,057	6,924	—	424,162
2009	48,437	90,498	67,907	42,011	27,004	16,174	9,665	1,914	303,610
Total	$224,249	$372,558	$248,226	$152,618	$87,837	$40,289	$16,589	$1,914	$1,144,280

(1) Estimated remaining collections for Zero Basis Portfolios can extend beyond the 84-month accrual basis collection forecast.

(2) 2009 amount consists of data for the six-month period, from July 1, 2009 to December 31, 2009.

Unamortized Balances of Portfolios

The following table summarizes the remaining unamortized balances of our purchased receivable portfolios by year of purchase, as of June 30, 2009 *(in thousands, except percentages)*:

	Unamortized Balance as of June 30, 2009[1]	Purchase Price[2]	Unamortized Balance as a Percentage of Purchase Price	Unamortized Balance as a Percentage of Total
2002	$ 90	$ 61,494	0.1%	0.0%
2003	1,585	88,507	1.8%	0.3%
2004	6,914	101,333	6.8%	1.5%
2005	38,714	192,593	20.1%	7.6%
2006	51,585	141,991	36.3%	10.2%
2007	92,755	204,331	45.4%	18.3%
2008	184,676	228,272	80.9%	36.4%
2009	130,389	137,560	94.8%	25.7%
Total	$ 506,708	$ 1,156,081	43.8%	100.0%

(1) Includes $0.6 million for healthcare portfolios being accounted for on the cost recovery method.

(2) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put-Backs, plus an allocation of our forward flow asset (if applicable), and less the purchase price for accounts that were sold at the time of purchase to another debt purchaser.

Changes in Investment in Receivable Portfolios

Revenue related to our investment in receivable portfolios comprises two groups: first, revenue from those portfolios that have a remaining book value and are accounted for on the accrual basis ("Accrual Basis Portfolios"), and second, revenue from those portfolios that have fully recovered their book value Zero Basis Portfolios and, therefore, every dollar of gross collections is recorded entirely as Zero Basis Revenue. If the amount and timing of future cash collections on a pool of receivables are not reasonably estimable, we account for such portfolios on the cost recovery method ("Cost Recovery Portfolios"). No revenue is recognized on Cost Recovery Portfolios until the cost basis has been fully recovered, at which time they become Zero Basis Portfolios.

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The following tables summarize the changes in the balance of the investment in receivable portfolios and the proportion of revenue recognized as a percentage of collections *(in thousands, except percentages):*

	For the Three Months Ended June 30, 2009			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 472,875	$ 609	$ —	$ 473,484
Purchases of receivable portfolios	82,033	—	—	82,033
Gross collections[1]	(119,823)	(56)	(2,389)	(122,268)
Put-backs and recalls	(506)	—	—	(506)
Revenue recognized	76,172	—	2,357	78,529
Impairment, net	(4,596)	—	32	(4,564)
Balance, end of period	$ 506,155	$ 553	$ —	$ 506,708
Revenue as a percentage of collections[2]	63.6%	0.0%	98.7%	64.2%

	For the Three Months Ended June 30, 2008			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 396,775	$ 1,432	$ —	$ 398,207
Purchases of receivable portfolios	52,492	—	—	52,492
Gross collections[1]	(99,306)	(131)	(2,623)	(102,060)
Put-backs and recalls	(357)	2	—	(355)
Revenue recognized[3]	67,042	—	2,623	69,665
Impairment, net [3]	(3,390)	—	—	(3,390)
Balance, end of period	$ 413,256	$ 1,303	$ —	$ 414,559
Revenue as a percentage of collections[2]	67.5%	0.0%	100.0%	68.3%

	For the Six Months Ended June 30, 2009			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 460,598	$ 748	$ —	$ 461,346
Purchases of receivable portfolios	137,946	—	—	137,946
Gross collections[1]	(232,314)	(195)	(4,885)	(237,394)
Put-backs and recalls	(1,426)	—	(4)	(1,430)
Revenue recognized	151,374	—	4,857	156,231
Impairment, net	(10,023)	—	32	(9,991)
Balance, end of period	$ 506,155	$ 553	$ —	$ 506,708
Revenue as a percentage of collections[2]	65.2%	0.0%	99.4%	65.8%

	For the Six Months Ended June 30, 2008			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 390,564	$ 1,645	$ —	$ 392,209
Purchases of receivable portfolios	100,394	—	—	100,394
Gross collections[1]	(200,829)	(330)	(5,181)	(206,340)
Put-backs and recalls	(2,035)	(12)	—	(2,047)
Revenue recognized[3]	133,887	—	5,181	139,068
Impairment, net [3]	(8,725)	—	—	(8,725)
Balance, end of period	$ 413,256	$ 1,303	$ —	$ 414,559
Revenue as a percentage of collections[2]	66.7%	0.0%	100.0%	67.4%

(1) Does not include amounts collected on behalf of others.

(2) Revenue as a percentage of collections excludes the effects of net impairment or net impairment reversals.

(3) Reflects additional revenue of $0.1 million and a lower net impairment of $3.1 million, as a result of extending the collection curves from 72 to 84 months.

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As of June 30, 2009, we had $506.7 million in investment in receivable portfolios. This balance will be amortized based upon current projections of cash collections in excess of revenue applied to the principal balance. The estimated amortization of the investment in receivable portfolio balance is as follows *(in thousands)*:

For the Years Ended December 31,	Amortization
2009[(1)]	72,385
2010	149,752
2011	115,676
2012	77,913
2013	50,836
2014	25,761
2015	12,592
2016	1,793
Total	$ 506,708

(1) 2009 amount consists of data for the six-month period from July 1, 2009 to December 31, 2009.

Analysis of Changes in Revenue

The following tables analyze the components of the increase in revenue from our receivable portfolios for the three and six months ended June 30, 2009, compared to the three and six months ended June 30, 2008 *(in thousands, except percentages)*:

	For The Three Months Ended June 30,			
Variance Component	2009	2008	Change	Revenue Variance
Average portfolio balance	$468,442	$398,680	$69,762	$11,731
Weighted average effective interest rate[(1)]	65.0%	67.3%	(2.3)%	(2,601)
Zero basis revenue	$ 2,357	$ 2,623		(266)
Net impairment	$ (4,564)	$ (3,390)		(1,174)
Total variance				$ 7,690

	For The Six Months Ended June 30,			
Variance Component	2009	2008	Change	Revenue Variance
Average portfolio balance	$459,396	$396,358	$63,038	$21,294
Weighted average effective interest rate[(1)]	65.9%	67.6%	(1.7)%	(3,807)
Zero basis revenue	$ 4,857	$ 5,181		(324)
Net impairment	$ (9,991)	$ (8,725)		(1,266)
Total variance				$15,897

(1) For accrual basis portfolios, the weighted average annualized effective interest rate is the accrual rate utilized in recognizing revenue on our accrual basis portfolios. This rate represents the monthly internal rate of return, which has been annualized utilizing the simple interest method. The monthly internal rate of return is determined based on the timing and amounts of actual cash received to date and the anticipated future cash flow projections for each pool.

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Collections by Channel

We utilize numerous business channels for the collection of charged-off credit cards and other receivables. The following table summarizes the gross collections by collection channel *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Collection sites	$ 44,680	$ 38,929	$ 95,022	$ 82,218
Legal collections	61,460	49,184	117,867	94,476
Collection agencies	15,506	10,009	23,173	20,970
Sales	727	3,633	1,544	7,847
Other	—	375	—	974
Gross collections for the period	$122,373	$102,130	$237,606	$206,485

External Collection Channels and Related Direct Costs

The following tables summarize our external collection channel performance and related direct costs *(in thousands, except percentages)*:

	Legal Collections Three Months Ended June 30,				Collection Agencies Three Months Ended June 30,			
	2009		2008		2009		2008	
Collections	$61,460	100.0%	$49,184	100.0%	$15,506	100.0%	$10,009	100.0%
Commissions	$17,589	28.6%	$14,169	28.8%	$ 4,797	30.9%	$ 3,781	37.8%
Court cost expense(1)	10,553	17.2%	9,215	18.7%	—	—	—	—
Other(2)	484	0.8%	445	0.9%	—	—	—	—
Total Costs	$28,626	46.6%	$23,829	48.4%	$ 4,797	30.9%	$ 3,781	37.8%

	Legal Collections Six Months Ended June 30,				Collection Agencies Six Months Ended June 30,			
	2009		2008		2009		2008	
Collections	$117,867	100.0%	$94,476	100.0%	$23,173	100.0%	$20,970	100.0%
Commissions	$ 33,689	28.6%	$26,985	28.6%	$ 7,688	33.2%	$ 7,812	37.3%
Court cost expense(1)	23,856	20.2%	16,017	16.9%	—	—	—	—
Other(2)	1,028	0.9%	1,133	1.2%	—	—	—	—
Total Costs	$ 58,573	49.7%	$44,135	46.7%	$ 7,688	33.2%	$ 7,812	37.3%

(1) In connection with our agreement with contracted attorneys, we advance certain out-of-pocket court costs. We capitalize these costs in our consolidated financial statements and provide a reserve and corresponding court cost expense for the costs that we believe will be ultimately uncollectible. This amount includes changes in our anticipated recovery rate of court costs expensed.

