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

FORM 8-K

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

Date of report (Date of earliest event reported): May 9, 2013

ENCORE CAPITAL GROUP, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

000-26489
(Commission
File Number)

48-1090909
(IRS Employer
Identification No.)

3111 Camino Del Rio North, Suite 1300, San Diego, California
(Address of Principal Executive Offices)

92108
(Zip Code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01. Other Events.

On March 6, 2013, Encore Capital Group, Inc. (the “Company” or “Encore”) entered into an Agreement and Plan of Merger (the “merger agreement”) by and among the Company, Pinnacle Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company (“Merger Sub”), and Asset Acceptance Capital Corp., a Delaware corporation (“AACC”), pursuant to which Merger Sub will merge with and into AACC, and the separate corporate existence of Merger Sub will cease, and AACC will continue as the surviving corporation and wholly owned subsidiary of the Company (the “merger”). Subject to the terms and conditions of the merger agreement, at the effective time of the merger, each holder of AACC common stock will be entitled to receive, at such holder’s election, either an amount in cash equal to \$6.50 without interest, or 0.2162 validly issued, fully paid and nonassessable shares of the common stock of the Company (subject to proration as specified in the merger agreement) for each share of AACC common stock such holder owns at the effective time of the merger.

Consummation of the merger is subject to, among other items, the approval of AACC’s stockholders and customary closing conditions and regulatory approvals.

Preliminary unaudited pro forma condensed combined financial information reflecting the merger is attached hereto as Exhibit 99.1.

Cautionary Statement Regarding Forward-Looking Statements

Statements in this Current Report on Form 8-K and the exhibits filed herewith that relate to future results and events are not facts and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements concerning the proposed transactions with AACC, the financial and business impact of such transactions, management’s beliefs and objectives with respect thereto, and management’s current expectations for future operating and financial performance, are based on assumptions currently believed to be valid. Forward-looking statements are all statements other than statements of historical facts. The words “anticipates,” “may,” “can,” “plans,” “believes,” “estimates,” “expects,” “projects,” “intends,” “likely,” “will,” “should,” “to be,” and any similar expressions or other words of similar meaning are intended to identify those assertions as forward-looking statements. It is uncertain whether the events anticipated will transpire, or if they do occur what impact they will have on the results of operations and financial condition of the Company, AACC or of the combined company. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from those anticipated, including but not limited to the ability of the parties to satisfy the conditions precedent and consummate the proposed transactions, the timing of consummation of the proposed transactions, the ability of the parties to secure regulatory approvals in a timely manner or on the terms desired or anticipated, the ability of the Company to integrate AACC, the ability to implement the anticipated business plans following closing and achieve anticipated benefits and savings, and the ability to realize opportunities for growth. Other important economic, political, regulatory, legal, technological, competitive and other uncertainties are identified in the documents filed with the Securities and Exchange Commission (the “SEC”) by the Company from time to time, including the Company’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. The forward-looking statements included herein are made only as of the date hereof. The Company undertakes no obligation to update the forward-looking statements included herein to reflect subsequent events or circumstances.

Additional Information and Where to Find It

This Current Report on Form 8-K is not a request for or a solicitation of a proxy or an offer to acquire any shares of common stock of the Company. In connection with the proposed transaction the Company has filed with the SEC on March 27, 2013 a Registration Statement on Form S-4, File No. 333-187581 (as amended, the “Registration Statement”), which contains AACC’s proxy statement and also constitutes a prospectus of the Company. The Registration Statement has been declared effective by the SEC and the Company has filed with the SEC on May 6, 2013 a prospectus pursuant to Rule 424(b)(3) under the Securities Act of 1933. Investors are urged to read the proxy statement/prospectus and all other relevant documents filed with the SEC (as well as any amendments and/or supplements to those documents), as they will contain important information about the merger and the parties to the merger.

Investors are able to obtain these documents free of charge at the SEC's web site, <http://www.sec.gov>. In addition, they may obtain free copies of these documents by contacting the Company by mail addressed to Encore Capital Group, Inc., 3111 Camino Del Rio North, Suite 1300, San Diego, California 92108, Attention: Adam Sragovicz, by telephone at (877) 445-4581 or via electronic mail to adam.sragovicz@encorecapital.com. Investors also may read and copy any reports, statements and other information filed with the SEC at the SEC public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 or visit the SEC's website for further information on its public reference room.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Unaudited Pro Forma Condensed Combined Financial Information.

SIGNATURE

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

ENCORE CAPITAL GROUP, INC.

