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 March 31, 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	**48-1090909**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
8875 Aero Drive, Suite 200 **San Diego, California**	**92123**
(Address of principal executive offices)	**(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 April 21, 2009**
Common Stock, $0.01 par value	23,060,871 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)

	March 31, 2009	December 31, 2008 Adjusted
Assets		
Cash and cash equivalents	$ 4,261	$ 10,341
Accounts receivable, net	1,775	1,757
Investment in receivable portfolios, net	473,484	461,346
Deferred court costs	30,645	28,335
Property and equipment, net	6,279	6,272
Prepaid income tax	2,515	7,935
Forward flow asset	10,302	10,302
Other assets	4,703	5,067
Goodwill	15,985	15,985
Identifiable intangible assets, net	1,578	1,739
Total assets	$551,527	$ 549,079
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 17,805	$ 18,204
Deferred tax liabilities, net	15,253	15,108
Deferred revenue and purchased servicing obligation	5,229	5,203
Debt	296,356	303,655
Other liabilities	3,176	3,483
Total liabilities	337,819	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, 23,061 shares and 23,053 shares issued and outstanding as of March 31, 2009, and December 31, 2008, respectively	231	231
Additional paid-in capital	99,622	98,521
Accumulated earnings	115,792	106,795
Accumulated other comprehensive loss	(1,937)	(2,121)
Total stockholders' equity	213,708	203,426
Total liabilities and stockholders' equity	$551,527	$ 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 March 31,	
	2009	2008 Adjusted
Revenue		
Revenue from receivable portfolios, net	$72,275	$64,068
Servicing fees and other related revenue	4,171	3,486
Total revenue	76,446	67,554
Operating expenses		
Salaries and employee benefits (excluding stock-based compensation expense)	13,957	14,851
Stock-based compensation expense	1,080	1,094
Cost of legal collections	29,947	20,306
Other operating expenses	5,980	5,651
Collection agency commissions	2,891	4,031
General and administrative expenses	5,697	4,460
Depreciation and amortization	623	722
Total operating expenses	60,175	51,115
Income before other (expense) income and income taxes	16,271	16,439
Other (expense) income		
Interest expense	(4,273)	(5,200)
Gain on repurchase of convertible notes	3,053	—
Other (expense) income	(81)	21
Total other expense	(1,301)	(5,179)
Income before income taxes	14,970	11,260
Provision for income taxes	(5,973)	(4,509)
Net income	$ 8,997	$ 6,751
Weighted average shares outstanding:		
Basic	23,122	22,992
Diluted	23,631	23,431
Earnings per share:		
Basic	$ 0.39	$ 0.29
Diluted	$ 0.38	$ 0.29

See accompanying notes to unaudited condensed consolidated financial statements

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

	Common Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity	Comprehensive Income
	Shares	Par					
Balance at December 31, 2008, Adjusted	23,053	$231	$ 98,521	$ 106,795	$ (2,121)	$203,426	
Net income	—	—	—	8,997	—	8,997	8,997
Other comprehensive income:							
Unrealized gain on cash flow hedge, net of tax	—	—	—	—	184	184	184
Issuance of share-based awards	8	—	—	—	—	—	—
Stock-based compensation	—	—	1,080	—	—	1,080	—
Tax benefit related to stock option exercises	—	—	21	—	—	21	—
Balance at March 31, 2009	23,061	$231	$ 99,622	$ 115,792	$ (1,937)	$213,708	$ 9,181

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2009	2008 Adjusted
Operating activities:		
Net Income	$ 8,997	$ 6,751
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	623	722
Amortization of loan costs and debt discount	1,221	1,567
Stock-based compensation expense	1,080	1,094
Gain on repurchase of convertible notes, net	(3,053)	—
Deferred income tax expense (benefit)	145	(559)
Tax benefit from stock-based payment arrangements	(21)	(5)
Provision for impairment on receivable portfolios, net	5,427	5,335
Changes in operating assets and liabilities		
Other assets	(165)	1,386
Deferred court costs	(2,310)	(2,906)
Prepaid income tax	5,441	4,819
Deferred revenue and purchased service obligation	26	185
Accounts payable and accrued liabilities	(523)	(2,559)
Net cash provided by operating activities	16,888	15,830
Investing activities:		
Purchases of receivable portfolios, net of forward flow allocation	(55,913)	(44,976)
Collections applied to investment in receivable portfolios, net	37,424	34,877
Proceeds from put-backs of receivable portfolios	924	1,692
Purchases of property and equipment	(469)	(1,117)
Net cash used in investing activities	(18,034)	(9,524)
Financing activities:		
Proceeds from revolving credit facility	32,000	9,000
Repayment of revolving credit facility	(17,000)	(11,169)
Repurchase of convertible notes	(19,834)	—
Proceeds from exercise of stock options	—	2
Tax benefit from stock-based payment arrangements	21	5
Repayment of capital lease obligations	(121)	(83)
Net cash used in financing activities	(4,934)	(2,245)
Net (decrease) increase in cash	(6,080)	4,061
Cash and cash equivalents, beginning of period	10,341	8,676
Cash and cash equivalents, end of period	$ 4,261	$ 12,737
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 3,699	$ 4,172
Income tax payment (refund)	$ 499	$ (407)
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

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 1,393,000 and 1,303,000 shares of common stock were outstanding during the three months ended March 31, 2009 and 2008, respectively, 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 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. This FASB Staff Position also amends APB Opinion No. 28, "*Interim Financial Reporting,*" to require certain disclosures in summarized financial information at interim reporting periods. This standard will be effective for the Company's second quarter ended June 30, 2009. The Company is in the process of determining the effects of the adoption of this standard on its consolidated financial statement disclosures.

In April 2009, the FASB issued FSP FAS 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*." This FASB Staff Position provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, "*Fair Value Measurements*," when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that indicate a transaction is not orderly. This standard will be effective for the Company for its second quarter ended June 30, 2009. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

Note 2: Fair Value Measurements

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 measured at fair value on a recurring basis are summarized below *(in thousands)*:

Financial Instruments	Fair Value Hierarchy	Fair Value at March 31, 2009	Fair Value at December 31, 2008
Cash and cash equivalents	Level 1	$ 4,261	$ 10,341
Cash flow hedging instruments	Level 2	(3,176)	(3,483)

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

Note 3: Stock-Based Compensation

On March 30, 2005, the Board of Directors of the Company adopted the 2005 Stock Incentive Plan (“2005 Plan”) for Board members, employees, officers, and executives of, and consultants and advisors to, the Company. 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. Upon adoption, an aggregate of 1,500,000 shares of the Company’s common stock were available for awards under the 2005 Plan, plus ungranted shares of stock that were available for future awards under the 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 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 three months ended March 31, 2009, approximately $1.1 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.

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 three months ended March 31, 2008):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 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 March 31, 2009, was $1.9 million, which is expected to be recognized over a weighted-average period of approximately 2.3 years.

A summary of the Company’s stock option activity and related information is as follows for the three months ended March 31, 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	(24,200)	10.92 - 16.19	13.33	
Exercised	—	—	—	
Outstanding at March 31, 2009	2,377,803	$0.35 - $20.09	$ 8.38	$ 3,101
Exercisable at March 31, 2009	1,622,106	$0.35 - $20.09	$ 8.26	$ 2,671

There were no stock options exercised during the three months ended March 31, 2009. The total intrinsic value of options exercised during the three months ended March 31, 2008 was less than $0.1 million. As of March 31, 2009, the weighted-average remaining contractual life of options outstanding and options exercisable was 6.11 years and 4.70 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 March 31, 2009, 113,100 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 March 31, 2009. The remaining 696,202 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 three months ended March 31, 2009, restricted stock unit activity and related information is 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	203,114	$ 3.33
Vested	(22,364)	$ 6.93
Cancelled/forfeited	(200)	$ 10.25
Non-vested at March 31, 2009	809,302	$ 9.33

Unrecognized estimated compensation cost related to restricted stock units as of March 31, 2009, was $3.6 million, which is expected to be recognized over a weighted-average period of approximately 2.4 years. The fair value of restricted stock units vested for the three months ended March 31, 2009 and 2008 was $0.2 million and $0.1 million, respectively.

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 March 31, 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)*:

	Three Months Ended March 31, 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

	Three Months Ended March 31, 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

During the three months ended March 31, 2009, the Company purchased receivable portfolios with a face value of $1.3 billion for $55.9 million, or a purchase cost of 4.2% of face value. The estimated future collections at acquisition for these portfolios amounted to $138.4 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 March 31, 2009 and 2008, approximately $2.5 million and $2.6 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.

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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 March 31, 2009			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 460,598	$ 748	$ —	$ 461,346
Purchases of receivable portfolios	55,913	—	—	55,913
Gross collections[1]	(112,491)	(139)	(2,496)	(115,126)
Put-backs and recalls[2]	(920)	—	(4)	(924)
Revenue recognized	75,202	—	2,500	77,702
Impairment, net	(5,427)	—	—	(5,427)
Balance, end of period	$ 472,875	$ 609	$ —	$ 473,484
Revenue as a percentage of collections[3]	66.9%	0.0%	100.0%	67.5%

	For the Three Months Ended March 31, 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	47,902	—	—	47,902
Gross collections[1]	(101,523)	(199)	(2,558)	(104,280)
Put-backs and recalls[2]	(1,678)	(14)	—	(1,692)
Revenue recognized[4]	66,845	—	2,558	69,403
Impairment, net [4]	(5,335)	—	—	(5,335)
Balance, end of period	$ 396,775	$ 1,432	$ —	$ 398,207
Revenue as a percentage of collections[3]	65.8%	0.0%	100.0%	66.6%

(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 represents 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 three months ended March 31, 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

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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 March 31, 2009	Three Months Ended March 31, 2008
Collection sites	$ 50,342	$ 43,289
Legal collections	56,407	45,292
Collection agencies	7,667	10,961
Sales	817	4,214
Other	—	599
Gross collections for the period	$ 115,233	$ 104,355

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*):

	March 31, 2009	December 31, 2008
Court costs advanced	$160,077	$ 145,579
Court costs recovered	(39,649)	(36,929)
Court costs reserve	(89,783)	(80,315)
	$ 30,645	$ 28,335

Note 6: Other Assets

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

	March 31, 2009	December 31, 2008 Adjusted
Debt issuance costs	$ 1,441	$ 1,953
Deferred compensation assets	681	1,206
Prepaid expenses	1,292	973
Other	1,289	935
	$ 4,703	$ 5,067

Note 7: Debt

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

	March 31, 2009	December 31, 2008 Adjusted
Convertible Senior Notes	$ 45,845	$ 71,422
Less: Debt discount	(4,264)	(7,664)
Revolving Credit Facility	253,000	238,000
Capital Lease Obligations	1,775	1,897
	$296,356	$ 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 March 31, 2009, the Company, under three separate transactions, repurchased $25.6 million principal amount of its outstanding Convertible Notes for a total price of $19.8 million plus accrued interest. These transactions left $45.8 million principal amount of the Company's Convertible Notes outstanding and resulted in a net gain of $3.1 million. The Company has written-off approximately $0.2 million in debt issuance costs and $2.5 million in debt discount in connection with the repurchase of its Convertible Notes during the three months ended March 31, 2009.

As of March 31, 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 March 31, 2009, the outstanding balance on the Revolving Credit Facility was $253.0 million, which bore a weighted average interest rate of 4.01%. The aggregate borrowing base was $278.6 million, of which $25.6 million was available for future borrowings.