(2) Other costs consist of costs related to counter claims and legal network subscription fees.

Legal Outsourcing Collections and Related Costs

The following tables summarize our legal outsourcing collection channel performance and related direct costs *(in thousands, except percentages)*:

	Gross Collections by Year of Collection[1]							
Placement Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009[2]**	**Total Collections**
2003	$10,750	$27,192	$17,212	$ 9,566	$ 5,561	$ 3,050	$ 1,149	$ 74,480
2004	—	23,455	37,674	21,676	12,029	5,840	2,056	$102,730
2005	—	—	21,694	40,762	22,152	10,582	3,357	$ 98,547
2006	—	—	—	39,395	82,740	43,303	12,707	$178,145
2007	—	—	—	—	41,958	80,211	26,059	$148,228
2008	—	—	—	—	—	47,320	61,699	$109,019
2009[2]	—	—	—	—	—	—	9,615	$ 9,615

(1) Includes collections for accounts placed in our legal channel beginning January 1, 2003. We continue to collect on accounts placed in this channel prior to that date.

(2) 2009 amount consists of data for the six-month period from January 1, 2009, to June 30, 2009.

	Court Costs by Year of Collection[1]							
Placement Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009[2]**	**Total Court Costs**
2003	$908	$2,046	$ 571	$ 300	$ 147	$ 103	$ 34	$ 4,109
2004	—	2,509	2,937	1,087	406	223	62	$ 7,224
2005	—	—	3,271	4,426	859	356	106	$ 9,018
2006	—	—	—	10,158	10,291	1,829	427	$ 22,705
2007	—	—	—	—	15,357	11,952	1,551	$ 28,860
2008	—	—	—	—	—	19,322	12,641	$ 31,963
2009[2]	—	—	—	—	—	—	5,581	$ 5,581

(1) Includes court cost expense for accounts placed in our legal channel beginning January 1, 2003. We continue to incur court cost expense on accounts placed in this channel prior to that date. Court cost expense in this table is calculated based on our blended court cost expense rate.

(2) 2009 amount consists of data for the six-month period from January 1, 2009, to June 30, 2009.

	Commissions by Year of Collection[1]							
Placement Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009[2]**	**Total Commissions**
2003	$3,574	$8,606	$ 5,496	$ 2,898	$ 1,574	$ 872	$ 331	$ 23,351
2004	—	7,273	12,060	6,653	3,498	1,690	598	$ 31,772
2005	—	—	6,725	12,108	6,364	3,036	967	$ 29,200
2006	—	—	—	11,451	23,659	12,370	3,647	$ 51,127
2007	—	—	—	—	11,845	22,927	7,443	$ 42,215
2008	—	—	—	—	—	13,678	17,730	$ 31,408
2009[2]	—	—	—	—	—	—	2,730	$ 2,730

(1) Includes commissions for accounts placed in our legal channel beginning January 1, 2003. We continue to incur commissions on collections for accounts placed in this channel prior to that date.

(2) 2009 amount consists of data for the six-month period from January 1, 2009, to June 30, 2009.

	Court Cost Expense and Commissions as a % of Gross Collections by Year of Collection							
Placement Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009[1]**	**Cumulative Average**
2003	41.7%	39.2%	35.2%	33.4%	31.0%	32.0%	31.8%	36.9%
2004	—	41.7%	39.8%	35.7%	32.4%	32.8%	32.1%	38.0%
2005	—	—	46.1%	40.6%	32.6%	32.1%	32.0%	38.8%
2006	—	—	—	54.9%	41.0%	32.8%	32.1%	41.4%
2007	—	—	—	—	64.8%	43.5%	34.5%	47.9%
2008	—	—	—	—	—	69.7%	49.2%	58.1%
2009[1]	—	—	—	—	—	—	86.4%	86.4%

(1) 2009 amount consists of data for the six-month period from January 1, 2009, to June 30, 2009.

Placement Year(2)	Lawsuits Filed by Year(1) 2003	2004	2005	2006	2007	2008	2009(3)	Total
2003	23	29	5	2	—	—	—	59
2004	—	59	39	11	2	—	—	111
2005	—	—	76	46	3	—	—	125
2006	—	—	—	205	105	4	—	314
2007	—	—	—	—	269	106	3	378
2008	—	—	—	—	—	338	127	465
2009(3)	—	—	—	—	—	—	100	100

(1) Represents the year the account was placed into litigation.

(2) Represents the year the account was placed into our legal channel.

(3) 2009 amount consists of data for the six-month period from January 1, 2009, to June 30, 2009.

Headcount by Function by Site

The following table summarizes our headcount by function by site as of June 30, 2009 and 2008:

	Head Count As of June 30, 2009 U.S.	2009 India	2008 U.S.	2008 India
General & Administrative	324	106	318	75
Account Manager	249	382	287	302
Bankruptcy Specialist	77	52	61	21
	650	540	666	398

Gross Collections by Account Manager

The following table summarizes our collection performance by Account Manager *(in thousands, except headcount)*:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Gross collections - collection sites	$ 44,680	$ 38,929	$ 95,022	$ 82,218
Average active account managers	624	590	603	575
Collections per average active account manager	$ 71.6	$ 66.0	$ 157.6	$ 143.0

Gross Collections per Hour Paid

The following table summarizes our gross collections per hour paid to Account Managers *(in thousands, except gross collections per hour paid)*:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Gross collections - collection sites	$ 44,680	$ 38,929	$ 95,022	$ 82,218
Total hours paid	293	305	558	548
Gross collections per hour paid	$ 152.5	$ 127.6	$ 170.3	$ 150.0

Collection Sites Direct Cost per Dollar Collected

The following table summarizes our gross collections in collection sites and the related direct cost *(in thousands, except percentages)*:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Gross collections - collection sites	$ 44,680	$ 38,929	$ 95,022	$ 82,218
Direct cost(1)	$ 5,675	$ 6,536	$ 11,480	$ 13,246
Cost per dollar collected	12.7%	16.8%	12.1%	16.1%

(1) Represents salaries, variable compensation and employee benefits.

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Salaries and Employee Benefits by Function

The following table summarizes our salaries and employee benefits by function (excluding stock-based compensation) *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Portfolio Purchasing and Collecting Activities				
Collections related	$ 5,675	$ 6,536	$ 11,480	$ 13,246
General & administrative	7,007	7,038	13,113	13,582
Subtotal	12,682	13,574	24,593	26,828
Bankruptcy Services	2,080	2,115	4,126	3,712
	$ 14,762	$ 15,689	$ 28,719	$ 30,540

Purchases by Quarter

The following table summarizes the purchases we made by quarter, and the respective purchase prices *(in thousands):*

Quarter	# of Accounts	Face Value	Purchase Price	Forward Flow Allocation [1]
Q1 2006	673	$ 558,574	$27,091	$ 2,403
Q2 2006	837	594,190	21,262	2,118
Q3 2006	1,469	1,081,892	32,334	2,939
Q4 2006	814	1,439,826	63,600	3,184
Q1 2007	1,434	2,510,347	45,386	3,539
Q2 2007	1,042	1,341,148	41,137	2,949
Q3 2007	659	1,281,468	47,869	2,680
Q4 2007	1,204	1,768,111	74,561	2,536
Q1 2008	647	1,199,703	47,902	2,926
Q2 2008	676	1,801,902	52,492	2,635
Q3 2008	795	1,830,292	66,107	—
Q4 2008	1,084	1,729,568	63,777	—
Q1 2009	505	1,341,660	55,913	—
Q2 2009	719	1,944,158	82,033	—

(1) Allocation of the forward flow asset to the cost basis of receivable portfolio purchases. In July 2008, we ceased forward flow purchases from Jefferson Capital due to a breach by Jefferson Capital and its parent, CompuCredit Corporation, of certain agreements. See Note 10 to our unaudited condensed consolidated financial statements for further information about our dispute with Jefferson Capital and CompuCredit.

Purchases by Paper Type

The following table summarizes the types of charged-off consumer receivable portfolios we purchased for the three and six months ended June 30, 2009 and 2008 *(in thousands):*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Credit card	$82,033	$40,165	$137,946	$ 85,445
Other	—	12,327	—	14,949
	$82,033	$52,492	$137,946	$100,394

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Liquidity and Capital Resources

Overview

Historically, we have met our cash requirements by utilizing our cash flows from operations, bank borrowings and equity offerings. Our primary cash requirements have included the purchase of receivable portfolios, operational expenses, the payment of interest and principal on bank borrowings and tax payments.