Date: May 9, 2013

/s/ Paul Grinberg

Paul Grinberg

Executive Vice President, Chief Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit
Number

Description

99.1 Unaudited Pro Forma Condensed Combined Financial Information.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The accompanying Unaudited Pro Forma Condensed Combined Statement of Financial Condition (the "Pro Forma Balance Sheet") as of March 31, 2013, combines the historical consolidated statements of financial condition of Encore and AACC, giving effect to the merger as if it had been completed on March 31, 2013. The accompanying Unaudited Pro Forma Condensed Combined Statement of Earnings (the "Pro Forma Income Statement") for the three months ended March 31, 2013 combines the historical consolidated statements of earnings of Encore and AACC, giving effect to the merger as if it had been completed on January 1, 2013. Reclassifications have been made to AACC's consolidated statement of operations for the three months ended March 31, 2013 to conform to Encore's financial statement presentations.

The accompanying unaudited pro forma condensed combined financial statements (the "Statements") and related notes have been prepared using the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States ("GAAP"), with Encore treated as the acquirer. The acquisition method of accounting is dependent upon certain valuations and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measure. Accordingly, the pro forma adjustments are preliminary, have been made solely for the purpose of providing the Statements, and are subject to revision based on a final determination of fair value as of the date of acquisition. Differences between these preliminary estimates and the final acquisition accounting may have a material impact on the accompanying Statements and the combined company's future results of operations and financial position.

The Statements do not give effect to the costs of any integration activities or benefits that may result from the realization of future cost savings from operating efficiencies, or any tax or other synergies that may result from the merger.

The accompanying Statements and related notes are being provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Encore would have been had the merger occurred on the dates assumed, nor are they necessarily indicative of Encore's future consolidated results of operations or consolidated financial position. The Statements are based upon currently available information and estimates and assumptions that Encore management believes are reasonable as of the date hereof. Any of the factors underlying these estimates and assumptions may change or prove to be materially different, and the estimates and assumptions may not be representative of facts existing at the closing date of the merger.

The accompanying Statements have been developed from, and should be read in conjunction with, the accompanying notes to the Statements and the unaudited condensed consolidated financial statements and accompanying notes as of and for the three months ended March 31, 2013 of each of Encore and AACC contained in their respective Quarterly Reports on Form 10-Q for the quarter ended March 31, 2013.

Encore Capital Group, Inc.
Pro Forma Condensed Combined Statement of Financial Condition
(In Thousands)
(Unaudited)

	As of March 31, 2013			
	Historical		Pro Forma	Pro Forma
	Encore	AACC	Adjustments	Pro Forma
Assets				
Cash and cash equivalents	\$ 29,904	\$ 19,654	\$ (23,250)(A)	\$ 26,308
Investment in receivable portfolios, net	801,525	348,976	56,433(B)	1,206,934
Deferred court costs, net	35,448	—	13,865(C)	49,313
Property tax payment agreements receivable, net	153,580	—	—	153,580
Interest receivable	4,621	—	—	4,621
Income tax receivable	—	192	—	192
Property and equipment, net	24,389	12,452	—	36,841
Other assets	31,113	12,004	(523)(D)	42,594
Goodwill	51,437	14,323	19,658(E)	85,418
Identifiable intangible assets, net	462	—	—	462
Total assets	<u>\$1,132,479</u>	<u>\$407,601</u>	<u>\$ 66,183</u>	<u>\$1,606,263</u>
Liabilities and Stockholders' Equity				
Liabilities:				
Accounts payable and accrued liabilities	\$ 42,120	\$ 24,308	\$ 5,258(F)	\$ 71,686
Income tax payable	7,236	1,386	—	8,622
Deferred tax liabilities, net	8,443	65,338	25,694(G)	99,475
Debt	646,011	165,914	143,093(H)	955,018
Other liabilities	1,738	—	—	1,738
Total liabilities	<u>705,548</u>	<u>256,946</u>	<u>174,045</u>	<u>1,136,539</u>
Commitments and contingencies				
Stockholders' equity:				
Convertible preferred stock	—	—	—	—
Common Stock	233	335	(318)(I),(J)	250
Additional paid-in capital	89,189	110,333	(60,350)(I),(J)	139,172
Accumulated earnings	338,777	40,478	(47,685)(F),(J)	331,570
Accumulated other comprehensive loss	(1,268)	(491)	491(J)	(1,268)
Total stockholders' equity	<u>426,931</u>	<u>150,655</u>	<u>(107,862)</u>	<u>469,724</u>
Total liabilities and stockholders' equity	<u>\$1,132,479</u>	<u>\$407,601</u>	<u>\$ 66,183</u>	<u>\$1,606,263</u>