Derivative Instruments

On April 11, 2007, the Company entered into two separate interest rate swap agreements intended to more effectively manage interest rates by establishing a set level of fixed rates associated with a portion of the borrowings under its Revolving Credit Facility. 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%. Giving effect to these hedges, the interest rate the Company will pay on $50.0 million of the outstanding balance under the Revolving Credit Facility will be the fixed interest rates mentioned above plus the required credit spread. 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 is recorded in other comprehensive income. The ineffective portion of the change in fair value of the derivative, 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. Accordingly, no gain or loss has been recognized in earnings for the three months ended March 31, 2009 and 2008. The change in fair value recognized in accumulated other comprehensive loss represented a gain of $0.3 million and a loss of $1.4 million for the three months ended March 31, 2009 and 2008, respectively. As of March 31, 2009, the fair value of the hedges represented a liability of $3.2 million.

Fair Values of Derivative Instruments *(in thousands)*
Liability Derivatives

	As of March 31, 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	$ 3,176	Other liabilities	$ 3,483

The Effect of Derivative Instruments on the Statements of Income for the Three Months Ended March 31, 2009 and 2008 *(in thousands)*

Derivatives in FAS 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		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)		Location of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2009	2008		2009	2008		2009	2008
Interest rate swaps	$ 307	$ (1,430)	Interest	$ —	$ —	Other income	$ —	$ —

Capital Lease Obligations

The Company has capital lease obligations for certain computer equipment. These lease obligations require monthly payments aggregating approximately $20,000 through November 2011 and have an implicit interest rate of approximately 6.9%.

The Company finances certain leasehold improvement projects with its lessors in its Phoenix and St. Cloud facilities. As of March 31, 2009, the Company's combined obligation was approximately $1.2 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 $6.0 million, reflecting an effective rate of 39.9% of pretax income during the three months ended March 31, 2009. The effective tax rate for the three months ended March 31, 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% and the benefit of permanent book versus tax differences of 0.2%. 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 March 31, 2008, was $4.5 million, reflecting an effective rate of 40.0% of pretax income. The effective tax rate for the three months ended March 31, 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 the benefit of permanent book verses tax differences of 0.3%.

Effective January 1, 2007, the Company adopted the provisions of Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). As of March 31, 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 months ended March 31, 2009, there were no material changes to the unrecognized tax benefit.

For the three months ended March 31, 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 months ended March 31, 2009, were approximately $0.2 million. 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 Three Months Ended March 31, 2009	
	Cost	%
Seller 1	$ 19,343	34.6%
Seller 2	12,274	22.0%
Seller 3	10,987	19.7%
Seller 4	5,440	9.7%
Seller 5	3,299	5.9%
Other	4,570	8.1%
	$ 55,913	100.0%
Adjustments[1]	(371)	
Purchases, net	$ 55,542	

(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-SLAAP 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 continuing and 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 March 31, 2009, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately $1.1 billion for a purchase price of approximately $46.1 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. 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 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 is 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 is in the early stages of development 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.

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 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 three months ended March 31, 2009, the Company repurchased $25.6 million principal amount of its outstanding Convertible Notes, for a total price of $19.8 million, plus accrued interest. From the inception of the securities repurchase program, the Company has repurchased $54.2 million principal amount of its Convertible Notes, for a total cash payment of $39.9 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.

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.

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

	March 31, 2009	December 31, 2008 Adjusted
Liability component – principal amount	$ 45,845	$ 71,422
Unamortized debt discount	(4,264)	(7,664)
Liability component – net carrying amount	41,581	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 three months ended March 31, 2009 and 2008.

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

	For the Three Months Ended	
	March 31, 2009	March 31, 2008 Adjusted
Interest expense – stated coupon rate	$ 540	$ 844
Interest expense – amortization of debt discount	910	1,299
Total interest expense – convertible notes	$ 1,450	$ 2,143

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Effect of Change in Accounting Principle to Consolidated Statements of Financial Condition

The following table summarizes the effect of the change in accounting principle related to the Company's Convertible Notes on the consolidated statements of financial condition as of March 31, 2009 and December 31, 2008 *(in thousands):*

	As of					
	March 31, 2009			December 31, 2008		
	As computed without change in accounting principle	As reported with change in accounting principle	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Assets:						
Cash and cash equivalents	$ 4,261	$ 4,261	$ —	$ 10,341	$ 10,341	$ —
Accounts receivable, net	1,775	1,775	—	1,757	1,757	—
Investment in receivable portfolios, net	473,484	473,484	—	461,346	461,346	—
Deferred court costs	30,645	30,645	—	28,335	28,335	—
Property and equipment, net	6,279	6,279	—	6,272	6,272	—
Prepaid income tax	2,590	2,515	(75)	7,935	7,935	—
Forward flow asset	10,302	10,302	—	10,302	10,302	—
Other assets	4,823	4,703	(120)	5,286	5,067	(219)
Goodwill	15,985	15,985	—	15,985	15,985	—
Identifiable intangible assets, net	1,578	1,578	—	1,739	1,739	—
Total Assets	$ 551,722	$ 551,527	$ (195)	$ 549,298	$ 549,079	$ (219)
Liabilities:						
Accounts payable and accrued liabilities	$ 17,805	$ 17,805	$ —	$ 18,204	$ 18,204	$ —
Deferred tax liabilities, net	15,344	15,253	(91)	15,199	15,108	(91)
Deferred revenue and purchased servicing obligation	5,229	5,229	—	5,203	5,203	—
Debt	300,620	296,356	(4,264)	311,319	303,655	(7,664)
Other liabilities	3,176	3,176	—	3,483	3,483	—
Total liabilities	342,174	337,819	(4,355)	353,408	345,653	(7,755)
Stockholders' equity:						
Common Stock	231	231	—	231	231	—
Additional paid-in capital	82,470	99,622	17,152	79,971	98,521	18,550
Accumulated earnings	128,784	115,792	(12,992)	117,809	106,795	(11,014)
Accumulated other comprehensive loss	(1,937)	(1,937)	—	(2,121)	(2,121)	—
Total stockholders' equity	209,548	213,708	4,160	195,890	203,426	7,536
Total liabilities and stockholders' equity	$ 551,722	$ 551,527	$ (195)	$ 549,298	$ 549,079	$ (219)

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Effect of Change in Accounting Principle to Consolidated Statements of Income

The following table summarizes the effect of change in accounting principle related to the Company's Convertible Notes on the consolidated statements of income for the three months ended March 31, 2009 and 2008 *(in thousands):*

	Three Months Ended March 31,					
	2009			2008		
	As computed without change in accounting principle	As reported with change in accounting principle	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Total revenue	$ 76,446	$ 76,446	$ —	$ 67,554	$ 67,554	$ —
Total operating expenses	60,175	60,175	—	51,115	51,115	—
Income before other (expense) income and income taxes	16,271	16,271	—	16,439	16,439	—
Other (expense) income						
Interest expense	(3,389)	(4,273)	(884)	(3,946)	(5,200)	(1,254)
Gain on repurchase of convertible notes, net	5,470	3,053	(2,417)	—	—	—
Other income	(81)	(81)	—	21	21	—
Total other expense	2,000	(1,301)	(3,301)	(3,925)	(5,179)	(1,254)
Income before income taxes	18,271	14,970	(3,301)	12,514	11,260	(1,254)
Provision for income taxes	(7,296)	(5,973)	1,323	(5,014)	(4,509)	505
Net income	$ 10,975	$ 8,997	$(1,978)	$ 7,500	$ 6,751	$ (749)
Earnings Per Share:						
Basic	$ 0.47	$ 0.39	$ (0.08)	$ 0.33	$ 0.29	$ (0.04)
Diluted	$ 0.46	$ 0.38	$ (0.08)	$ 0.32	$ 0.29	$ (0.03)

Effect of Change in Accounting Principle to Consolidated Statements of Stockholders' Equity

The following table summarizes the effect of change in accounting principle related to the Company's Convertible Notes on the consolidated statements of stockholders' equity for the three months ended March 31, 2009 and 2008 *(in thousands):*

	Three Months Ended March 31,					
	2009			2008		
	As computed without change in accounting principle	As reported with change in accounting principle	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Balance, beginning of the period	$ 195,890	$ 203,426	$ 7,536	$ 171,520	$ 187,435	$ 15,915
Net income	10,975	8,997	(1,978)	7,500	6,751	(749)
Other comprehensive gain (loss):						
Unrealized gain (loss) on cash flow hedge, net of tax	184	184	—	(853)	(853)	—
Exercise of stock options	—	—	—	2	2	—
Stock-based compensation	1,080	1,080	—	1,094	1,094	—
Tax benefit related to stock option exercises	21	21	—	5	5	—
Tax benefit from convertible note interest expense	375	—	(375)	536	12	(524)
Tax benefit from repurchase of convertible notes	1,023	—	(1,023)	—	—	—
Balance, end of the period	$ 209,548	$ 213,708	$ 4,160	$ 179,804	$ 194,446	$ 14,642

Effect of Change in Accounting Principle to Consolidated Statements of Cash Flows

The following table summarizes the effect of change in accounting principle related to the Company's Convertible Notes on the consolidated statements of cash flows for the three months ended March 31, 2009 and 2008 *(in thousands):*

	Three Months Ended March 31,					
	2009			2008		
	As computed without change in accounting principle	As reported with change in accounting principle	Effect of Change	As Previously Reported[1]	As Adjusted	Effect of Change
Operating activities:						
Net Income	$ 10,975	$ 8,997	$(1,978)	$ 7,500	$ 6,751	$ (749)
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	623	623	—	722	722	—
Amortization of loan costs and debt discount	311	1,221	910	313	1,567	1,254
Stock-based compensation expense	1,080	1,080	—	1,094	1,094	—
Gain on repurchase of converitible notes, net	(5,470)	(3,053)	2,417	—	—	—
Deferred income tax expense (benefit)	145	145	—	(578)	(559)	19
Tax benefit from stock-based payment arrangements	(21)	(21)	—	(5)	(5)	—
Provision for impairment on receivable portfolios, net	5,427	5,427	—	5,335	5,335	—
Changes in operating assets and liabilities						
Other assets	(139)	(165)	(26)	1,386	1,386	—
Deferred court costs	(2,310)	(2,310)	—	(2,906)	(2,906)	—
Prepaid income tax	6,764	5,441	(1,323)	5,343	4,819	(524)
Deferred revenue and purchased service obligation	26	26	—	185	185	—
Accounts payable and accrued liabilities	(523)	(523)	—	(2,559)	(2,559)	—
Net cash provided by operating activities	16,888	16,888	—	15,830	15,830	—
Investing activities:						
Net cash used in investing activities	(18,034)	(18,034)	—	(9,524)	(9,524)	—
Financing activities:						
Net cash used in financing activities	(4,934)	(4,934)	—	(2,245)	(2,245)	—
Net (decrease) increase in cash	(6,080)	(6,080)	—	4,061	4,061	—
Cash and cash equivalents, beginning of period	10,341	10,341	—	8,676	8,676	—
Cash and cash equivalents, end of period	$ 4,261	$ 4,261	$ —	$ 12,737	$ 12,737	$ —

(1) Certain reclassifications have been made to conform to the current year's presentation. The Company reclassified $3.7 million of restricted cash as of March 31, 2008 from restricted cash to cash and cash equivalents in order to conform to the current years' presentation.