The following table summarizes our cash flows by category for the periods presented *(in thousands)*:

	Six Months Ended June 30,	
	2009	2008 Adjusted
Net cash provided by operating activities	$ 33,745	$ 33,386
Net cash used in investing activities	(56,753)	(27,548)
Net cash provided by (used in) financing activities	18,602	(5,818)

Repurchase of Convertible Notes

On February 27, 2007, our board of directors authorized a securities repurchase program under which we may buy back up to $50.0 million (at cost) of a combination of our common stock and Convertible Notes. The purchases may be made from time to time in the open market or through privately negotiated transactions and will be dependent upon various business and financial considerations. Securities repurchases are subject to compliance with applicable legal requirements and other factors. During the six months ended June 30, 2009, we repurchased $28.5 million principal amount of our outstanding Convertible Notes, for a total price of $22.3 million, plus accrued interest. From the inception of the securities repurchase program, we have repurchased $57.1 million principal amount of our Convertible Notes, for a total cash payment of $42.4 million. We have not repurchased any common stock under this program.

As of June 30, 2009, we had approximately $42.9 million principal amount of outstanding Convertible Notes due September 19, 2010. A tightening of credit availability could restrict our ability to refinance and/or retire our existing debt. If we are unable to retire or obtain suitable replacement financing for our long-term debt when and as it becomes due, this may have a material and adverse impact on our business and financial condition.

Operating Cash Flows

Net cash provided by operating activities was $33.7 million and $33.4 million for the six months ended June 30, 2009 and 2008, respectively. The slight increase in cash provided by operating activities was primarily attributable to an increase of $2.7 million in net income, and an increase of $1.3 million in impairment provisions, offset by a change in a non-cash gain of $2.6 million related to repurchase of our Convertible Notes, and a net decrease of $1.1 million due to changes in other operating assets and liabilities.

Investing Cash Flows

Net cash used in investing activities was $56.8 million for the six months ended June 30, 2009 and $27.5 million for the six months ended June 30, 2008.

The cash flows used in investing activities for the six months ended June 30, 2009, are primarily related to receivable portfolio purchases of $137.9 million, offset by gross collection proceeds applied to the principal of our receivable portfolios in the amount of $81.2 million. The cash flows used in investing activities for the six months ended June 30, 2008, primarily related to receivable portfolio purchases of $94.8 million, offset by gross collection proceeds applied to the principal of our receivable portfolios in the amount of $67.3 million.

Capital expenditures for fixed assets acquired with internal cash flow were $1.4 million and $2.0 million for the six months ended June 30, 2009 and 2008, respectively.

Financing Cash Flows

Net cash provided by financing activities was $18.6 million for the six months ended June 30, 2009. Net cash used in financing activities was $5.8 million for the six months ended June 30, 2008.

The cash provided by financing activities during the six months ended June 30, 2009, reflects $22.3 million used to repurchase $28.5 million in principal amount of our outstanding Convertible Notes and $62.5 million in borrowings under our Revolving Credit Facility, offset by $21.5 million in repayments of principal under our Revolving Credit Facility. The cash used in financing activities during the six months ended June 30, 2008, reflects $15.0 million in borrowings, offset by $17.2 million in repayments under our Revolving Credit Facility.

We are in compliance with all covenants under our financing arrangements and, excluding the effects of the one-time payment of $16.9 million to eliminate all future Contingent Interest payments in the second quarter of 2007 (this payment, less amounts accrued on our balance sheet, resulted in an expense of $6.9 million after the effect of income taxes), we have achieved 30 consecutive quarters of positive net income. We believe that we have sufficient liquidity to fund our operations for at least the next twelve months, given our expectation of continued positive cash flows from operations, and $56.0 million in borrowing capacity and $24.8 million in borrowing base availability under our Revolving Credit Facility as of June 30, 2009. Our Revolving Credit Facility is due to expire in May 2010. We are in active negotiations to renew the facility and believe that we will be successful. However, volatility in the U.S. credit markets could affect our ability to renew the facility.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk affecting Encore, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which is incorporated herein by reference. Our exposure to market risk has not changed materially since December 31, 2008.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management accordingly is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their most recent evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act"), as amended, are effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On October 18, 2004, Timothy W. Moser, one of our former officers, filed an action in the United States District Court for the Southern District of California against us, and certain individuals, including several of our officers and directors. On February 14, 2005, we were served with an amended complaint in this action alleging defamation, intentional interference with contractual relations, breach of contract, breach of the covenant of good faith and fair dealing, intentional and negligent infliction of emotional distress and civil conspiracy arising out of certain statements in our Registration Statement on Form S-1, originally filed in September 2003, and alleged to be included in our Registration Statement on Form S-3, originally filed in May 2004. The amended complaint seeks injunctive relief, economic and punitive damages in an unspecified amount plus an award of profits allegedly earned by the defendants and alleged co-conspirators as a result of the alleged conduct, in addition to attorney's fees and costs. On May 2, 2006, the court denied our special motion to strike pursuant to California's anti-SLAPP statute, denied in part and granted in part our motion to dismiss, denied a variety of *ex parte* motions and applications filed by the plaintiff and denied the plaintiff's motion for leave to conduct discovery or file supplemental briefing. The court granted the plaintiff 30 days in which to further amend his complaint, and on June 1, 2006, the plaintiff filed a second amended complaint in which he amended his claim for negligent infliction of emotional distress. On May 25, 2006, we filed a notice of appeal of the court's order denying the anti-SLAPP motion and on June 16, 2006, we filed a motion to stay the case pending the outcome of the appeal, which was granted. Oral argument on the appeal was heard on July 17, 2008, and on July 28, 2008, the appellate court affirmed the trial court's denial of our anti-SLAPP motion. The appellate court denied our request for a rehearing and the case has been returned to the district court where it is proceeding from the point at which it was stayed. Discovery is in the final stages and the parties have filed various motions. Management believes the claims are without merit and intends to defend the action vigorously. Although the outcome of this matter cannot be predicted with certainty, we do not currently believe that this matter will have a material adverse effect on our consolidated financial position or results of operations.

On September 7, 2005, Mr. Moser filed a related action in the United States District Court for the Southern District of California against Triarc Companies, Inc. ("Triarc"), which at the time, was a significant stockholder of ours, alleging intentional interference with contractual relations and intentional infliction of emotional distress. The case arises out of the same statements made or alleged to have been made in our Registration Statements mentioned above. On January 7, 2006, Triarc was served with an amended complaint seeking injunctive relief, an order directing Triarc to issue a statement of retraction or correction of the allegedly false statements, economic and punitive damages in an unspecified amount and attorney's fees and costs. Triarc tendered the defense of this action to us, and we accepted the defense and will indemnify Triarc, pursuant to the indemnification provisions of the Registration Rights Agreements dated as of October 31, 2000 and February 21, 2002, and the Underwriting Agreements dated September 25, 2004 and January 20, 2005 to which Triarc is a party. Although the outcome of this matter cannot be predicted with certainty, we do not currently believe that this matter will have a material adverse effect on our consolidated financial position or results of operations.

Claims based on the Fair Debt Collection Practices Act ("FDCPA") and comparable state statutes may result in class action lawsuits, which can be material to us due to the remedies available under these statutes, including punitive damages. A number of cases styled as class actions have been filed against us. A class has been certified in several of these cases. Several of these cases present novel issues on which there is no legal precedent. As a result, we are unable to predict the range of possible outcomes. There are a number of other lawsuits, claims and counterclaims pending or threatened against us. In general, these lawsuits, claims or counterclaims have arisen in the ordinary course of business and involve claims for actual damages arising from alleged misconduct or improper reporting of credit information by us or our employees or agents. Although litigation is inherently uncertain, based on past experience, the information currently available and the possible availability of insurance and/or indemnification in some cases, we do not believe that the currently pending and threatened litigation or claims will have a material adverse effect on our consolidated financial position or results of operations. However, future events or circumstances, currently unknown to management, will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on our consolidated financial position, liquidity or results of operations in any future reporting periods.

On June 10, 2008, the Federal Trade Commission (the "FTC") announced that it had sued Jefferson Capital and its parent company, CompuCredit Corporation, alleging that Jefferson Capital and CompuCredit had violated the FTC Act with deceptive marketing practices when issuing credit cards, among other allegations. The FTC announced on December 19, 2008, that it had agreed to a settlement of the litigation with Jefferson Capital and CompuCredit whereby those companies will credit approximately $114.0 million to certain customer accounts. Jefferson Capital and CompuCredit have advised us that a substantial number of the accounts affected by the settlement had been sold to us.