Encore Capital Group, Inc.
Pro Forma Condensed Combined Statement of Earnings
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31, 2013			
	Historical		Pro Forma Adjustments	Pro Forma
	Encore	AACC		
Revenues				
Revenue from receivable portfolios, net	\$ 140,683	\$ 55,014	\$ (4,492)(K)	\$ 191,205
Servicing fees and other related revenue	—	180	—	180
Tax lien transfer				
Interest income	4,715	—	—	4,715
Interest expense	(1,113)	—	—	(1,113)
Net interest income	3,602	—	—	3,602
Total revenues	<u>144,285</u>	<u>55,194</u>	<u>(4,492)</u>	<u>194,987</u>
Operating expenses				
Salaries and employee benefits	28,832	14,217	—	43,049
Cost of legal collections	42,258	13,191	(3,191)(L)	52,258
Other operating expenses	13,265	4,299	—	17,564
Collection agency commissions	3,329	8,252	—	11,581
General and administrative expenses	16,342	7,833	(3,161)(M)	21,014
Depreciation and amortization	1,846	999	—	2,845
Total operating expenses	<u>105,872</u>	<u>48,791</u>	<u>(6,352)</u>	<u>148,311</u>
Income from operations	<u>38,413</u>	<u>6,403</u>	<u>1,860</u>	<u>46,676</u>
Other (expense) income				
Interest expense	(6,854)	(4,909)	1,575(N)	(10,188)
Other income (expense)	460	(133)	—	327
Total other expenses	<u>(6,394)</u>	<u>(5,042)</u>	<u>1,575</u>	<u>(9,861)</u>
Income before income taxes	32,019	1,361	3,435	36,815
Provision for income taxes	(12,571)	(964)	(1,364)(O)	(14,899)
Net income	<u>\$ 19,448</u>	<u>\$ 397</u>	<u>\$ 2,071</u>	<u>\$ 21,916</u>
Weighted average shares outstanding:				
Basic	23,446		1,663(P)	25,109
Diluted	24,414		1,663(P)	26,077
Earnings per share:				
Basic	\$ 0.83			\$ 0.87
Diluted	\$ 0.80			\$ 0.84

Notes to Pro Forma Condensed Combined Financial Information (Unaudited)

1. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial information presents the pro forma results of operations and financial condition of Encore and AACC on a combined basis based on the historical financial information of each company and after giving effect to the merger. The acquisition will be recorded using the acquisition method of accounting.

The unaudited pro forma condensed combined statement of financial condition as of March 31, 2013, combines the historical consolidated statements of financial condition of Encore and AACC, giving effect to the merger as if it had been completed on March 31, 2013. The unaudited pro forma condensed combined statement of earnings for the three months ended March 31, 2013 combines the historical results for Encore for the three months ended March 31, 2013 and the historical results for AACC for the three months ended March 31, 2013, as if the merger had occurred on January 1, 2013. Reclassifications have been made to AACC's consolidated statement of operations for the three months ended March 31, 2013 to conform to Encore's financial statement presentations.

The purchase price adjustments reflected in the pro forma information included herein are based on preliminary assumptions, and have been made solely for the purpose of providing the unaudited pro forma condensed combined financial statements. The final purchase price allocation, which will be based in part, on a detailed valuation study which has not yet been completed, may result in material adjustments to the pro forma condensed combined financial information presented. Encore expects to complete the final purchase price allocation no later than twelve months following the closing date of the merger.

2. Pro Forma Adjustments

(A) To reflect the following cash transactions (in thousands, except per share amount):

Proceeds:	
Estimated borrowings under Encore's existing credit facility	\$ 309,007
Estimated issuance of Encore stock	50,000
Uses:	
Estimated purchase price for equity of AACC (31,473 shares at \$6.50 per share)	(204,574)
Pay-off of AACC debt	(174,087)
Estimated financing costs	(3,596)
Net pro forma cash adjustment	<u>\$ (23,250)</u>

- (B) Represents the increase in investment in receivable portfolios to reflect the estimated fair value of AACC's investment in receivable portfolios. Encore computed the fair value of AACC's investment in receivable portfolios by discounting the estimated future cash flows, generated by Encore's proprietary forecasting models, using an estimated market participant discount rate. This amount is an estimate that will be updated when a formal independent valuation is completed within the first year after the merger.
- (C) Encore capitalizes deferred court costs and provides a reserve for those costs that it believes will ultimately be uncollectible. Encore determines the reserve based on its analysis of court costs that have been advanced and those that have been recovered. AACC expenses court costs as they are advanced and records them as revenue upon recovery. This pro forma adjustment represents an increase in capitalized court costs to align AACC's accounting treatment with that of Encore.
- (D) Represents the write-off of AACC's capitalized loan fees of \$4.1 million net of the capitalization of Encore's loan fees incurred to finance the acquisition of \$3.6 million.
- (E) Represents \$34.0 million of estimated goodwill resulting from the excess of purchase price over the fair value of assets acquired net of liabilities assumed, net of the reversal of \$14.3 million of goodwill included in AACC's historical financial statements.