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 nearly 50% from first 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 portfolio 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 2008, most of the collection metrics we track have remained relatively consistent, as compared to 2007. 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. We believe that this shift from single payment settlements to payment streams is one reason for the provision for impairment experienced in the first quarter of 2009. Despite the current economic environment, we have not experienced an increase in the broken payer rate in the first quarter 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 months ended March 31, 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 tables summarize the types of charged-off consumer receivable portfolios we purchased for the three months ended March 31, 2009 and 2008 *(in thousands):*

	Three Months Ended March 31,	
	2009	2008
Credit card	$55,913	$45,280
Other	—	2,622
	$55,913	$47,902

During the three months ended March 31, 2009, we invested $55.9 million for portfolios with face values aggregating $1.3 billion for an average purchase price of 4.2% of face value. This is an $8.0 million increase, or 16.7%, in the amount invested, compared with the $47.9 million invested during the three months ended March 31, 2008, to acquire portfolios with a face value aggregating $1.2 billion for an average purchase price of 4.0% 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 months ended March 31, 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 March 31,	
	2009	2008
Collection sites	$ 50,342	$ 43,289
Legal collections	56,407	45,292
Collection agencies	7,667	10,961
Sales	817	4,214
Other	—	599
Gross collections for the period	$ 115,233	$ 104,355

Gross collections increased $10.8 million, or 10.4%, to $115.2 million during the three months ended March 31, 2009, from $104.4 million during the three months ended March 31, 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 March 31, 2009		2008 Adjusted[1]	
Revenue				
Revenue from receivable portfolios, net	$72,275	94.5%	$64,068	94.8%
Servicing fees and other related revenue	4,171	5.5%	3,486	5.2%
Total revenue	76,446	100.0%	67,554	100.0%
Operating expenses				
Salaries and employee benefits	13,957	18.3%	14,851	22.0%
Stock-based compensation expense	1,080	1.4%	1,094	1.6%
Cost of legal collections	29,947	39.2%	20,306	30.1%
Other operating expenses	5,980	7.8%	5,651	8.4%
Collection agency commissions	2,891	3.8%	4,031	6.0%
General and administrative expenses	5,697	7.4%	4,460	6.6%
Depreciation and amortization	623	0.8%	722	1.0%
Total operating expenses	60,175	78.7%	51,115	75.7%
Income before other (expense) income and income taxes	16,271	21.3%	16,439	24.3%
Other (expense) income				
Interest expense	(4,273)	(5.6)%	(5,200)	(7.7)%
Gain on repurchase of convertible notes	3,053	4.0%	—	0.0%
Other (expense) income	(81)	(0.1)%	21	0.0%
Total other expense	(1,301)	(1.7)%	(5,179)	(7.7)%
Income before income taxes	14,970	19.6%	11,260	16.6%
Provision for income taxes	(5,973)	(7.8)%	(4,509)	(6.6)%
Net income	$ 8,997	11.8%	$ 6,751	10.0%

(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.

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 March 31, 2009					As of March 31, 2009	
	Collections[1]	Gross Revenue[2]	Revenue Recognition Rate[3]	Net (Impairment) Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR[4]
ZBA	$ 2,500	$ 2,500	100.0%	$ —	3.2%	$ —	—
2002	909	570	62.7%	153	0.7%	491	29.8%
2003	2,349	2,185	93.0%	(409)	2.8%	2,090	30.7%
2004	3,375	2,211	65.5%	(437)	2.9%	8,073	8.1%
2005	12,034	7,782	64.7%	(1,257)	10.0%	43,103	5.6%
2006	12,784	9,049	70.8%	(990)	11.7%	56,642	5.1%
2007	33,221	19,085	57.4%	(848)	24.6%	107,220	5.4%
2008	44,944	31,807	70.8%	(1,639)	40.9%	200,820	5.0%
2009	3,010	2,513	83.5%	—	3.2%	55,045	4.2%
Total	$ 115,126	$ 77,702	67.5%	$ (5,427)	100.0%	$ 473,484	5.3%

	For the Three Months Ended March 31, 2008					As of March 31, 2008	
	Collections[1]	Gross Revenue[2]	Revenue Recognition Rate[3]	Net (Impairment) Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR[4]
ZBA	$ 2,558	$ 2,558	100.0%	$ —	3.7%	$ —	—
2002	1,665	1,351	81.1%	(69)	1.9%	1,437	27.1%
2003	4,189	3,781	90.3%	(289)	5.4%	3,714	30.7%
2004	6,037	4,665	77.3%	(856)	6.7%	18,489	7.8%
2005	20,936	13,976	66.8%	(2,303)	20.2%	78,085	5.6%
2006	21,575	13,940	64.6%	(1,818)	20.1%	86,227	5.1%
2007	40,032	25,617	64.0%	—	36.9%	166,169	4.8%
2008	7,288	3,515	48.2%	—	5.1%	44,086	4.8%
Total	$ 104,280	$ 69,403	66.6%	$ (5,335)	100.0%	$ 398,207	5.5%

(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 $76.4 million for the three months ended March 31, 2009, an increase of $8.8 million, or 13.2%, compared to total revenue of $67.6 million for the three months ended March 31, 2008. Portfolio revenue increased $8.2 million, or 12.8%, to $72.3 million. The increase of portfolio revenue was primarily the result of additional accretion revenue associated with a higher portfolio balance during the three months ending March 31, 2009 compared to the three months ending March 31, 2008. During the three months ended March 31, 2009, we recorded a net impairment provision of $5.4 million, compared to a net impairment provision of $5.3 million (net of a reduction in our net impairment provision of $3.1 million as a result of the extension of our collection forecast discussed above) during the same period in the prior year. The impairments for the three months ended March 31, 2009 and 2008, were primarily due to a shortfall in collections in certain pool groups against our forecast. We believe the shortfall against our forecast was the result of the broadening pressure on our consumers due to a weakening economy as well as to particular challenges we experienced in working certain portfolios. As a result of the deteriorating economic conditions, as mentioned in the Market Overview section above, we have seen a shift in payments from consumers from single payment settlements to payment plans. 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. The impact of the broken payers will reduce our overall expected collections, which results in a provision for impairment. This shift from single payment settlements to payment plans has resulted in a decrease in our actual collections, as compared to our forecasts, in certain pool groups.

Until economic conditions improve, we may continue to experience a shortfall in collections against our UCS forecast which, depending on the magnitude of the shortfall and the pool groups that experience such shortfall, may result in future provisions for impairment. In accordance with SOP 03-3, an impairment provision to reduce the book value and therefore, maintain a level yield on a pool group’s internal rate of return, is only recorded when current information and events indicate that it is probable that an entity will be unable to collect all of its expected future cash flows, or when the timing of such cash flows is delayed. Since we cannot presently determine the future impact of the current economic conditions on our collections, we cannot conclude that further reductions in cash flows are probable or that the timing of cash flows has changed in a manner that would significantly impact any pool groups' internal rate of return and, therefore, have not recorded a related additional impairment.

Revenue associated with bankruptcy servicing fees earned from Ascension, was $4.1 million for the three months ended March 31, 2009, an increase of $0.7 million, or 20.5%, compared to revenue of $3.4 million for the three months ended March 31, 2008. The increase in Ascension revenue for the three months ended March 31, 2009, is due to a higher volume of bankruptcy placements.

Operating Expenses

Total operating expenses were $60.2 million for the three months ended March 31, 2009, an increase of $9.1 million, or 17.7%, compared to total operating expenses of $51.1 million for the three months ended March 31, 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 6.0%, to $14.0 million during the three months ended March 31, 2009, from $14.9 million during the three months ended March 31, 2008. The decrease was primarily the result of a decrease of $1.4 million in salaries and related payroll taxes and benefits, due to a shift in our collection workforce from the United States to India. This decrease was offset by an increase of $0.5 million in health related expenses.

Stock-Based Compensation Expenses

Stock-based compensation expense remained consistent at $1.1 million during the three months ended March 31, 2009 and 2008.

Cost of Legal Collections

The cost of legal collections increased $9.6 million, or 47.5%, to $29.9 million during the three months ended March 31, 2009, compared to $20.3 million during the three months ended March 31, 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 $11.1 million, or 24.5%, in gross collections through our legal channel and upfront litigation costs. Gross legal collections amounted to $56.4 million during the three months ended March 31, 2009, up from $45.3 million collected during the three months ended March 31, 2008. The cost of legal collections increased as a percent of gross collections through this channel to 53.1% during the three months ended March 31, 2009, from 44.8% during the three months ended March 31, 2008, primarily due to an increase in upfront court costs expensed associated with our pursuit of legal collections.

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 March 31,			
	2009		2008	
Collections	$56,407	100.0%	$45,292	100.0%
Court costs advanced	$20,544	36.4%	$13,894	30.7%
Court costs deferred	(7,241)	(12.8)%	(7,093)	(15.7)%
Court cost expense[1]	13,303	23.6%	6,801	15.0%
Other[2]	544	1.0%	688	1.5%
Commissions	16,100	28.5%	12,817	28.3%
Total Costs	$29,947	53.1%	$20,306	44.8%

(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 $0.3 million, or 5.8%, to $6.0 million during the three months ended March 31, 2009, compared to $5.7 million during the three months ended March 31, 2008. The increase was primarily attributable to a $0.3 million increase in Ascension legal expenses resulting from the higher volume of bankruptcy placements discussed above.

Collection Agency Commissions

During the three months ended March 31, 2009, we incurred $2.9 million in commissions to third party collection agencies, or 37.7% of the related gross collections of $7.7 million, compared to $4.0 million in commissions, or 36.8% of the related gross collections of $11.0 million during the three months ended March 31, 2008. The decrease in commissions was consistent with the decrease in collections through this channel. The increase in the commission rate as a percentage of the related gross collections is 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.

General and Administrative Expenses

General and administrative expenses increased $1.2 million, or 27.7%, to $5.7 million during the three months ended March 31, 2009, from $4.5 million during the three months ended March 31, 2008. The increase was primarily the result of an increase of $1.1 million in corporate legal expenses. Other expenses associated with general corporate matters remained consistent as compared with the prior period.

Depreciation and Amortization

Depreciation and amortization expense decreased $0.1 million, to $0.6 million during the three months ended March 31, 2009, from $0.7 million during the three months ended March 31, 2008. Depreciation expense was $0.4 million for the three

months ended March 31, 2009, compared to $0.5 million for the three months ended March 31, 2008. Amortization expense relating to intangible assets acquired in conjunction with the acquisition of Ascension remained consistent at $0.2 million during the three months ended March 31, 2009 and 2008.

Cost per Dollar Collected

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

	Three Months Ended March 31,	
	2009	2008
Gross collections	$115,233	$104,355
Operating expenses[1]	$ 55,709	$ 47,283
Cost per dollar collected	48.3%	45.3%

(1) Represent all operating expenses excluding stock-based compensation expense of $1.1 million for three months ended March 31, 2009 and 2008 and costs related to Ascension of $3.4 million and $2.7 million for the three months ended March 31, 2009 and 2008, respectively.

During the three months ended March 31, 2009, cost per dollar collected increased to 48.3% of gross collections from 45.3% of gross collections during the three months ended March 31, 2008. This increase was primarily due to several factors, as follows:

- an increase in upfront litigation costs of $6.5 million as discussed in costs of legal collections above
- a decrease in site salaries and employee benefits of $0.9 million, primarily due to a shift in our collection workforce from the United States to India
- a decrease of $3.4 million of collections coming from the sales channel (these collections have minimal costs associated with them)
- approximately $1.0 million of incremental corporate legal expenses

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. This site, 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 site 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 leverage India for future growth. 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 $0.9 million, or 17.8%, to $4.3 million during the three months ended March 31, 2009, from $5.2 million during the three months ended March 31, 2008.

The following table summarizes our interest expense *(in thousands, except percentages):*

	For the Three Months Ended March 31,			
	2009	2008 Adjusted	$ Change	% Change
Stated interest on debt obligations	$3,053	$ 3,632	$ (579)	(15.9)%
Amortization of loan fees and other loan costs	310	269	41	15.2%
Amortization of debt discount – convertible notes	910	1,299	(389)	(29.9)%
Total interest expense	$4,273	$ 5,200	$ (927)	(17.8)%

Interest expense during the three months ended March 31, 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 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 and net debt balance related to our Convertible Notes during the previous reporting periods *(in thousands):*

	Interest Expense For the Three Months Ended		Net Convertible Note Balance As of	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
September 30, 2005	$ 101	$ 230	$ 100,000	$ 73,347
December 31, 2005	841	1,914	100,000	74,419
March 31, 2006	858	1,912	100,000	75,474
June 30, 2006	844	1,942	100,000	76,572
September 30, 2006	844	1,963	100,000	77,691
December 31, 2006	844	2,031	100,000	78,878
March 31, 2007	844	2,010	100,000	80,045
June 30, 2007	844	2,059	100,000	81,260
September 30, 2007	844	2,081	100,000	82,497
December 31, 2007	844	2,150	100,000	83,803
March 31, 2008	844	2,143	100,000	85,102
June 30, 2008	810	2,099	95,000	82,124
September 30, 2008	802	2,103	95,000	83,426
December 31, 2008	704	1,920	71,422	63,758

Stated interest on debt obligations decreased $0.6 million during the three months ended March 31, 2009, as compared to the same period in the prior year, due to a decrease 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 an increase 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 March 31, 2009, total other expense was $0.1 million, compared to other income of less than $0.1 million during the three months ended March 31, 2008. The $0.1 million other expense during the three months ended March 31, 2009, was primarily attributable to the net loss in our non-qualified employee plan assets and liabilities.