On July 15, 2008, we gave Jefferson Capital and CompuCredit notice of breach by Jefferson Capital and CompuCredit of the Asset Purchase and Forward Flow Agreement dated June 2, 2005, as amended, as well as a related Balance Transfer Agreement dated the same date based upon the actions noted in the FTC complaint and other claims. On July 16, 2008, we initiated arbitration as a result of the breach, pursuant to the arbitration provisions of the Agreements. We assert that the litigation initiated by the FTC and related conduct violates the Asset Purchase and Forward Flow Agreement and Balance Transfer Agreement in several respects. We seek an arbitral award that (i) Jefferson Capital and CompuCredit are in material breach of the Agreements, (ii) declares our obligations to purchase forward flow accounts under the Agreements is thereby excused or discharged, (iii) confirms our rights to cause Jefferson Capital to repurchase certain accounts previously sold to us under the Agreements, and other appropriate relief, including return of prepaid amounts relating to forward flow purchases, (iv) confirms our rights to indemnity by Jefferson Capital and CompuCredit and (v) awards compensatory damages, attorney fees, interest, arbitration costs and other appropriate relief.

Arbitrators have been identified and the proceeding continues in the discovery stage. We have ceased forward flow purchases of accounts from Jefferson Capital, the sale of bankrupt accounts to Jefferson Capital and participation in a balance transfer program with CompuCredit. In response to our Notice of Breach, Jefferson Capital and CompuCredit delivered its own Notice of Default to us alleging our breach of forward flow purchase, bankruptcy sale and balance transfer obligations and initiated a separate arbitration of our alleged breach of our bankruptcy sale obligations.

This matter continues to develop and any impact on the recoverability of our forward flow asset, currently stated at $10.3 million, is uncertain. Our consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

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Item 1A. Risk Factors

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which we believe are subject to certain safe harbors. Many statements, other than statements of historical facts, included or incorporated into this Quarterly Report on Form 10- Q are forward-looking statements. The words "believe," "expect," "anticipate," "estimate," "project," "intend," "plan," "will," "may," and similar expressions often characterize forward-looking statements. These statements may include, but are not limited to, projections of collections, revenues, income or loss, estimates of capital expenditures, plans for future operations, products or services, and financing needs or plans, as well as assumptions relating to these matters. In particular, these statements may be found, among other places, under the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" sections.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we caution you that these expectations or predictions may not prove to be correct or we may not achieve the financial results, savings or other benefits anticipated in the forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties, some of which may be beyond our control or cannot be predicted or quantified, that could cause actual results to differ materially from those suggested by the forward-looking statements. Many factors, including but not limited to those set forth below, could cause our actual results, performance, achievements, or industry results to be very different from the results, performance or achievements expressed or implied by these forward-looking statements. Our business, financial condition or results of operations could also be materially and adversely affected by other factors besides those listed. These factors include, but are not limited to, the following:

- Recent instability in the financial markets and global economy may affect our access to capital, our ability to purchase accounts, and the success of our collection efforts;
- Our quarterly operating results may fluctuate and cause the prices of our common stock and convertible notes to decrease;
- We may not be able to purchase receivables at sufficiently favorable prices or terms, or at all;
- We may not be successful in acquiring and collecting on portfolios consisting of new types of receivables;
- We may purchase receivable portfolios that contain unprofitable accounts and we may not be able to collect sufficient amounts to recover our costs and to fund our operations;
- Collections on our receivable portfolios purchased from Jefferson Capital may be adversely affected by litigation brought against Jefferson Capital and its parent, CompuCredit Corporation, by the Federal Trade Commission and Federal Deposit Insurance Corporation and the subsequent settlement of such litigation;
- We may purchase portfolios that contain accounts which do not meet our account collection criteria;
- We may not be able to use our sales channel to sell unprofitable accounts;
- The statistical models we use to project remaining cash flows from our receivable portfolios may prove to be inaccurate, which could result in reduced revenues or the recording of an impairment charge if we do not achieve the collections forecasted by our models;
- We may not be successful in recovering the level of court costs we anticipate recovering;
- Our industry is highly competitive, and we may be unable to continue to compete successfully with businesses that may have greater resources than we have;
- Our failure to purchase sufficient quantities of receivable portfolios may necessitate workforce reductions, which may harm our business;
- A significant portion of our portfolio purchases during any period may be concentrated with a small number of sellers;
- We may be unable to meet our future short- or long-term liquidity requirements;
- Volatility in U.S. credit markets could affect the Company's ability to refinance and/or retire existing debt, obtain financing to fund acquisitions, investments, or other significant operating or capital expenditures;
- We may not be able to continue to satisfy the restrictive covenants in our debt agreements;
- We use estimates in our revenue recognition and our earnings will be reduced if actual results are less than estimated;

- We may incur impairment charges based on the provisions of American Institute of Certified Public Accountants Statement of Position 03-3;
- Present and future government regulation may limit our ability to recover and enforce the collection of receivables;
- Failure to comply with government regulation could result in the suspension or termination of our ability to conduct business;
- A significant portion of our collections relies upon our success in individual lawsuits brought against consumers and our ability to collect on judgments in our favor;
- We are subject to ongoing risks of litigation, including individual and class actions under consumer credit, collections, employment, securities and other laws, as well as our dispute with Jefferson Capital and CompuCredit Corporation;
- We may make acquisitions that prove unsuccessful or strain or divert our resources;
- We are dependent on our management team for the adoption and implementation of our strategies and the loss of their services could have a material adverse effect on our business;
- We may not be able to hire and retain enough sufficiently trained employees to support our operations, and/or we may experience high rates of personnel turnover;
- Exposure to regulatory and economic conditions in India exposes us to risks or loss of business;
- We may not be able to manage our growth effectively, including the expansion of our operations in India;
- The failure of our technology and telecommunications systems could have an adverse effect on our operations;
- We may not be able to successfully anticipate, invest in or adopt technological advances within our industry;
- We may not be able to adequately protect the intellectual property rights upon which we rely; and
- Our results of operations may be materially adversely affected if bankruptcy filings increase or if bankruptcy or other debt collection laws change.

For more information about these risks, see the discussion under “Part I, Item 1A—Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the Securities and Exchange Commission, which is incorporated herein by reference.

Forward-looking statements speak only as of the date the statements were made. We do not undertake any obligation to update or revise any forward-looking statements to reflect new information or future events, or for any other reason even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized.

In addition, it is our policy generally not to make any specific projections as to future earnings and we do not endorse projections regarding future performance that may be made by third parties.

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Item 4. Submission of Matters to a Vote of Security Holders.

On June 9, 2009, we held our annual meeting of stockholders. At the annual meeting, J. Brandon Black, Timothy J. Hanford, George Lund, Richard A. Mandell, Willem Mesdag, John J. Oros, J. Christopher Teets and Warren Wilcox were elected to serve as directors. The votes for the election of directors are set forth below:

Name of Nominee	Votes For	Votes Withheld
J. Brandon Black	18,250,738	183,085
Timothy J. Hanford	17,883,681	550,142
George Lund	14,240,777	4,193,046
Richard A. Mandell	18,100,183	333,640
Willem Mesdag	18,240,785	193,038
John J. Oros	18,249,985	183,838
J. Christopher Teets	17,902,779	531,044
Warren Wilcox	17,902,779	531,044

At the annual meeting, the stockholders also approved the following additional proposals: (i) Proposal 2, amending and restating our 2005 Stock Incentive Plan (the “2005 Plan”) to increase by 2,000,000 shares the maximum number of shares of our common stock that may be subject to awards under the plan, and to make certain other amendments to the plan; (ii) Proposal 3 approving the “performance-based” compensation provisions of our 2005 Plan to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended; and (iii) Proposal 4 ratifying the appointment of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009. The votes for these proposal were as follows:

Proposal	Votes For	Votes Against	Abstentions	Broker Non-Votes
Proposal 2	11,308,293	5,657,722	213,150	1,254,658
Proposal 3	16,480,366	492,349	206,450	1,254,658
Proposal 4	18,344,581	76,094	13,147	0

Item 6. Exhibits

4.1	Instrument of Resignation, Appointment and Acceptance, dated September 21, 2006, by and among Encore Capital Group, Inc., JPMorgan Chase Bank, N.A., and The Bank of New York (now known as The Bank of New York Mellon Trust Company, N.A.) as successor trustee (filed herewith).
10.1	2005 Stock Incentive Plan, as amended and restated (incorporated by reference to Form 8-K filed June 15, 2009).
10.2	Amended Form of Restricted Stock Unit Grant Notice and Agreement for awards under the 2005 Stock Incentive Plan (filed herewith).
10.3	Amended Form of Stock Option Agreement for awards under the 2005 Stock Incentive Plan (filed herewith).
31.1	Certification of the Principal Executive Officer pursuant to rule 13-14(a) under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of the Principal Financial Officer pursuant to rule 13-14(a) under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002 (filed herewith).

ENCORE CAPITAL GROUP, INC.

SIGNATURES

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 thereunto duly authorized.

ENCORE CAPITAL GROUP, INC.