The following table reflects the preliminary allocation of the total purchase price of AACC to the assets acquired and the liabilities assumed based on the preliminary estimates of fair value. The final purchase price allocation, which will be based in part on a detailed valuation study which has not yet been completed, may result in material adjustments. Encore expects to complete the final purchase price allocation no later than twelve months following the closing date of the merger. (in thousands):

Estimated purchase price	\$ 359,007
<i>Less fair value of:</i>	
Tangible assets acquired	(439,803)
<i>Plus fair value of:</i>	
Liabilities assumed	<u>114,777</u>
Goodwill	<u>\$ 33,981</u>

- (F) Represents a net increase in accrued liabilities for expected transaction costs of \$7.2 million, offset by a reduction of \$1.9 million to reflect the estimated fair value of liabilities assumed.
- (G) Represents an adjustment to deferred income tax liabilities related to purchase price allocated to the investment in receivable portfolios which is not deductible for income tax purposes. The amount allocated is preliminary and subject to adjustment pending the final purchase price allocation.
- (H) Represents \$309.0 million in estimated additional borrowings under Encore's credit facility in order to finance the merger. On May 9, 2013, Encore amended its credit facility. The amendment increased the credit limit in an amount sufficient to fund the merger and amended the borrowing base calculation, certain restrictions and covenants, and acquisition limits to allow for the merger. Also reflects the elimination of AACC's debt of \$165.9 million, which is net of debt discount of \$8.2 million that will be paid off in conjunction with the completion of the merger.
- (I) Represents the issuance of \$50.0 million of Encore common stock using the stated exchange price of \$30.07 per share, as a portion of the aggregate merger consideration for the purchase of AACC.
- (J) Represents the elimination of AACC's stockholders' equity accounts.
- (K) Encore capitalizes deferred court costs and provides a reserve for those costs that it believes will ultimately be uncollectible. Encore determines the reserve based on its analysis of court costs that have been advanced and those that have been recovered. AACC expenses court costs as they are advanced and records them as revenue upon recovery. This pro forma adjustment represents the reduction in revenue for court cost recoveries included in AACC's revenue in order to align AACC's accounting treatment with that of Encore.
- (L) Encore capitalizes deferred court costs and provides a reserve for those costs that it believes will ultimately be uncollectible. Encore determines the reserve based on its analysis of court costs that have been advanced and those that have been recovered. AACC expenses court costs as they are advanced and records them as revenue upon recovery. This pro forma adjustment represents a reduction in court cost expense related to capitalizing court costs related to AACC's court cost investment to align AACC's accounting treatment with that of Encore.
- (M) Represents the elimination of non-recurring due diligence and deal related expenses incurred by Encore and AACC.
- (N) Represents the reduction in net interest expense related to interest and amortization of capitalized loan fees on debt to be incurred by Encore to finance the merger, offset by the elimination of AACC's existing interest expense, amortization of original issue discount and amortization of capitalized loan fees.
- (O) Represents the provision for income taxes associated with the pro forma adjustments computed based upon an estimated combined federal and state statutory rate of 39.7% for the three months ended March 31, 2013.
- (P) Represents the issuance of 1,663,000 shares of Encore common stock using the stated exchange price of \$30.07 per share to finance up to 25% of the aggregate merger consideration (assumed to be \$50.0 million).

3. Changes to Pro Forma Adjustments Assuming No Equity is Issued in the Merger

The accompanying unaudited pro forma condensed combined financial information was presented assuming \$50.0 million of Encore common stock was issued as part of the merger consideration. In the event that stockholders' of AACC do not elect to receive Encore stock and elect to receive 100% of the merger consideration in cash, the unaudited pro forma condensed combined statement of financial condition and the unaudited pro forma condensed combined statement of earnings would be changed as follows:

	As of and For the Three Months Ended March 31, 2013		
	Pro Forma	Adjustments	Revised Pro Forma
Condensed combined statement of financial condition			
Debt	\$ 955,018	\$ 50,000	\$ 1,005,018
Total liabilities	\$1,136,539	\$ 50,000	\$ 1,186,539
Common stock	\$ 250	\$ (17)	\$ 233
Additional paid-in capital	\$ 139,172	\$ (49,983)	\$ 89,189
Total stockholders' equity	\$ 469,724	\$ (50,000)	\$ 419,724
Condensed combined statement of earnings			
Net income	\$ 21,916	\$ (337)	\$ 21,579
Weighted average shares outstanding:			
Basic	25,109	(1,663)	23,446
Diluted	26,077	(1,663)	24,414
Earnings per share:			
Basic	\$ 0.87	\$ 0.05	\$ 0.92
Diluted	\$ 0.84	\$ 0.04	\$ 0.88