Provision for Income Taxes

During the three months ended March 31, 2009, we recorded an income tax provision of $6.0 million, reflecting an effective rate of 39.9% of pretax income. Our effective tax rate for the three months ended March 31, 2009, differed from the Federal statutory rate, primarily due to the net effect of state taxes and the effect of permanent book versus tax differences.

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 March 31, 2008, was $4.5 million, which reflected an effective rate of 40.0% of pretax income. Our effective tax rate for the three months ended March 31, 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.

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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):*

Year of Purchase	Purchase Price[1]	Cumulative Collections through March 31, 2009										
		<2002	2002	2003	2004	2005	2006	2007	2008	2009	Total[2]	CCM[3]
<1999	$ 41,117(4)	$ 111,174	$ 15,007	$ 7,546	$ 4,202	$ 2,042	$ 1,513	$ 989	$ 501	$ 131	$ 143,105	3.5
1999	48,712	48,337	16,259	11,508	8,654	5,157	3,513	1,954	1,149	298	96,829	2.0
2000	6,153	12,661	4,542	4,377	2,293	1,323	1,007	566	324	76	27,169	4.4
2001	38,186	21,197	54,184	33,072	28,551	20,622	14,521	5,644	2,984	562	181,337	4.7
2002	61,494	—	48,322	70,227	62,282	45,699	33,694	14,902	7,922	1,406	284,454	4.6
2003	88,509	—	—	59,038	86,958	69,932	55,131	26,653	13,897	2,353	313,962	3.5
2004	101,333	—	—	—	39,400	79,845	54,832	34,625	19,116	3,375	231,193	2.3
2005	192,593	—	—	—	—	66,491	129,809	109,078	67,346	12,144	384,868	2.0
2006	141,999	—	—	—	—	—	42,354	92,265	70,743	12,784	218,146	1.5
2007	204,345	—	—	—	—	—	—	68,048	145,272	33,223	246,543	1.2
2008	228,736	—	—	—	—	—	—	—	69,049	45,703	114,752	0.5
2009	55,542	—	—	—	—	—	—	—	—	3,071	3,071	0.1
Total	$1,208,719	$193,369	$138,314	$185,768	$232,340	$291,111	$336,374	$354,724	$398,303	$115,126	$2,245,429	1.9

(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 March 31, 2009.

(3) Cumulative Collections Multiple (“CCM”) through March 31, 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
<1999	$ 41,117(4)	$ 143,105	$ 91	$ 143,196	3.5
1999	48,712	96,829	32	96,861	2.0
2000	6,153	27,169	92	27,261	4.4
2001	38,186	181,337	867	182,204	4.8
2002	61,494	284,454	2,394	286,848	4.7
2003	88,509	313,962	8,113	322,075	3.6
2004	101,333	231,193	16,589	247,782	2.4
2005	192,593	384,868	89,105	473,973	2.5
2006	141,999	218,146	130,623	348,769	2.5
2007	204,345	246,543	232,507	479,050	2.3
2008	228,736	114,752	475,863	590,615	2.6
2009	55,542	3,071	134,759	137,830	2.5
Total	$ 1,208,719	$ 2,245,429	$1,091,035	$ 3,336,464	2.8

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

(2) Cumulative collections from inception through March 31, 2009.

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

(5) 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
<1999[1]	$ 91	$ —	$ —	$ —	$ —	$ —	$ —	$—	$ 91
1999[1]	32	—	—	—	—	—	—	—	32
2000[1]	92	—	—	—	—	—	—	—	92
2001[1]	767	100	—	—	—	—	—	—	867
2002[1]	2,153	189	52	—	—	—	—	—	2,394
2003[1]	5,568	2,545	—	—	—	—	—	—	8,113
2004	8,000	6,455	2,134	—	—	—	—	—	16,589
2005	30,512	31,176	20,258	7,159	—	—	—	—	89,105
2006	34,276	38,125	28,022	20,317	9,883	—	—	—	130,623
2007	76,979	67,065	41,612	27,215	15,448	4,188	—	—	232,507
2008	128,929	138,148	88,334	56,543	36,188	20,520	7,201	—	475,863
2009	32,876	32,506	24,972	16,952	12,518	8,265	5,865	805	134,759
Total	$320,275	$316,309	$205,384	$128,186	$74,037	$32,973	$13,066	$805	$1,091,035

(1) Estimated remaining collections for Zero Basis Portfolios can extend beyond the 84-month accrual basis collection forecast.
(2) 2009 amount consists of nine months data, from April 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 March 31, 2009 *(in thousands, except percentages*):

	Unamortized Balance as of March 31, 2009[1]	Purchase Price[2]	Unamortized Balance as a Percentage of Purchase Price	Unamortized Balance as a Percentage of Total
2002	$ 491	$ 61,494	0.8%	0.1%
2003	2,090	88,509	2.4%	0.4%
2004	8,073	101,333	8.0%	1.8%
2005	43,103	192,593	22.4%	9.1%
2006	56,642	141,999	39.9%	12.0%
2007	107,220	204,345	52.5%	22.6%
2008	200,820	228,736	87.8%	42.4%
2009	55,045	55,542	99.1%	11.6%
Total	$ 473,484	$ 1,074,551	44.1%	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.

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 March 31, 2009			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 460,598	$ 748	$ —	$ 461,346
Purchases of receivable portfolios	55,913	—	—	55,913
Gross collections[1]	(112,491)	(139)	(2,496)	(115,126)
Put-backs and recalls	(920)	—	(4)	(924)
Revenue recognized	75,202	—	2,500	77,702
Impairment, net	(5,427)	—	—	(5,427)
Balance, end of period	$ 472,875	$ 609	$ —	$ 473,484
Revenue as a percentage of collections[2]	66.9%	0.0%	100.0%	67.5%

	For the Three Months Ended March 31, 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	47,902	—	—	47,902
Gross collections[1]	(101,523)	(199)	(2,558)	(104,280)
Put-backs and recalls	(1,678)	(14)	—	(1,692)
Revenue recognized[3]	66,845	—	2,558	69,403
Impairment, net[3]	(5,335)	—	—	(5,335)
Balance, end of period	$ 396,775	$ 1,432	$ —	$ 398,207
Revenue as a percentage of collections[2]	65.8%	0.0%	100.0%	66.6%

(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

As of March 31, 2009, we had $473.5 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]	107,363
2010	130,113
2011	94,273
2012	65,413
2013	43,526
2014	21,465
2015	10,537
2016	794
Total	$ 473,484

(1) 2009 amount consists of nine months data from April 1, 2009 to December 31, 2009.

Analysis of Changes in Revenue

The following table analyzes the components of the increase in revenue from our receivable portfolios for the three months ended March 31, 2009, compared to the three months ended March 31, 2008 *(in thousands, except percentages)*:

Variance Component	For The Three Months Ended March 31, 2009	2008	Change	Revenue Variance
Average portfolio balance	$449,569	$395,278	$54,291	$ 9,181
Weighted average effective interest rate[(1)]	66.9%	62.2%	4.7%	(824)
Zero basis revenue	$ 2,500	$ 2,558		(58)
Net impairment	$ (5,427)	$ (5,335)		(92)
Total variance				$ 8,207

(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.

Collections by Channel

We utilized 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 March 31, 2009	2008
Collection sites	$ 50,342	$ 43,289
Legal collections	56,407	45,292
Collection agencies	7,667	10,961
Sales	817	4,214
Other	—	599
Gross collections for the period	$115,233	$104,355

External Collection Channels and Related Direct Costs

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

	Legal Collections Three Months Ended March 31,				Collection Agencies Three Months Ended March 31,			
	2009		2008		2009		2008	
Collections	$56,407	100.0%	$45,292	100.0%	$7,667	100.0%	$10,961	100.0%
Commissions	$16,100	28.5%	$12,817	28.3%	$2,891	37.7%	$ 4,031	36.8%
Court cost expense[(1)]	13,303	23.6%	6,801	15.0%	—	—	—	—
Other[(2)]	544	1.0%	688	1.5%	—	—	—	—
Total Costs	$29,947	53.1%	$20,306	44.8%	$2,891	37.7%	$ 4,031	36.8%

(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	Total Collections
2003	$10,750	$27,192	$17,212	$ 9,566	$ 5,561	$ 3,050	$ 554	$ 73,885
2004	—	23,455	37,674	21,676	12,029	5,840	987	$101,661
2005	—	—	21,694	40,762	22,152	10,582	1,705	$ 96,895
2006	—	—	—	39,395	82,740	43,303	6,675	$172,113
2007	—	—	—	—	41,958	80,211	13,718	$135,887
2008	—	—	—	—	—	47,320	30,666	$ 77,986
2009	—	—	—	—	—	—	1,395	$ 1,395

(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.

	Court Costs by Year of Collection[1]							
Placement Year	2003	2004	2005	2006	2007	2008	2009	Total Court Costs
2003	$908	$2,046	$ 571	$ 300	$ 147	$ 103	$ 18	$ 4,093
2004	—	2,509	2,937	1,087	406	223	30	$ 7,192
2005	—	—	3,271	4,426	859	356	46	$ 8,958
2006	—	—	—	10,158	10,291	1,829	216	$ 22,494
2007	—	—	—	—	15,357	11,952	912	$ 28,221
2008	—	—	—	—	—	19,322	8,704	$ 28,026
2009	—	—	—	—	—	—	1,406	$ 1,406

(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.

	Commissions by Year of Collection[1]							
Placement Year	2003	2004	2005	2006	2007	2008	2009	Total Commissions
2003	$3,574	$8,606	$ 5,496	$ 2,898	$ 1,574	$ 872	$ 155	$ 23,175
2004	—	7,273	12,060	6,653	3,498	1,690	280	$ 31,454
2005	—	—	6,725	12,108	6,364	3,036	480	$ 28,713
2006	—	—	—	11,451	23,659	12,370	1,882	$ 49,362
2007	—	—	—	—	11,845	22,927	3,865	$ 38,637
2008	—	—	—	—	—	13,678	8,719	$ 22,397
2009	—	—	—	—	—	—	384	$ 384

(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.