By: /s/ Paul Grinberg
Paul Grinberg
Executive Vice President,
Chief Financial Officer and Treasurer

Date: July 30, 2009

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EXHIBIT INDEX

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Section 2: EX-4.1 (INSTRUMENT OF RESIGNATION)

Exhibit 4.1

EXECUTION VERSION

INSTRUMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE, dated as of September 21, 2006 (this “Instrument”), by and among ENCORE CAPITAL GROUP, INC., a corporation duly organized and existing under the laws of the State of Delaware, having its principal office at 8875 Aero Drive, Suite 200, San Diego, California, 92173 (the “***Issuer***”), JPMORGAN CHASE BANK, N.A., a national banking association duly organized and existing under the laws of the United States, having its corporate trust office at 4 New York Plaza, 15 th Floor, New York, New York 10004, as resigning Trustee (the “***Resigning Trustee***”), and THE BANK OF NEW YORK, a corporation duly organized and existing under the laws of the State of New York, having its corporate trust office at 101 Barclay Street—8W, New York, NY 10286, as successor Trustee (the “***Successor Trustee***”).

RECITALS

There is presently outstanding under an Indenture, dated as of September 19, 2005 (the “***Indenture***”), between the Issuer and the Resigning Trustee, $100,000,000 in aggregate principal amount of the Issuer’s 3.375% Convertible Senior Notes due 2010 (the “***Notes***”).

The Resigning Trustee wishes to resign as Trustee, Note registrar, the office or agency where notices and demands to or upon the Issuer in respect of the Notes and the Indenture may be served (the “***Agent***”), Paying Agent, Conversion Agent and Custodian under the Indenture; the Issuer wishes to appoint the Successor Trustee to succeed the Resigning Trustee as Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture; and the Successor Trustee wishes to accept appointment as Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture.

NOW, THEREFORE, in consideration of the mutual covenants and promises herein, the receipt and sufficiency of which are hereby acknowledged, the Issuer, the Resigning Trustee and the Successor Trustee agree as follows:

ARTICLE ONE
THE RESIGNING TRUSTEE

Section 101. Pursuant to Section 8.10(a) of the Indenture, the Resigning Trustee hereby notifies the Issuer that the Resigning Trustee is hereby resigning as Trustee under the Indenture.

Section 102. The Resigning Trustee hereby represents and warrants to the Successor Trustee that:

(a) No covenant or condition contained in the Indenture has been waived by the Resigning Trustee. The Resigning Trustee has complied with all its obligations and duties under the Indenture.

(b) There is no action, suit or proceeding pending or, to the best of the knowledge of the Responsible Officers of the Resigning Trustee assigned to its corporate trust department, threatened against the Resigning Trustee before any court or governmental authority arising out of any action or omission by the Resigning Trustee as Trustee under the Indenture.

(c) This Instrument has been duly authorized, executed and delivered on behalf of the Resigning Trustee.

(d) $100,000,000 in aggregate principal amount of the Notes is outstanding.

(e) Interest on the Notes has been paid through March 19, 2006.

(f) The Resigning Trustee has made, or promptly will make, available to the Successor Trustee originals, if available, or copies in its possession, of all documents relating to the trust created by the Indenture (the "***Trust***") and all information in the possession of its corporate trust department relating to the administration and status of the Trust.

(g) To the best of the knowledge of the Responsible Officers of the Resigning Trustee assigned to its corporate trust department, no event has occurred and is continuing which is, or after notice or lapse of time would become, an Event of Default under the Indenture.

Section 103. The Resigning Trustee hereby assigns, transfers, delivers and confirms to the Successor Trustee all right, title and interest of the Resigning Trustee in and to the Trust, all the rights, powers and trusts of the Resigning Trustee under the Indenture and all property and money held by such Resigning Trustee under the Indenture, with like effect as if the Successor Trustee was originally named as Trustee under the Indenture. The Resigning Trustee shall execute and deliver such further instruments and shall do such other things as the Successor Trustee may reasonably require so as to more fully and indisputably vest and confirm in the Successor Trustee all the rights, powers and trusts hereby assigned, transferred, delivered and confirmed to the Successor Trustee.

Section 104. The Resigning Trustee agrees to pay or indemnify the Successor Trustee and save the Successor Trustee harmless from and against any and all costs, claims, liabilities, losses or damages whatsoever (including the reasonable fees, expenses and disbursements of the Successor Trustee's counsel and other advisors), that the Successor Trustee suffers or incurs without negligence, willful misconduct or bad faith on its part arising out of actions or omissions of the Resigning Trustee. The Successor Trustee will furnish to the Resigning Trustee, promptly after receipt, all papers with respect to any action the outcome of which would make operative the indemnity provided for in this Section. The Successor Trustee shall notify the Resigning Trustee promptly in writing of any claim for which it may seek indemnity.

Section 105. The Resigning Trustee hereby resigns as Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture.

ARTICLE TWO
THE ISSUER

Section 201. The Issuer hereby certifies that Exhibit A annexed hereto is a copy of the Board Resolutions which were duly adopted by the Board of Directors of the Issuer, which are in full force and effect on the date hereof and which authorize certain officers of the Issuer to: (a) accept the Resigning Trustee's resignation as Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture; (b) appoint the Successor Trustee as Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture; and (c) execute and deliver such agreements and other instruments as may be necessary or desirable to effectuate the succession of the Successor Trustee as Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture.

Section 202. The Issuer hereby accepts the resignation of the Resigning Trustee as Trustee, Registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture. Pursuant to Section 8.10(a) of the Indenture, the Issuer hereby appoints the Successor Trustee as Trustee under the Indenture and confirms to the Successor Trustee all the rights, powers and trusts of the Trustee under the Indenture and with respect to all property and money held or to be held under the Indenture, with like effect as if the Successor Trustee was originally named as Trustee under the Indenture. The Issuer shall execute and deliver such further instruments and shall do such other things as the Successor Trustee may reasonably require so as to more fully and indisputably vest and confirm in the Successor Trustee all the rights, powers and trusts hereby assigned, transferred, delivered and confirmed to the Successor Trustee.

Section 203. The Issuer hereby represents and warrants to the Successor Trustee and the Resigning Trustee that:

(a) It is a corporation duly and validly organized and existing pursuant to the laws of the State of Delaware.

(b) The Indenture was validly and lawfully executed and delivered by the Issuer, has not been amended or modified, and is in full force and effect.

(c) The Notes are validly issued securities of the Issuer.

(d) No event has occurred and is continuing which is, or after notice or lapse of time would become, an Event of Default under the Indenture.

(e) No covenant or condition contained in the Indenture has been waived by the Issuer or by the holders of the percentage in aggregate principal amount of the Notes required to effect any such waiver.

(f) There is no action, suit or proceeding pending or, to the best of the Issuer's knowledge, threatened against the Issuer before any court or any governmental authority arising out of any action or omission by the Issuer under the Indenture.

(g) This Instrument has been duly authorized, executed and delivered on behalf of the Issuer and constitutes its legal, valid and binding obligation.

(h) All conditions precedent relating to the appointment of The Bank of New York as successor Trustee under the Indenture have been complied with by the Issuer.

Section 204. The Issuer hereby appoints the Successor Trustee as Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture.

ARTICLE THREE
THE SUCCESSOR TRUSTEE

Section 301. The Successor Trustee hereby represents and warrants to the Resigning Trustee and to the Issuer that:

(a) This Instrument has been duly authorized, executed and delivered on behalf of the Successor Trustee.

(b) The Successor Trustee is qualified and eligible under Sections 8.08 and 8.09 of the Indenture to act as Trustee under the Indenture.

Section 302. Pursuant to Section 8.11 of the Indenture, the Successor Trustee hereby accepts its appointment as Trustee under the Indenture and hereby assumes all the rights, powers and trusts of the Trustee under the Indenture and with respect to all property and money held or to be held under the Indenture, with like effect as if the Successor Trustee was originally named as Trustee under the Indenture.

Section 303. Promptly after the execution and delivery of this Instrument, the Successor Trustee, on behalf of the Issuer, shall cause a notice, the form of which is annexed hereto marked Exhibit B, to be sent to each holder of the Notes in accordance with Section 8.11 of the Indenture.

Section 304. The Successor Trustee hereby accepts its appointment as Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture.

ARTICLE FOUR
MISCELLANEOUS

Section 401. Except as otherwise expressly provided or unless the context otherwise requires, all capitalized terms used herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 402. This Instrument and the resignation, appointment and acceptance effected hereby shall be effective as of the close of business on the date first above written, upon the execution and delivery hereof by each of the parties hereto; *provided*, that the resignation of the Resigning Trustee and the appointment of the Successor Trustee as Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture shall be effective 10 business days after the date first above written.

Section 403. Notwithstanding the resignation of the Resigning Trustee effected hereby, the Issuer shall remain obligated under Section 8.06 of the Indenture to compensate, reimburse and indemnify the Resigning Trustee in connection with its prior trusteeship under the Indenture. The Issuer also acknowledges and reaffirms its obligations to the Successor Trustee as set forth in Section 8.06 of the Indenture, which obligations shall survive the execution hereof. The Resigning Trustee acknowledges that nothing in this Instrument shall affect its rights, duties, obligations and immunities under the Indenture for any action or inaction taken or suffered by it while it was Trustee under the Indenture.

Section 404. This Instrument shall be governed by and construed in accordance with the laws of the jurisdiction which govern the Indenture and its construction.

Section 405. This Instrument may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 406. All notices, whether faxed or mailed, will be deemed received when sent pursuant to the following instructions:

TO THE RESIGNING TRUSTEE:

Mr. James R. Lewis
Vice President
JPMorgan Chase Bank, N.A.
Worldwide Securities Services
4 New York Plaza, 15th Floor
New York, New York 10004
Fax: (212) 623-6624
Tel: (212) 623-6759

TO THE SUCCESSOR TRUSTEE:

Mr. Gary Bush
Vice President
The Bank of New York
Corporate Trust Services
101 Barclay Street — 8W
New York, New York 10286
Fax: (212) 815-5131
Tel.: (212) 815-2747

Ms. Franca Ferrera
Assistant Vice President
The Bank of New York
Corporate Trust
101 Barclay Street — 8 West
New York, NY 10286
Fax: (212) 815-5704
Tel: (212) 815-4779

TO THE ISSUER:

Robin R. Pruitt
General Counsel
Encore Capital Group, Inc.
8875 Aero Drive, Suite 200
San Diego, California 92173
Fax: 858-309-6995
Tel.: 858-309-6964

[REMAINDER OF PAGE INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Instrument of Resignation, Appointment and Acceptance to be duly executed as of the day and year first above written.

ENCORE CAPITAL GROUP, INC.

By /s/ Paul Grinberg
Name: Paul Grinberg
Title: Executive Vice President & CFO

JPMORGAN CHASE BANK, N.A., as Resigning Trustee

By /s/ J.R. Lewis
Name: J.R. Lewis
Title: Vice President

THE BANK OF NEW YORK, as Successor Trustee

By /s/ Gary S. Bush
Name: Gary S. Bush
Title: Vice President

EXHIBIT A

CERTIFIED COPY OF RESOLUTIONS
OF
THE BOARD OF DIRECTORS
OF
ENCORE CAPITAL GROUP, INC.

[see next page]

CERTIFIED COPY OF RESOLUTIONS
OF
THE BOARD OF DIRECTORS
OF
ENCORE CAPITAL GROUP, INC.

The undersigned, hereby certifies that she is the duly appointed, qualified and acting Secretary of Encore Capital Group, Inc., a Delaware corporation (the "Corporation"), and further certifies that the following is a true and correct copy of certain resolutions duly adopted by the Board of Directors of said Corporation as of September 7, 2006 and that said resolutions have not been amended, modified or rescinded:

RESOLVED, that the Corporation appoint The Bank of New York (the "Successor Trustee") as successor Trustee, Note registrar, Agent, Paying Agent, Conversion Agent, and Custodian under the Indenture dated as of September 19, 2005 (the "Indenture"), between the Corporation and JPMorgan Chase Bank, N.A. (the "Resigning Trustee"), as Trustee, pursuant to which the Corporation issued $100,000,000 in aggregate principal amount of the Corporation's 3.375% Convertible Senior Notes due 2010; and that the Corporation accept the resignation of the Resigning Trustee as Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture, such resignation to be effective upon the execution and delivery by the Successor Trustee to the Corporation of an instrument or instruments accepting such appointment as successor Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian under the Indenture; and it is further

RESOLVED, that the Chairman of the Board, the President, any Executive Vice President, the General Counsel, the Treasurer or any Assistant Treasurer of the Corporation be, and each of them hereby is, authorized, empowered and directed to execute and deliver in the name and on behalf of the Corporation an instrument or instruments appointing the Successor Trustee as the successor Trustee, Note registrar, Agent, Paying Agent, Conversion Agent and Custodian and accepting the resignation of Resigning Trustee; and it is further

RESOLVED, that the proper officers of the Corporation are hereby authorized, empowered and directed to do or cause to be done all such acts or things, and to execute and deliver, or cause to be executed or delivered, any and all such other agreements, amendments, instruments, certificates, documents or papers (including, without limitation, any and all notices and certificates required or permitted to be given or made on behalf of the Corporation to the Successor Trustee or to the Resigning Trustee), under the terms of any of the executed instruments in connection with the resignation of the Resigning Trustee, and the appointment of the Successor Trustee, in the name and on behalf of the Corporation as any of such officers, in his/her discretion, may deem necessary or advisable to effectuate or carry out the purposes and intent of the foregoing resolutions; and to exercise any of the Corporation's obligations under the instruments and agreements executed on behalf of the Corporation in connection with the resignation of the Resigning Trustee and the appointment of the Successor Trustee; and it is further

RESOLVED, that all acts and things previously done and performed (or caused to be done and performed) in the name and on behalf of the Corporation prior to the date of these resolutions in connection with the actions contemplated by the foregoing resolutions, be and hereby are ratified, confirmed, and approved in all respects.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary and have affixed the seal of the Corporation this 20th day of September, 2006.

By: /s/ Robin R. Pruitt
Name: Robin R. Pruitt
Title: Secretary

[SEAL]

EXHIBIT B

Encore Capital Group, Inc.
3.375% Convertible Senior Notes due 2010
*CUSIP Nos. 292554aa0 and 292554ab8

Notice to holders of Encore Capital Group, Inc.'s (the ***"Issuer"***) 3.375% Convertible Senior Notes due 2010 (the ***"Notes"***):

We hereby notify you of the resignation of JPMorgan Chase Bank, N.A., as Trustee under the Indenture, dated as of September 19, 2005 (the ***"Indenture"***), pursuant to which your Notes were issued and are outstanding.

The Issuer has appointed The Bank of New York, whose corporate trust office is located at 101 Barclay Street—8W, New York NY 10286, as successor Trustee under the Indenture, which appointment has been accepted and has become effective.

THE BANK OF NEW YORK, as
successor Trustee

Date: August __, 2006

* [Add The Bank of New York's standard form of CUSIP disclaimer.]

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Section 3: EX-10.2 (AMENDED FORM OF RESTRICTED STOCK UNIT GRANT NOTICE AND AGREEMENT)

Exhibit 10.2

ENCORE CAPITAL GROUP, INC.
RESTRICTED STOCK UNIT GRANT NOTICE
(2005 STOCK INCENTIVE PLAN, AS AMENDED)

Encore Capital Group, Inc. (the ***"Company"***), pursuant to its 2005 Stock Incentive Plan, as amended (the ***"Plan"***), hereby awards to Participant a Restricted Stock Unit award for the number of shares of the Company's Stock set forth below (the ***"Award"***). The Award is subject to all of the terms and conditions as set forth herein and in the Plan and the Restricted Stock Unit Agreement, both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan or the Restricted Stock Unit Agreement. In the event of any conflict between the terms in the Award and the Plan, the terms of the Plan shall control.

Participant:	______________________
Date of Grant:	______________________
Vesting Commencement Date:	See Vesting Schedule below
Number of Shares Subject to Award:	______________________
Consideration:	Participant's Services

Vesting Schedule:	__% of the shares will vest on _________; __% will vest on _________. In addition, the vesting of the shares may accelerate upon certain events described in the Restricted Stock Unit Agreement. Notwithstanding the foregoing, vesting shall terminate upon the Participant's termination of Continuous Service.
Issuance Schedule:	The shares will be issued in accordance with the issuance schedule set forth in Section 6 of the Restricted Stock Unit Agreement.

Additional Terms/Acknowledgements: Participant acknowledges receipt of, and understands and agrees to, this Restricted Stock Unit Grant Notice, the Restricted Stock Unit Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Restricted Stock Unit Grant Notice, the Restricted Stock Unit Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the Award and supersede all prior oral and written agreements on that subject.

Participant further agrees that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). Participant also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify Participant by e-mail.

ENCORE CAPITAL GROUP, INC.:

By: ______________________
J. Brandon Black

PARTICIPANT:

____

Title: President and Chief Executive Officer   Date: ____________________

Date: ____________________

ATTACHMENTS: Restricted Stock Unit Agreement, 2005 Stock Incentive Plan, as Amended

ATTACHMENT I

ENCORE CAPITAL GROUP, INC.
2005 STOCK INCENTIVE PLAN, AS AMENDED

RESTRICTED STOCK UNIT AGREEMENT – COC EXECUTIVE

Pursuant to the Restricted Stock Unit Grant Notice ("***Grant Notice***") and this Restricted Stock Unit Agreement and in consideration of your services, Encore Capital Group, Inc. (the "***Company***") has awarded you a restricted stock unit award (the "***Award***") under its 2005 Stock Incentive Plan, as amended (the "***Plan***") for the number of shares of the Company's Stock as indicated in the Grant Notice. Your Award is granted to you effective as of the Date of Grant set forth in the Grant Notice for this Award. Defined terms not explicitly defined in this Restricted Stock Unit Agreement shall have the same meanings given to them in the Plan. In the event of any conflict between the terms in this Restricted Stock Unit Agreement and the Plan, the terms of the Plan shall control.