	Court Cost Expense and Commissions as a % of Gross Collections by Year of Collection							
Placement Year	2003	2004	2005	2006	2007	2008	2009	Cumulative Average
2003	41.7%	39.2%	35.2%	33.4%	31.0%	32.0%	31.2%	36.9%
2004	—	41.7%	39.8%	35.7%	32.4%	32.8%	31.4%	38.0%
2005	—	—	46.1%	40.6%	32.6%	32.1%	30.9%	38.9%
2006	—	—	—	54.9%	41.0%	32.8%	31.4%	41.7%
2007	—	—	—	—	64.8%	43.5%	34.8%	49.2%
2008	—	—	—	—	—	69.7%	56.8%	64.7%
2009	—	—	—	—	—	—	128.3%	128.3%

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Placement Year[2]	Lawsuits Filed by Year[1]							
	2003	2004	2005	2006	2007	2008	2009	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	2	377
2008	—	—	—	—	—	338	108	446
2009	—	—	—	—	—	—	38	38

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

Headcount by Function by Site

The following table summarizes our headcount by function by site as of March 31, 2009 and 2008:

	Head Count As of March 31,			
	2009		2008	
	U.S.	India	U.S.	India
General & Administrative	317	98	317	63
Account Manager	270	350	310	264
BK Specialist	62	37	66	24
	649	485	693	351

Gross Collections by Account Manager

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

	Three Months Ended March 31,	
	2009	2008
Gross collections - collection sites	$ 50,342	$ 43,289
Average active account managers	587	560
Collections per average active account manager	$ 85.8	$ 77.3

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 March 31,	
	2009	2008
Gross collections - collection sites	$ 50,342	$ 43,289
Total hours paid	265	243
Gross collections per hour paid	$ 190.0	$ 178.1

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 March 31,	
	2009	2008
Gross collections - collection sites	$ 50,342	$ 43,289
Direct cost[1]	$ 5,805	$ 6,710
Cost per dollar collected	11.5%	15.5%

(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 March 31, 2009	2008
Portfolio Purchasing and Collecting Activities		
Collections related	$ 5,805	$ 6,710
General & administrative	6,106	6,543
Subtotal	11,911	13,253
Bankruptcy Services	2,046	1,598
	$ 13,957	$ 14,851

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	—

(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 months ended March 31, 2009 and 2008 *(in thousands):*

	Three Months Ended March 31, 2009	2008
Credit card	$55,913	$45,280
Other	—	2,622
	$55,913	$47,902

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)*:

	Three Months Ended March 31,	
	2009	2008 Adjusted
Net cash provided by operating activities	$ 16,888	$15,830
Net cash used in investing activities	(18,034)	(9,524)
Net cash used in financing activities	(4,934)	(2,245)

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 three months ended March 31, 2009, we repurchased $25.6 million principal amount of our outstanding Convertible Notes, for a total price of $19.8 million, plus accrued interest. From the inception of the securities repurchase program, we have repurchased $54.2 million principal amount of our Convertible Notes, for a total cash payment of $39.9 million. We have not repurchased any common stock under this program.

As of March 31, 2009, we had approximately $45.8 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 $16.9 million and $15.8 million for the three months ended March 31, 2009 and 2008, respectively. The increase in cash provided by operating activities was primarily attributable to an increase of $2.2 million in net income, and a net increase of $1.9 million due to changes in other operating assets and liabilities, offset by a non-cash gain of $3.0 million related to repurchase of our Convertible Notes.

Investing Cash Flows

Net cash used in investing activities was $18.0 million for the three months ended March 31, 2009 and $9.5 million for the three months ended March 31, 2008.

The cash flows used in investing activities for the three months ended March 31, 2009, are primarily related to receivable portfolio purchases of $55.9 million, offset by gross collection proceeds applied to the principal of our receivable portfolios in the amount of $37.4 million. The cash flows used in investing activities for the three months ended March 31, 2008, primarily related to receivable portfolio purchases of $45.0 million offset by gross collection proceeds applied to the principal of our receivable portfolios in the amount of $34.9 million.

Capital expenditures for fixed assets acquired with internal cash flow were $0.5 million and $1.1 million for the three months ended March 31, 2009 and 2008, respectively.

Financing Cash Flows

Net cash used in financing activities was $4.9 million and $2.2 million for the three months ended March 31, 2009 and 2008, respectively.

The cash used in financing activities during the three months ended March 31, 2009, reflects $19.8 million used to repurchase $25.6 million in principal amount of our outstanding Convertible Notes and $32.0 million in borrowings under our Revolving Credit Facility, offset by $17.0 million in repayments of principal under our Revolving Credit Facility. The cash used in financing activities during the three months ended March 31, 2008, reflects $9.0 million in borrowings, offset by $11.2 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 29 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 $82.0 million in borrowing capacity and $25.6 million in borrowing base availability under our Revolving Credit Facility as of March 31, 2009.

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-SLAAP 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 continuing and 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. 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 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 is 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 is in the early stages of development 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;
- 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.

Item 6. Exhibits

10.1	Severance protection letter agreement dated as of March 11, 2009 between the Company and J. Brandon Black (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 13, 2009).
10.2	Severance protection letter agreement dated as of March 11, 2009 between the Company and Paul Grinberg (incorporated by reference to Exhibit 10.2 to Form 8-K filed March 13, 2009).
10.3	Lease Agreement dated as of March 24, 2009 between Midland Credit Management India Private Limited, Dinesh Kumar and Manmohan Gaind, for real property located in Gurgaon, India (filed herewith).
10.4	Lease Deed, dated as of April 22, 2009, between Midland Credit Management India Private Limited and R.S. Technologies Private Limited, for real property located in Gurgaon, India (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).

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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: April 29, 2009

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EXHIBIT INDEX

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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).

LEASE AGREEMENT

This agreement of Lease ("**Lease Agreement**") made and executed on this 24th day of March, 2009 by and between:

1. **Mr. Dinesh Kumar**, son of Late Shri Prem Prakash Gaind, aged 44 years, residing at B-3/6, DLF Phase-I, Gurgaon (which expression shall mean and include their heirs, executors, successors and assigns),
2. **Mr. Manmohan Gaind**, son of Late Shri Prem Prakash Gaind, aged 43 years, residing at B-3/6, DLF Phase-I, Gurgaon (which expression shall mean and include their heirs, executors, successors and assigns);

   (hereinafter collectively referred to as the "**Lessors**")

AND

3. **Midland Credit Management India Private Limited** (previously known as Midland Calibrated India Private Limited), having its registered office at Regus Centre, Level 15,Eros Corporate Towers, Nehru Place, New Delhi-110019 (hereinafter referred to as "**Lessee**", which expression shall mean and include its successors and assigns and represented by its authorized signatory Mr. Manu Rikhye).

The Lessors and the Lessee are hereinafter referred to in the collective as the "**Parties**" and in the singular as a "**Party**", as the context may require.

Recitals:

A. The Parties had entered into a lease agreement dated June 19, 2008 ("**Old Lease Agreement**") wherein the Lessors had leased their premises situated at Plot No. 520, Udyog Vihar, Industrial Area, Phase III, Gurgaon- 122015 and as more particularly described in the site plan annexed to this Lease Agreement as Schedule I ("**Leased Premises**") to the Lessee.

B. The Lessee terminated the Old Lease Agreement in accordance with the terms of the Old Lease Agreement and the Lessors have accepted termination

thereof. However, both the Parties have mutually agreed that the Lessee will continue to stay in the Leased Premises on the terms and conditions agreed between them under this fresh Lease Agreement.

NOW THEREFORE, in consideration of the promises and covenants herein set forth and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the Parties mutually agree as follows:

1. That the Lessors agree to lease and Lessee agrees to take on lease the Leased Premises.
2. The Parties agree that the term of this Lease Agreement will commence on 24th May 2009 (hereinafter "**Lease Commencement Date**").
3. The term of the lease of the Leased Premises shall commence on the Lease Commencement Date and shall continue for a period of five months thereafter till 23rd October 2009 ("hereinafter "**Term**").
4. Notwithstanding anything to the contrary contained in this Lease Agreement or any other written agreement between the Parties, during the Term, this Lease Agreement cannot be terminated by any Party before the end of the Term. This Lease Agreement shall stand automatically terminated at the end of the Term.
5. The lessee shall pay a rental of Rs. 17,75,400/- (Rupees Seventeen lakhs seventy five thousand four hundred only) per month which is inclusive of all costs that is associated with the premises (hereinafter "**Rent**").
6. That the Lessee agrees to pay to the Lessors the agreed Rent in advance on or before the 7th of each month.
7. That on the expiry of the Term or its early termination the Lessee shall hand over peaceful possession of the Leased Premises to the Lessors.
8. The Lessors represents and warrants the following:

   (a) the Lessors (i) are the owners in possession of the Leased Premises; and (ii) have valid title and allotment from HSIIDC to the Leased Premises;

(b) the Leased Premises are free from any and all encumbrances, liens and charges of any nature whatsoever;

(c) all necessary and applicable statutory approvals and permissions required except the Occupation Certificate, for lawful occupation of the Leased Premises have been validly obtained by the Lessors.

9. The Old Lease Agreement was terminated by the Lessee on 23rd February, 2009 in accordance with the terms thereof and the Lessors admit and accept the same. The Lessors have no outstanding claim against the Lessee in relation to the use and enjoyment of the Leased Premises by it during the term of the Lease upto the termination thereof as aforesaid.

10. Notwithstanding anything to the contrary contained herein, the Lessors hereby agree, jointly and severally, to indemnify, defend and hold harmless, the Lessee, its employees, officers, directors (collectively the "**Indemnified Persons**") from and against any and all actual losses, liabilities, demands, penalties, actions, suits, claims and damages actually suffered by the Indemnified Persons relating to or arising out of any of the following:

(a) Lessors' default under the terms of this Lease Agreement;

(b) any misrepresentation, inaccuracy in or breach of any of the representations and warranties contained in this Lease Agreement; or

(c) any third party claim relating to or arising out of any acts of omission or commission or conduct of the Lessors, or its employees or agents in relation to the Leased Premises

11. Notice:

11.1 Any notice required or permitted to be given hereunder shall be in writing and shall be effectively given if (i) delivered personally; (ii) sent by prepaid courier service, airmail or registered mail; in the case of notice to the Lessors, if addressed to it as follows:

If to the Lessors:
B-3/6, DLF Phase-I, GURGAON
Tel:

Attn: Mr. Dinesh Kumar
Mr. Manmohan Gaind

and in the case of notice to the Lessee, if addressed to it as follows:

Plot # 520, Udyog Vihar Phase-III, GURGAON
Tel: 4530300
Attn: Mr. Manu Rikhye

11.2 Where the notice is delivered; (i) personally, the same shall be deemed to have been received on the date of delivery; (ii) by prepaid courier service, airmail or registered mail, the same shall be deemed to have been delivered within 3 days from the date of posting.

11.3 Any Party hereto or others mentioned above may change any particulars of its address for notice by notice to the other in the manner aforesaid.

12. All disputes pertaining to this Lease Agreement shall be referred exclusively to the competent courts of Gurgaon.

13. The present Lease Agreement constitutes the entire agreement between the parties in relation to the use and enjoyment of the Lease Premises and supersedes and suppresses all previous agreements and understanding prior to the date of its execution.

IN WITNESS WHEREOF, the Lessors and the Lessee have set their hands and seal to this Lease Agreement on the day, month and year first above written.

WITNESSES:

1. /s/ Pramod Kumar
   Pramod Kumar
   Address: 516, Phase 3, Gurgaon.

2. /s/ Anurag Arora
   Anurag Arora
   Address: 27/93, Javala Nagar,
   Shahdara, Delhi-32

LESSORS

1. /s/ Dinesh Kumar
   Dinesh Kumar

2. /s/ Manmohan Gaind
   Manmohan Gaind

LESSEE

/s/ Manu Rikhye
Manu Rikhye
Authorised Signatory

Schedule I

Description of the Leased Property

All the piece and parcel of the land and commercial industrial building situated at Plot No. 520, Udyog Vihar Industrial Area, Phase III, Gurgaon – 122015, consisting of two levels of basement, ground, first, second, third, fourth and fifth floors, measuring in all 29,440 sq.ft., together with fixtures and fittings and exclusive surface parking spaces around the building. The property being bounded on

East by	: Other property
West by	: Road 30 metre wide
North by	: Adjacent Plot No. 521
South by	: Adjacent Plot # 519

Exhibit 10.4

LEASE DEED

This Lease Deed (this "**Deed**") is made and executed at Gurgaon, Haryana on 22nd day of April, 2009 between:

Midland Credit Management India Private Limited, a company incorporated under the provisions of the Companies Act, having its registered office at Regus Centre, Eros Corporate Towers, Level 15, Nehru Place, New Delhi-110019 (hereinafter referred to as the "**Lessee**" which expression shall, unless it be repugnant to the subject or context, include its successors and assigns) acting through its authorized signatory, Mr. Manu Rikhye, duly authorized by a resolution of its board of directors passed by a circular resolution dated April 3 2009 to sign this Deed on its behalf.