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree that the details of your Award are as follows:

1. VESTING.

(a) In General. Subject to the limitations contained herein, your Award will vest in accordance with the vesting schedule provided in the Grant Notice, provided that vesting will cease upon the termination of your Continuous Service. For purposes of this Award, ***"Continuous Service"*** means that your service with the Company or an Affiliate, whether as an employee, director or consultant, is not interrupted or terminated. A change in the capacity in which you render service to the Company or an Affiliate as an employee, consultant or director or a change in the entity for which you render such service, provided that there is no interruption or termination of your service with the Company or an Affiliate, shall not terminate your Continuous Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a director shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or its compensation committee or any officer designated by the Board or its compensation committee, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to you, or as otherwise required by law.

(b) Vesting Acceleration. Notwithstanding the foregoing, upon a Change of Control during your Continuous Service, or in the event that your Continuous Service is terminated due to your death or Disability, then your Award will immediately vest in full.

2. Number of Shares. The number of shares subject to your Award may be adjusted from time to time for capitalization adjustments, as provided in the Plan.

3. Securities Law Compliance. You may not be issued any shares under your Award unless the shares are either: (i) then registered under the Securities Act; or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award also must comply with other applicable laws and regulations governing the Award, and you will not receive such shares if the Company determines that such receipt would not be in material compliance with such laws and regulations.

4. Limitations on Transfer. Your Award is not transferable, except by will or by the laws of descent and distribution. In addition to any other limitation on transfer created by applicable securities laws, you agree not to assign, hypothecate, donate, encumber or otherwise dispose of any interest in any of the shares of Stock subject to the Award until the shares are issued to you in accordance with Section 6 of this Restricted Stock Unit Agreement. After the shares have been issued to you, you are free to assign, hypothecate, donate, encumber or otherwise dispose of any interest in such shares provided that any such actions are in compliance with the provisions herein and applicable securities laws.

5. Dividends. You shall be entitled to receive payments equal to any cash dividends and other distributions paid with respect to a corresponding number of shares covered by your Award, provided that such distributions shall be converted into additional shares covered by the Award. If such distributions are paid in cash, you shall be credited with additional shares covered by the Award in an amount equal to (i) the amount of the dividends or other distributions paid on that number of shares equal to the aggregate number of shares covered by the Award as of that date divided by (ii) the Fair Market Value of a share as of such date. The additional shares credited as dividend equivalents shall be subject to the same vesting and forfeiture restrictions as the shares covered by the Award with respect to which they relate.

6. Date of Issuance.

(a) The Company will deliver to you a number of shares of the Company’s Stock equal to the number of vested shares subject to your Award, including any additional shares received pursuant to Section 5 above that relate to those vested shares on the vesting date or dates provided in your Grant Notice; provided, however, that if the Company determines that you are subject to its policy regarding insider trading of the Company’s stock or you are otherwise prohibited from selling shares of the Company’s stock in the public market and any shares of Common Stock subject to your Award are scheduled to be delivered on a day (the “Original Distribution Date”) that does not occur during an open “window period” applicable to you, as determined by the Company in accordance with such policy, or a day when you are prohibited from selling shares of the Company’s stock in the public market and the Company elects not to satisfy its tax withholding obligations by withholding shares from your distribution, then such shares shall not be delivered on such Original Distribution Date and shall instead be delivered as soon as practicable within the next open “window period” applicable to you pursuant to such policy or the next day when you are not prohibited from selling shares of the Company’s stock in the public market; *provided, however,* that the delivery of the shares shall not be delayed pursuant to this provision beyond the later of: (a) December 31st of the same calendar year of the Original Distribution Date, or (b) the 15th day of the third calendar month following the Original Distribution Date.

(b) Notwithstanding the foregoing:

(i) If, no later than December 31 of the year before the year of grant of the Award, you elect to defer delivery of such shares of Common Stock beyond the vesting date, then the Company will not deliver such shares on the vesting date or dates provided in your Grant Notice, but will instead deliver such shares to you on such later date or dates that you so elect (the "***Settlement Date***"); provided, however, that in the event of your "separation from service" (as such term is defined in Section 409A(a)(2)(A)(i) of the Code and applicable guidance thereunder) prior to the Settlement Date, such vested shares of Common Stock shall instead be delivered to you on the date of your separation from service. If such deferral election is made, the Committee shall, in its sole discretion, establish the rules and procedures for such election, including the permitted Settlement Dates, which shall be evidenced by a Restricted Stock Unit Election Agreement.

(ii) If at the time the shares would otherwise be issued to you as a result of your separation from service, you are subject to the distribution limitations contained in Code Section 409A applicable to "key employees" as defined in Code Section 416(i), share issuances to you as a result of your separation from service shall not be made before the date which is six (6) months following the date of your separation from service, or, if earlier, the date of your death that occurs within such six (6) month period.

7. Restrictive Legends. The shares issued under your Award shall be endorsed with appropriate legends determined by the Company.

8. Award not a Service Contract.

(a) Your Continuous Service with the Company or an Affiliate is not for any specified term and may be terminated by you or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Restricted Stock Unit Agreement (including, but not limited to, the vesting of your Award pursuant to the schedule set forth in Section 2 herein), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Restricted Stock Unit Agreement or the Plan shall: (i) confer upon you any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Restricted Stock Unit Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Restricted Stock Unit Agreement or Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future vesting opportunity that you may have.

(b) By accepting this Award, you acknowledge and agree that the right to continue vesting in the Award pursuant to the schedule set forth in Section 2 is earned only by continuing as an employee, director or consultant at the will of the Company (not through the act of being hired, being granted this Award or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). You further acknowledge and agree that such a reorganization could result in the termination of your Continuous Service, or the termination of Affiliate status of your employer and the loss of benefits available to you under this Restricted Stock Unit Agreement, including but not limited to, the termination of the right to continue vesting in the Award. You further acknowledge and agree that this Restricted Stock Unit Agreement, the Plan, the transactions contemplated hereunder and the vesting schedule set forth herein or any covenant of good faith and fair dealing that may be found implicit in any of them do not constitute an express or implied promise of continued engagement as an employee or consultant for the term of this Restricted Stock Unit Agreement, for any period, or at all, and shall not interfere in any way with your right or the Company's right to terminate your Continuous Service at any time, with or without cause and with or without notice.

9. WITHHOLDING OBLIGATIONS.

(a) On or before the time you receive a distribution of shares pursuant to your Award, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and/or any other amounts payable to you, provided that any such withholding will not be in excess of the minimum statutory withholding requirement, and otherwise agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your Award. If permissible under applicable law, the Company may, in its sole discretion: (i) sell or arrange for the sale, on your behalf, of shares acquired by you to meet the withholding obligation and/or (ii) withhold in shares, provided that only the amount of shares necessary to satisfy the minimum withholding amount are withheld. The Company also reserves the right to require that you assume liability for any tax- and/or social insurance-related charges that may otherwise be due by the Company or an Affiliate with respect to the Award, if the Company determines in its sole discretion that such charges may legally be transferred to you. To the extent that liability for any such charges is transferred to you, such charges will be subject to the applicable withholding methods set forth in this Section 9.

(b) Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to issue the shares of Stock subject to your Award.

10. UNSECURED OBLIGATION. Your Award is unfunded, and as a holder of a vested Award, you shall be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares pursuant to this Restricted Stock Unit Agreement. You shall not have voting or any other rights as a stockholder of the Company with respect to the shares to be issued pursuant to this Restricted Stock Unit Agreement until such shares are issued to you pursuant to Section 6 of this Restricted Stock Unit Agreement. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this Restricted Stock Unit Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

11. Notices. Any notices provided for in your Award or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

12. Miscellaneous.

(a) The rights and obligations of the Company under your Award shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

13. Governing Plan Document. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan shall control.

14. Severability. If all or any part of this Restricted Stock Unit Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Restricted Stock Unit Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Restricted Stock Unit Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

15. Effect on Other Employee Benefit Plans. The value of the Award subject to this Restricted Stock Unit Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating the Employee's benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

16. Amendment. This Restricted Stock Unit Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Restricted Stock Unit Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Restricted Stock Unit Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Restricted Stock Unit Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

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Section 4: EX-10.3 (AMENDED FORM OF STOCK OPTION AGREEMENT)

Exhibit 10.3

NON-INCENTIVE STOCK OPTION AGREEMENT

Under
ENCORE CAPITAL GROUP, INC.
2005 STOCK INCENTIVE PLAN

_________ Shares of Common Stock

ENCORE CAPITAL GROUP, INC. (the "Company"), pursuant to the terms of its 2005 Stock Incentive Plan, as amended (the "Plan"), hereby grants to _________ (the "Optionee") the right and option to purchase _________ shares of Common Stock, par value $.01 per share (the "Common Stock"), of the Company (the "Option") upon and subject to the following terms and conditions of this agreement (the "Agreement"):

1. The Option is not intended to qualify as an incentive stock option under the provisions of Section 422 of the Internal Revenue Code of 1986, as amended, or its predecessor (the "Code").

2. _________ is the date of grant of the Option ("Date of Grant").

3. The purchase price of the shares of Common Stock subject to the Option shall be $____ per share.

4. The Option shall vest and be exercisable as follows:

(a) _________ of such shares of Common Stock shall vest and be exercisable on or after the first anniversary of the Date of Grant;

(b) an additional _________ of such shares of Common Stock shall vest and be exercisable on or after the second anniversary of the Date of Grant; and

(c) all such shares of Common Stock shall be exercisable on or after the third anniversary of the Date of Grant.

Vesting shall cease upon the date of termination of the Optionee's continuous service to the Company or an Affiliate as an employee, consultant or director ("Continuous Service").

Notwithstanding the foregoing, in the event of (i) the termination of the Optionee's Continuous Service as a result of the Optionee's death or Disability, or (ii) the occurrence of a Change of Control (as defined in the Plan) during your Continuous Service, the Option shall be deemed to be fully (100%) vested and exercisable as of immediately prior to the Optionee's death or Disability or the Change of Control.

For purposes of this Agreement, a change in the capacity in which the Optionee renders service to the Company or an Affiliate as an employee, consultant or director or a change in the entity for which the Optionee renders such service, provided that there is no interruption or termination of the Optionee's service with the Company or an Affiliate, shall not terminate the Optionee's Continuous

Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a director shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or its compensation committee or any officer designated by the Board or its compensation committee, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Optionee, or as otherwise required by law.

5. The unexercised portion of any such Option shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(a) __________;

(b) the termination of the Optionee's Continuous Service, in which event the Option shall terminate as follows:

(i) if such termination constitutes or is attributable to a breach by the Optionee of an employment or consulting agreement with the Company or any of its Affiliates, or if the Optionee is discharged or if his or her Continuous Service is terminated for Cause, then the Option shall terminate immediately upon such termination date;

(ii) if such termination is due to the death or Disability of the Optionee, then the Option shall terminate on the one-year anniversary of the date of death or Disability of the Optionee; or

(iii) if such termination is for any other reason including the voluntary or involuntary termination of the Optionee's Continuous Service, then the Option shall terminate on the ninetieth (90th) day following the date of termination of Continuous Service.

(c) the occurrence of a Change of Control; provided, however, that the Option shall be exercisable until the earlier of (A) the date described in Section 5(a) and (B) the later of (i) the first anniversary of the Change of Control and (ii) the time otherwise determined pursuant to the foregoing provisions of this Section 5.

6. The Option may be exercised, subject to the provisions of the Plan and of this Agreement, as to all or part of the shares of Common Stock covered hereby, as to which the Option shall then be exercisable, by providing a notice of exercise form in accordance with such procedures as are established by the Company and communicated to the Optionee from time to time. Any notice of exercise must specify how many shares the Optionee wishes to purchase and how the shares should be registered. The notice of exercise will be effective when it is received by the Company at its principal business office, accompanied by payment of the full purchase price for the shares being purchased, in a form permitted under the Agreement, and provision, acceptable to the Company,

for payment of applicable withholding taxes. If someone else wants to exercise this Option after the Optionee's death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

7. Payment of the purchase price for the shares subject to the Option may be made by:

(a) cash or by check payable to the Company;

(b) delivery of unrestricted shares of Common Stock having a Fair Market Value (determined as of the date the Option is exercised, but in no event at a price per share less than the par value per share of the Common Stock delivered) equal to all or part of the purchase price and that have been held for more than six months (or other period required by the Company); provided, that, whenever the Optionee is permitted to pay the exercise price of an Option by delivering shares of Common Stock, the Optionee may, subject to procedures satisfactory to the Committee (as defined in the Plan), satisfy such delivery requirement by presenting proof of beneficial ownership of such shares, in which case the Company shall treat the Option as exercised without further payment and shall withhold such number of shares from the shares acquired by the exercise of the Option;

(c) delivery of irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Common Stock being acquired upon the exercise of the Option sufficient to pay the exercise price and/or applicable withholding pursuant to a program or procedure approved by the Company (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System); provided that the Company reserves the right, in its sole discretion, to establish, decline to approve or terminate any such program or procedures, including with respect to the Optionee notwithstanding that such program or procedures may be available to others;

(d) upon prior written approval by the Committee, an election by the Optionee to have the Company withhold from those shares of Common Stock that would otherwise be received upon exercise of the Option, a number of shares having a Fair Market Value equal to the exercise price;

(e) any other form permitted by the Committee in its sole discretion; and/or

(f) any combination of any of the foregoing methods.

Notwithstanding the foregoing, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

The Company shall cause certificates for the shares so purchased to be delivered against payment of the purchase price, as soon as practicable following the Company's receipt of the notice of exercise.

8. Neither the Optionee nor the Optionee's beneficiary, executors or administrators or any other person shall have any of the rights of a stockholder in the Company with respect to the shares subject to the Option until the date of issuance of the shares for which the Option shall have been exercised.

9. The Option is not assignable or otherwise transferable by the Optionee, either voluntarily or involuntarily, except by will or the laws of descent and distribution, or as otherwise permitted under the Plan. In the event of the Optionee's death, the Option shall thereafter be exercisable (to the extent otherwise exercisable hereunder) only by the Optionee's beneficiary, executors or administrators subject to and in accordance with the provisions of the Plan.

10. The terms and conditions of the Option, including the number of shares and the class or series of capital stock which may be delivered upon exercise of the Option and the purchase price per share, are subject to adjustment as provided in the Plan.

11. The Optionee, by the Optionee's acceptance hereof, represents and warrants to the Company that the Optionee's purchase of shares of capital stock upon the exercise hereof shall be for investment and not with a view to distribution and agrees that the shares of capital stock will not be disposed of except pursuant to an applicable effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"), unless the Company shall have received an opinion of counsel satisfactory to the Company that such disposition is exempt from such registration under the Securities Act.

The Optionee agrees that the obligation of the Company to issue shares upon the exercise of the Option shall also be subject, as conditions precedent, to the terms of the Plan and compliance with applicable provisions of the Act, state securities or corporation laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing representations and restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of the Option.

12. The Optionee agrees that the Company may deliver by e-mail all documents relating to the Plan or this Option (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). The Optionee also agrees that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify the Optionee by e-mail.

13. Any notices provided for in the Option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to the Optionee, five (5) days after deposit in the United States mail, postage prepaid, addressed to the Optionee at the last address the Optionee provided to the Company.

14. The Option has been granted subject to the terms and conditions of the Plan, a copy of which has been provided to the Optionee and which the Optionee acknowledges having received and reviewed. Any conflict between this Agreement and the Plan shall be decided in favor of the provisions of the Plan. Any conflict between this Agreement and the terms of a written employment agreement for the Optionee that has been approved, ratified or confirmed by the Board of Directors of the Company or the Committee shall be decided in favor of the provisions of such employment agreement. Terms used but not defined in this Agreement shall have the meanings given to them in the Plan. This Agreement may not be amended in any manner adverse to the Optionee except by a written agreement executed by the Optionee and the Company.

15. Nothing herein shall confer upon the Optionee the right to continue to serve as a an employee, consultant or director of the Company or any of its Affiliates.

16. The Optionee understands that all shares purchased upon exercise of the Option are subject to compliance with the Company's Securities Trading Policy. Further, the Optionee acknowledges that he or she has received and reviewed a copy of the prospectus describing the Plan and the tax consequences of an exercise.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by an officer duly authorized thereto as of the __ day of ______, 20__.

ENCORE CAPITAL GROUP, INC.

By: ______________________________
Name: ______________________________
Title: ______________________________

ACCEPTED AND AGREED TO:

____
[optionee name]

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Section 5: EX-31.1 (CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, J. Brandon Black, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Encore Capital Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2009

By: /s/ J. Brandon Black
J. Brandon Black
President and Chief Executive Officer

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Section 6: EX-31.2 (CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Paul Grinberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Encore Capital Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2009

By: /s/ Paul Grinberg
Paul Grinberg
Executive Vice President, Chief
Financial Officer and Treasurer

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Section 7: EX-32.1 (CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER)

Exhibit 32.1

ENCORE CAPITAL GROUP, INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Encore Capital Group, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

/s/ J. Brandon Black

J. Brandon Black
President and Chief Executive Officer

July 30, 2009

/s/ Paul Grinberg

Paul Grinberg
Executive Vice President, Chief Financial Officer and Treasurer

July 30, 2009

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