AND

R.S. Technologies Private Limited, a company incorporated under the Companies Act, with its registered office at B-4/13, Safdarjung Enclave, New Delhi-110029 (hereinafter referred to as the "**Lessor**", which expression shall, unless it be repugnant to the subject or context, include its successors and permitted assigns), acting through its authorized signatory, Mr. Pawan Kumar, duly authorized by a resolution of its board of directors passed at their meeting held on April 1 2009 to sign this Deed on its behalf.

The Lessor and the Lessee may hereinafter individually be referred to as the "**Party**" and collectively as the "**Parties**".

WHEREAS

A. The Lessor represents that it is the absolute owner of and is in possession of a plot bearing no. 28-P, Sector 44, Urban Estate, Tehsil and District Gurgaon, measuring 5139 sq. mtrs., (the "**Land**") allotted to it by the Haryana Urban Development Authority ("**HUDA**"), Gurgaon through an allotment letter dated December 4, 2003. The Lessor has constructed multistoried building on the Land (hereinafter referred to as portions Tower 'A' and Tower 'B'.)

B. Out of the said multi storied building, the Lessor is desirous of leasing out 83,000 square feet (super area) of Tower A constitutive of the ground, first, second, third, and fourth floors (collectively referred to as **"Demised**

Premises") with an exclusive right to the use of terraces above the fourth floor, and including the Gym, Facilities Room, Storage Space and ninety six (96) reserved dedicated slots for parking at Basement level 1 and Basement level 2 (free of any charges) – more particularly described in Clause 9.2.1 and **Annexure I** ("**Exclusive Areas**").

C. On the request of the Lessee, the Lessor has agreed to grant on lease the Demised Premises to the Lessee to set-up, maintain and operate any business including data processing call centre related to back office operations for all types of industries such as credit collections, geographic information system, insurance, financial, human resource services, IT support management and other business outsourcing solutions of all types (collectively referred to as "**Business Operations**"), along with exclusive access to the Exclusive Areas.

D. The Parties wish to enter into this Deed to record the terms and conditions on which the Demised Premises shall be given on lease by the Lessor to the Lessee.

THE PARTIES TO THIS DEED HAVE AGREED AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Deed, unless the context otherwise requires:

"**Affiliate**" means, in relation to any Party, any company or other entity which, directly or indirectly, controls, is controlled by or is under common control with such Party; the term "**control**" means ownership of more than 50% of the equity share capital or other voting rights of a company, the power to appoint or elect a majority of the board of directors of a company, or otherwise to direct the management of a company or other entity, whether through the articles of association of the company, or through a Deed, or otherwise;

"**Business Operations**" shall have the meaning ascribed to it in Recital C;

"**Companies Act**" means the Companies Act, 1956;

“**Demised Premises**” has the meaning ascribed to it in Recital B;

“**Effective Date**” means 22 April 2009;

“**Exclusive Areas**” has the meaning ascribed to it in Recital B

“**Facilities Room**” has the meaning ascribed to it in Clause 9.2.1;

“**Force Majeure**” means any war, civil commotion, terrorist acts, riots, strike (except strikes by the Lessee’s employees), governmental action in the form of any sealing/seizure/orders/penalties, lockout, accident, epidemic, acts of god, including without limitation fire, storms, floods, earthquake or lightning or any other event of any nature or kind whatsoever beyond the control of the Parties that directly or indirectly hinders or prevents the Lessee from accessing or using the Demised Premises and/or the Exclusive Areas;

“**Gym**” has the meaning ascribed to it in Clause 9.2.1;

“**Lock-in Period**” has the meaning ascribed to it in Clause 3.2;

“**Parking Area**” has the meaning ascribed to it in Clause 9.1(a);

“**Rent**” has the meaning ascribed to it in Clause 5.1 (a);

“**Rent Free Periods**” means the Initial Rent Free Period and the Subsequent Rent Free Period.

“**Rent Escalation**” has the meaning ascribed to it in Clause 5.5.

“**Security Deposit**” has the meaning ascribed to it in Clause 6.1;

“**Storage Space**” has the meaning ascribed to it in Clause 9.2.1;

“**Term**” has the meaning ascribed to it in Clause 3.1;

1.2 **Interpretation**

In this Deed:

(a) References to any statute or statutory provision or order or regulation made there under shall include that statute, provision, order or regulation as amended, modified, re-enacted or replaced from time to time whether before or after the date hereof.

(b) References to persons shall include body corporate, unincorporated associations, partnerships and any organisation or entity having legal capacity.

(c) Headings to Clauses are for information only and shall not form part of the operative provisions of this Deed and shall not be taken into consideration in its interpretation or construction.

(d) References to Recitals, Clauses or Annexures are, unless the context otherwise requires, are references to recitals, clauses or annexures of this Deed.

(e) Unless the context otherwise requires, reference to one gender includes a reference to the other, words importing the singular include the plural and vice versa.

(f) References to the words “include” or “including” shall be construed as being suffixed by the term “without limitation”.

(g) Any reference to time shall be taken to be a reference to Indian Standard Time.

(h) All capitalised terms in this Deed which are not defined herein shall have the same meaning as in the Deed.

2. **GRANT OF LEASE**

2.1 In consideration of the Rent and Security Deposit, hereinafter specified, the Lessor grants, demises and leases unto the Lessee, the Demised Premises during the Term subject to and in accordance with the terms and conditions of this Deed. The right granted to the Lessee under this Deed to the Demised Premises shall include the exclusive right of the Lessee to Exclusive Areas.

2.2 The Lessee shall have the exclusive right to the unrestricted and unfettered use and enjoyment of and access to the Demised Premises and the Lessee shall be free to set-up, maintain and operate the Business Operations and shall otherwise have exclusive right to the unrestricted and unfettered use and enjoyment of and access to all the basement levels and terraces of the Demised Premises.

2.3 The Lessor shall hand over peaceful, vacant and physical possession of the Demised Premises excluding the fourth floor to the Lessee on 22 April 2009. The Lessor shall hand over peaceful, vacant and physical possession of the fourth floor to the Lessee for fit outs by 7 June 2009.

3. **TERM AND TERMINATION**

3.1 Subject to earlier termination of this Deed in accordance with the terms hereof, the term of the lease of the Demised Premises shall commence on the Effective Date and end nine (9) years thereafter ("**Term**").

3.2 There shall be a lock in period of twenty-four (24) months ("**Lock-in-Period**") from the Effective Date during which, neither party can terminate the lease. In case, the Lessee terminates the lease or vacates the premises (other than due to any default, non-observance or breach by the Lessor of this Deed or due to the occurrence of an event of *Force Majeure*) prior to the expiry of the Lock-in-Period, it will be liable to pay rent for the remaining Lock-in-Period.

3.3 Subject to Clause 3.2 and in addition to any other remedy available to the Lessee under law, during the Term, the Lessee shall have the right to terminate the lease by giving (a) six (6) months written notice or (b) three (3) months' Rent in lieu thereof, without assigning any reasons whatsoever.

3.4 This Deed may also be terminated by the Lessee in the event of the *Force Majeure* as per Clause 12.3.

3.5 Subject to Clause 6.2, in the event of termination of this Deed under sub-clause (a) of Clause 3.3, three months from the date of the Lessee's notice of termination the Lessee shall cease payment of Rent hereunder and the Lessor shall adjust the Security Deposit by way of deduction of the Rent due every month from the Security Deposit, *provided that* the Lessee makes

good any shortfall in the amount of Rent due and payable at the time of vacating the Demised Premises including due to Rent Escalation.

4. **HANDOVER OF POSSESSION AND FIT-OUTS**

4.1 The Lessor shall on the Effective Date handover peaceful, vacant and physical possession of the Demised Premises (excluding the fourth floor), and the Parking Area to the Lessee. The Lessor shall handover peaceful, vacant and physical possession of the Gym, Storage Space and Facilities Room to the lessee by 21 December 2009.

4.2 The Lessor confirms and agrees that the Lessee shall be permitted to execute and undertake at its own cost, but without damaging the main structure of the Demised Premises, additional installations, partitions, fitments in any manner (collectively referred to as "Installations"), the absolute ownership of which subject to Clause 4.4 shall remain that of the Lessee free and clear of any claim by the Lessor, using contractors selected by the Lessee, as may be necessary for the Lessee's use of the Demised Premises and/or the Exclusive Areas, without any approval from the Lessor. The layout of the Fit-Outs of the Lessee will be shared with the Lessor and shall be as per building by-laws.

4.3 The Lessor confirms and agrees that it will at its own cost and expenses procure the proper pressurization of lifts lobbies & staircases as per fire norms, ventilation of the floors, basements, lifts, lobbies and staircases and ensure proper and adequate smoke extraction system in the basement levels as per fire safety norms applicable. This will be completed before 31 May 2009.

4.4 The Lessee confirms and agrees that it will procure and install air-conditioning systems ("**AC**") in the Demised Premises, as per its requirements, from a vendor chosen by the Lessee at its sole option. The Lessor confirms and agrees that it shall pay an amount of Rs. 75,00,000 (Rupees Seventy Five Lakhs only) through its Nominee as its share of the cost of the AC. This amount will be paid by the Lessor/its Nominee to the Lessee or to the vendor directly as per the Lessee's instructions. The share of ownership of the AC shall be in proportion to the expenses incurred by the Lessor (though its Nominee) and the Lessee (which shall be determined by way of the supporting documentation and invoices provided by each of the

Parties). All taxes including STPI benefits/liabilities shall be to the account of the Lessee. At the time of vacating the Demised Premises the Lessee shall first offer to the Lessor/its Nominee the option to purchase the Lessee's share of the AC, at the price derived in the following manner:

(a) at the relevant time, the Lessee shall seek quotes for the sale of the AC (Lessee's Share) from three vendors, chosen by the Lessee at its Sole Option, of air-conditioning systems ("**Quotes**");

(b) the lowest quote of the Quotes shall be determined by the Lessee ("**Minimum Quote**");

(c) the value of the tax benefit for companies on depreciation, calculated at the rate of 15% per annum on a written down value basis for an amount of INR 25,00,000 (Rupees Twenty Five Lakhs only) (**"Tax Benefit"**), shall be determined; and

(d) from the Minimum Quote, the Tax Benefit shall be subtracted to arrive at the price payable by the Lessor /its Nominee to the Lessee.

In case the Lessor /its Nomineedoes not accept the offer or the price determined in the manner as aforesaid, the Lessee shall be entitled, at its option, to uninstall and dispose of the air-conditioning system under its ownership.

It is hereby clarified that the annual maintenance charges incurred on the air-conditioning system will be borne and paid by the Lessor/its Nominee.

4.5 The Lessor confirms and agrees that it will at its own cost and expense provide for a service lift/dumbwaiter in the Demised Premises for access to the Fourth Floor. Such service lift/dumbwaiter shall be in addition to the 3 (three) lifts which will be in existence in the Demised Premises on the Effective Date. The installation and commissioning of such service lift/dumbwaiter shall be completed by 31 July 2009.

4.6 The Lessor confirms and agrees that it will at its own cost and expense construct the structure of the additional toilet blocks including the basic plumbing works, at each of floors of the Demised Premises in addition to the one existing in the Demised Premises at the Effective Date. Each of these toilet blocks shall be completed within 45 days from the Effective Date. The interiors of the toilet blocks such as fixtures and fittings etc. shall be done by the Lessee at it own cost.

4.7 The Lessee, at its sole discretion, shall upon termination of this Deed subject to Clause 4.4, have the right to remove all or part of its Installations in the Demised Premises and/or the Exclusive Areas without damaging the structure. Further, the Lessee may at its sole discretion sell the Installations in the Demised Premises and/or the Exclusive Areas to the Lessor at a mutually agreeable price.

5. RENT AND OTHER CHARGES

5.1 During the Term hereof, the Lessee shall pay to the Lessor total rent of Rs. 65,57,000, (Rupees Sixty-Five Lakhs and Fifty Seven Thousand Only) per month ("**Rent**") plus Service Tax as applicable, calculated as follows:

(i) Rs. 79 (Rupees Seventy Nine Only) per square foot per month, for the total area of 17922 square feet rented on the ground floor of Demised Premises aggregating to Rs. 14,15,838;

(ii) Rs. 79 (Rupees Seventy Nine Only) per square foot per month, for the total area of 16451 square feet rented on the first floor of Demised Premises aggregating to Rs. 12,99,629;

(iii) Rs. 79 (Rupees Seventy Nine Only) per square foot per month, for the total area of 17194 square feet rented on the second floor of Demised Premises aggregating to Rs. 13,58,326;

(iv) Rs. 79 (Rupees Seventy Nine Only) per square foot per month, for the total area of 17192 square feet rented on the third floor of Demised Premises aggregating to Rs. 13,58,168; and

(v) Rs. 79 (Rupees Seventy Nine Only) per square foot per month, for the total area of 14241 square feet rented on the fourth floor with the exclusive right to use the terraces of the Demised Premises aggregating to Rs. 11,25,039.

The Rent for the various floors shall be payable from the dates mentioned in Clauses 5.3 and 5.4 below.

5.2 The Lessee agrees to pay the Lessor, subject to applicable tax and statutory deductions, Rent per month in advance on or prior to tenth (10th) day of the relevant English calendar month (in respect of which the Rent is due). If such day is not a business day then the Rent is due the following business day, by a crossed account payee demand draft or cheque in the name of the Lessee.

The Lessee shall be liable to pay interest on the outstanding amount of Rent @18% per annum in the event of non-payment of Rent for a period of thirty (30) days from the date when it becomes due.

5.3 The Rent for the first, second and third floors of the Demised Premises shall become payable by the Lessee to the Lessor upon expiry of three (3) months from the Effective Date ("**Initial Rent Free Period**").

5.4 The Rent for the ground floor and the fourth floor of the Demised Premises shall be payable by the Lessee to the Lessor upon the expiry of six (6) months from the Effective Date or three (3) months from the Lessor completing the build out and handing over the possession of the same to the Lessee whichever is later ("**Additional Rent Free Period**"). Provided that in the event the Lessor has not obtained the requisite permissions, including fire safety, operation of lifts, occupation certificates, from the relevant statutory authorities within a period of six (6) months from the date of handover of physical possession of the respective portions of the Demised Premises, the Lessee shall not be liable to pay any Rent for such portion of the Demised Premises from the expiry of six (6) months until such requisite permissions have been obtained for such portion of the Demised Premises have been obtained and certified true copies of the same are provided to it. In the case of the dumbwaiter, the relevant permissions (if any) shall be obtained at the earliest but not later than six (6) months of the installation thereof and in the event, all such certificates have not been obtained within the period stipulated, the Lessee shall not be liable to pay any Rent till such time as they are obtained and certified copies provided to the Lessee thereof.

5.5 The Parties agree that there will be an escalation in the Rent, equivalent to fifteen percent (15%) over the last Rent paid, at the end of every three (3) years of the Term. Such escalated Rent shall also be referred to as the "**Rent Escalation**". The first escalation shall be effective from the expiry of three (3) years from the Effective Date (i.e. 22 April 2012) and the Second escalation will be effective from 6 years from the Effective Date (i.e. 22 April 2015).

5.6 In the event of any two consecutive defaults in payment of Rent by the Lessee, the Lessor may forthwith at its sole discretion and in addition to any other remedy in law available to him, eject the Lessee from the Demised Premises and take possession thereof.

6. **SECURITY DEPOSIT**

6.1 An interest free refundable security deposit ("**Security Deposit**") amounting to Rs. 3,93,42,000 (Rupees Three Crores, Ninety-Three Lakhs and Forty Two Thousand Only) has been deposited with the Lessor by the Lessee in the following manner:

(a) One month's Base Rent amounting to Rs. 65,57,000 (Rupees Sixty-Five Lakhs and Fifty Seven Thousand Only) through a cheque no. 001304 dated 9 March, 2009 drawn on CITI Bank on 6 March 2009 and

(b) Five month's Base Rent amounting to Rs. 3,27,85,000 (Rupees Three Crores, Twenty Seven Lakhs and Eighty Five Thousand Only) through a cheque no. 606425 dated 21 April, 2009 drawn on ABN Amro Bank on the Effective Date.

6.2 The Security Deposit shall be refunded by the Lessor to the Lessee without any interest, upon expiry of the Term hereof simultaneously upon the Lessee surrendering the peaceful, vacant possession of the Demised Premises in a clean and clear condition, subject to the deduction of any unpaid Rent and any other dues payable by the Lessee to the Lessor under the terms of this Deed. It is clarified that the Lessor shall not be entitled to deduct the Rent not payable by the Lessee during the Rent Free Periods and during the periods mentioned under Clause 5.4. On issue of notice of termination in accordance with Clause 3.3, 50% (Fifty percent) of the Security Deposit, amounting to Rs. 1,96,71,000 (Rupees One Crore, Ninety Six Lakhs, Seventy One Thousand Only) shall be adjusted towards the Rent payable by the Lessee for the notice period of six months and the balance shall be refunded to the Lessee simultaneously on the Lessee surrendering the possession of the Demised Premises to the Lessor.

6.3 In the event that Lessor fails to refund the Security Deposit in accordance with the Deed, after making adjustment of dues if any, the Lessee shall have the right to (i) retain the possession of the Demised Premises without the payment of any Rent from the date of expiry or earlier termination of this Deed to the date of actual repayment of the Security Deposit; and (ii) claim simple interest at the rate of eighteen (18)% per annum on the Security

Deposit from the date of expiry of the Term or the earlier termination of this Deed, until actual payment of the Security Deposit by the Lessor.

7. REPRESENTATIONS AND WARRANTIES

7.1 The Lessor makes the following representations and warranties:

(a) The Lessor is a legal entity duly incorporated and validly existing in accordance with the laws of India.

(b) The Lessor has full power and authority to enter into this Deed.

(c) This Deed constitutes Lessor's legal, valid and binding obligations enforceable against it in accordance with its terms.

(d) The Lessor has clear, absolute, unrestricted and unfettered legal and marketable title and ownership rights to the Demised Premises and the Exclusive Areas.

(e) The Lessor is authorised by its memorandum and articles of association and is competent to enter into this Deed.

(f) All necessary and applicable sanctions and approvals for water and power supply to the Demised Premises and the Exclusive Areas have been obtained by the Lessor.

(g) The Demised Premises and the Exclusive Areas are free from any and all encumbrances, liens and charges of any nature whatsoever except for charges existing for loans or financial assistance taken by the Lessor from financial institutions as detailed in a certificate dated 1 April 2009 provided by the Lessor on its letterhead to the Lessee. The Lessor shall also inform the Lessee in writing about any and all encumbrances/charges created after signing of this Deed.

(h) The Demised Premises, all the basement levels thereunder and the terraces of the Demised Premises conform to all applicable laws and are constructed in accordance with the approved building plan, permits or licenses. The Lessor further states that it has not received any notice of non-compliance with any applicable laws, in respect of the

Demised Premises, any of the basement levels and the terraces thereof, which has not been remedied or which has the potential effect of restricting the use of the Demised Premises, any of the basement levels and the terraces thereof by the Lessee for the purposes set out herein.

(i) The structural elements of the Demised Premises and the Exclusive Areas including, but not limited to, the exterior walls, roof, corridors, load bearing walls, and foundation are (i) sound and in good working order, condition and repair and free of deferred maintenance issues; and (ii) constructed in compliance with all applicable building bye laws in India including in relation to structural stability with particular attention to the standards defined in relation to seismic risks.

(j) The electrical load provided for the Demised Premises is 1000 KVA which will be available to the Lessee twenty (24) hours per day, seven (7) days per week throughout the year and is sufficient for the operations of the Lessee.

(k) There are no existing court cases, restrictions, interests, encumbrances, charges, or similar limitations or restrictions adversely affecting the unrestricted and unfettered use and enjoyment by the Lessee of the Demised Premises and the Exclusive Areas.

(l) The Lessor has all the necessary approvals from the statutory authorities, including but not limited to the Haryana Urban Development Authority, required for entering into this Deed and for setting-up of, maintaining and operating the Business Operations.

(m) The Lessor in compliance with all applicable environmental laws in relation to the Demised Premises and the Exclusive Areas.

(n) The Lessor is presently maintaining the lifts in the Demised Premises and the Exclusive Areas and operating and running the same on twenty (24) hours per day, seven (7) days per week throughout the year. Inspite of mechanical defects and /or electrical failure, the Lessor shall ensure that, one of the lifts in the Demised Premises and the Exclusive Areas shall always operate, including, public holidays. The

Lessor undertakes to keep and maintain the licenses required for the operation of the lifts in the Demised Premises and the Exclusive Areas for all times during the Term of this Lease and to get the same inspected and certified periodically, but no later than as required by the applicable laws, by the agency/company maintaining the lifts.

(o) The fire fighting equipment and other support equipments and facilities meet the prescribed norms and codes of the relevant Government Authorities or any subsequent amendments thereof and shall also meet the minimum specifications and standards prescribed under the applicable laws and regulations, if any, and undertakes to comply with all legal formalities and requirements in this regard.

(p) No extra charges shall be levied by the Lessor in respect of the Exclusive Areas & UPS Room made available to the Lessee.

(q) That the Lessor has made provision of basic facilities as contained in this Deed. However, if any extra facility or change e.g. earth-pit, telephone cable, any other minor civil or electrical work is sought by the Lessee, it will be provided by the Lessor. However any such changes after six (6) months from the Effective Date shall be at Lessee's cost.

(r) That the Lessor, under the terms of allotment from HUDA, shall always abide by the HUDA guidelines/norms in respect of sale/transfer of ownership rights.

The Lessor acknowledges that the Lessor's representations and warranties in this Clause 7.1 are a material inducement to the Lessee's entry into this Deed.

7.2 The Lessee makes the following representations and warranties:

(a) The Lessee is an entity duly incorporated and validly existing in accordance with the laws of India.

(b) The Lessee has full power and authority to enter into this Deed.

(c) The execution of this Deed is not prohibited by its constituent documents nor will its execution contravene provisions of any applicable law or Deed or document to which it is a party.

(d) All the corporate approvals required for the execution of this Deed have been obtained.

7.3 In the event that any Party's representations and warranties cease to be true and correct at any time during the Term then, notwithstanding any rights that may accrue to such Party pursuant to Clause 3, such Party shall immediately notify the other Party of the representation(s) and warranty (ies) which have ceased to be true and correct and may suggest corrective action(s) in relation thereto.

8. COVENANTS AND OBLIGATIONS

8.1 The Lessor covenants with the Lessee that during the Term it shall:

(a) Ensure that the Lessee shall during the Term and have quiet, peaceful and exclusive use, enjoyment and possession of the Demised Premises and the Exclusive Areas.

(b) The Lessee's employees, authorised representatives, visitors, guests, agents, contractors, vendors etc. shall have absolute and unrestricted use of and access to the Demised Premises and the Exclusive Areas at all times which means twenty (24) hours per day, seven (7) days per week throughout the year.

(c) Provide a separate electricity meter or sub-meter and a water meter compliant with the applicable laws in respect of the Demised Premises to measure the internal electricity consumption, i.e., electricity consumed within the Demised Premises and the water consumption respectively.

(d) Provide full support and cooperation to the Lessee for it to obtain a ‘no objection certificate’ and other requisite approval from the statutory authorities for custom bonding of the Demised Premises.

(e) Keep the sewers, drains, channels, watercourses, water pipes, sanitary pipes, electric cables and wires and supply line in, under and upon the Demised Premises and Exclusive Areas and the lavatories in order. Further, to keep the Demised Premises and the Exclusive Areas wind and water tight.

(f) Operate and run a continuous, adequate and proper air conditioning system and ensure air conditioning facilities to the Demised Premises and the Exclusive Areas for 24 hours per day, seven (7) days per week throughout the year.

(g) Supply and maintain continuous 24 hours supply of electricity from the back up generators or other external sources, as the case may be, and ensure continuous supply of water by the Authorities/other sources to the Demised Premises and the Exclusive Areas.

(h) Operate and maintain the Demised Premises and the Exclusive Areas consistent with such business practice and standards of maintenance and insurance as are presently being provided in other corporate buildings and complexes in the vicinity of the Demised Premises.

(i) Permit the Lessee to install at its cost, its own card-key security system.

(j) Provide all necessary support , information & documents to the Lessee in coordinating with Customs, STPI, VSNL or any other telecom body to install the necessary communication equipment, including but not limited to the Microwave Tower, and/or lease lines for satellite voice/data links. In the event, the Lessor intends to raise additional floors/ structures on the Land in addition to the Demised Premises, the Lessor shall ensure that the VSNL links etc. are not disrupted.

(k) Maintain at all times during the Term of this Deed adequate insurance in respect of the Demised Premises and the Exclusive Areas against

loss due to fire, riot, etc, and pay all premiums in respect of such insurance in a timely manner and provide copies thereof to the Lessor. The Lessee will at its option get its equipments, furniture and fixtures etc. insured at its own expenses.

(l) Keep the Demised Premises, the Exclusive Areas and the stairs and passages leading thereto in good and tenantable condition and to do all such structural and other repairs to the Demised Premises as may be necessary for the convenience, occupation and enjoyment of the Demised Premises and the Exclusive Areas by the Lessee.

(m) Pay/ reimburse any and all costs incurred for all other exterior, structural and major repairs to the Demised Premises and the Exclusive Areas, including the structure of the Demised Premises and the Exclusive Areas, roof space, exterior walls, load bearing walls, support beams, foundation, columns, parking facilities shall be provided for by the Lessor at its own cost and expense provided that the cause for repair is not due to any act or omission of the Lessee. Such costs shall not be reimbursed by the Lessee to the Lessor. The Lessor shall ensure that any repairs and maintenance, construction or any other work that may be required in the Demised Premises and the Exclusive Areas is done in such a manner as not to interfere with or impair the Lessee’s use or occupancy of the Demised Premises and the Exclusive Areas and keeping in mind acceptable noise and disturbance levels required for conduct of its business by the Lessee. All repairs and maintenance performed by the Lessor will be of a first class quality and done in a prompt, diligent and good workmanlike manner within a reasonable period, subject to a maximum of fifteen (15) days from the defect being brought to the notice of the Lessor by the Lessee. Provided that if the Lessor is unable or unwilling to carry out the repairs and maintenance as required by the Lessee within the aforementioned period of fifteen (15) days then the Lessee shall have the right to carry out such repair and/or maintenance work and adjust and set-off the costs and expenses incurred for such repairs and maintenance against the Rent payable to the Lessor.

(n) Maintain the structural elements of the Demised Premises and the Exclusive Areas as a first class building suitable for use, and shall maintain the Demised Premises and the Exclusive Areas in

compliance with all building and zoning codes and all other applicable codes, laws, ordinances, regulations, rules and notifications.

(o) Abide by and comply with all laws, bye-laws, rules and regulations of the local bodies and relevant authorities including all permits, consents, certificates, approvals and other permissions from all appropriate governmental authorities (including, without limitation, the Haryana Urban Development Authority, Estate Officer etc.) necessary for the lawful occupancy of the Demised Premises and access to the Exclusive Areas, all the basement levels, terraces and other external and common areas clearly stating the purpose of use that covers the Business Operations.

(p) In the event the repairs performed by the Lessor, or the occurrence of an event, not due to the fault of the Lessee, that caused the repairs to be performed by the Lessor or the Lessee, impacts the ability of the Lessee to use the Demised Premises and the Exclusive Areas for its intended use, there shall be an abatement of Rent payable for the portion that becomes unusable for Lessee's Business Operations , from the date of the repairs performed by the Lessor or the Lessee, or the occurrence of an event that caused the repairs to be performed by the Lessor or the Lessee, till the date the Demised Premises and the Exclusive Areas is restored to its former condition.

(q) Notwithstanding anything to the contrary provided herein, the Lessor shall not lease the Demised Premises and/or Tower B or any part thereof to any third party that is engaged or proposes to engage in carrying out business of a BPO/call centre and the Lessor shall not lease or has not leased an area out of the Total Built Up Area in the Complex that exceeds the permissable limit for leasing as prescribed by the Statutory/Government Authorities.

(r) The Lessor shall give the Lessee a notice in writing within seven (7) days of any claim, litigation, proceeding or investigation which becomes known to it during the Term relating to the Demised Premises and the Exclusive Areas or the transactions contemplated under this Deed.

(s) Lessor shall not do or cause anything to be done with regard to the facilities extended to it by third party lenders, which results in third party lenders taking possession of the Demised Premises and the Exclusive Areas and/or evicting the Lessee from the Demised Premises and the Exclusive Areas.

(t) The Lessor shall undertake the maintenance of the Demised Premises and Exclusive Areas through its appointed maintenance agency viz. “Piya Motors Pvt. Ltd.” through a separate maintenance agreement to be executed between the Lessee and such appointed maintenance agency.

(u) Provided that in the event Tower B is leased, sub-leased or possession thereof, or of any part thereof, is transferred to a third party (to the extent permitted under Clause 7.1(q) of this Deed), Lessor shall ensure that any and all activities including the fit-out, signage, occupation, use and business operations by such third party do not interfere in any manner with the rights of the Lessee under this Deed.

8.2 The Lessee covenants with the Lessor that during the Term it shall:

(a) Pay to the Lessor, the Rent and all other amounts payable by it under this Deed in accordance with the terms of this Deed.

(b) Pay to the Lessor, water, and electricity charges for the Demised Premises. The Lessee shall pay 75% (Seventy Five Percent) of the bills of water and sewage charges for the Demised Premises as per the Actual Bills received by the Lessor by the relevant Authorities / any other source of supply whereas the Lessor shall bear the balance 25% (Twenty Five percent) of such charges. The Lessee shall pay such amounts within ten (10) days of receipt of an invoice from the Lessor in this regard. For avoidance of any doubt, it is clarified that electricity, water and sewerage charges for all the basement levels, staircases, lifts, terraces and other external and common areas outside the Demised Premises shall be paid by the Lessor/ Lessor’s nominee. The Lessee will be liable to pay electricity charges as per the sub-meter

readings for the Demised Premises provided that for (i) electricity supply through State Electricity Board charges shall be paid as per the actual sub-meter readings and (ii) supply through the diesel generator sets ("**DG**") charges shall be paid as per the number of units consumed as per the sub-meter. The cost per unit for electricity from the DG shall be calculated on the basis of the actual cost of consumables required to generate per unit of electricity *provided* that the Lessor shall provide and certify all supporting documentation and invoices for determining such cost of consumables. It is clarified that Lessee shall be liable to pay minimum charges prescribed by the State Electricity Board or as per the actual invoice by the State Electricity Board as applicable on 125 KVA till such time the Lessee requests for Load greater than 125 KVA.

(c) That the Lessee shall deliver the vacant possession of the Demised Premises and the Exclusive Areas to the Lessor on the expiration or earlier termination of the lease together with the Lessor's fittings, fixtures in such repair or condition as is consistent with the covenants and conditions of this Deed. Other than due to any default or breach by the Lessor of this Deed and subject to Clause 6.2, if the Lessee is unable to handover the vacant possession of the Demised Premises and the Exclusive Areas on the expiration or earlier termination of the lease, the Lessee shall pay a sum of Rs. 2,00,000/- (Rupees Two Lakh only) per day in addition to the Rent as Liquidated Damages until delivery of vacant possession of the Demised Premises and the Exclusive Areas. Such payment of damages will be deemed as the cumulative and not exclusive remedy between the Parties hereto for any such non performance of the obligation to vacate under this Deed.

(d) Not keep or store within the Demised Premises and the Exclusive Areas any goods which are of hazardous or combustible nature or otherwise are of a weight, as might cause the occurrence of any hazard or affect the structure of the Demised Premises and the Exclusive Areas or the lives of any individuals and other occupants

within the Demised Premises and the Exclusive Areas (including health of such individuals).

(e) Use the Demised Premises only for its and its Affiliates' Business Operations and shall not carry on or permit to be carried on in the Demised Premises or in any part thereof any activities which are or are likely to be unlawful, obnoxious or cause nuisance or disturbance to other tenants/occupants in the vicinity.

9. PARKING AREA AND ADDITIONAL AMENITIES

9.1 Parking Area

(a) The Lessor shall during the Term provide the Lessee with a total of ninety six (96) car parking spaces in the basement under the Land ("**Parking Area**") free of charge.

(b) The Lessee may request the Lessor at any time in the future for additional car or two wheeler parking spaces. Subject to availability, the Lessor shall provide additional car and two wheeler parking spaces to the Lessee. If additional parking spaces are made available to the Lessee by the Lessor, the Lessee shall make an additional payment at the rate of Rs. 2,000 (Rupees Two Thousand Only) per car parking space so provided.

9.2 Additional Amenities

9.2.1 The Lessor shall provide to the Lessee, free of charge:

(a) a basic fully functional gymnasium ("**Gym**") for the use of the Lessee in an appropriate partitioned area admeasuring 560 square feet, located in an area as mutually agreed upon by Parties. The Lessee shall also be allowed to build two showers, changing rooms and bathroom facilities next to the Gym at its own cost and expense for which appropriate space admeasuring approximately 300 square feet will be provided by the Lessor adjacent to the Gym.

(b) an appropriate partitioned area for a recreation room, and administration room measuring carpet area of 950 square feet ("**Facilities Room**") in an area as mutually agreed upon by Parties.

(c) an appropriately partitioned storage area measuring carpet area of 500 square feet ("**Storage Space**") to be located on the Basement Level 1.

(d) an appropriately partitioned area as mutually agreed between the Parties for installing the uninterruptible power supply (UPS) systems and battery banks. ("**UPS Room**")

9.2.2 The Gym, Facilities Room and Storage Area shall be fully operational and available for use within a period of 8 months from the Effective Date.

9.2.3 In the event, the Lessor fails to make available to the Lessee the Gym, Facilities Room and Storage Area within the abovementioned period of 8 months from the Effective Date or if after these amenities being made available, the right of the Lessee to continuous usage of these amenities is hampered or disturbed, the Lessee shall be entitled to construct a gymnasium, storage space and/or facilities room for its exclusive use and for the use of its employees and guests – at the cost of the Lessor. It is agreed between the Parties that the Lessee shall be entitled to set-off the cost of construction of amenities under this Clause from the Rent payable by it to the Lessor for the Demised Premises.

10. **INDEMNITY**

10.1 The Lessor shall indemnify, defend and hold the Lessee, its Affiliates and their respective officers and employees, harmless from and against any and all actions, costs (including but not limited to attorneys cost), claims, demands, damages, losses and expenses that may arise from:

(a) the Lessor's non-compliance with its obligations and covenants under this Deed;

(b) any defects or deficiency or error or discrepancy or shortcoming in the title of the Demised Premises, and/or Land or any one claiming title, right, interest in the Demised Premises, and/or Land and / or if it is found that approvals / consents including permission from all applicable statutory authorities like Haryana Urban Development Authority, for usage of the Demised Premises for setting-up of, maintaining and operating the Business Operations, , have not been

obtained or are at any time found to be or become ineffective for any reason whatsoever;

(c) the Lessor's failure to comply with the applicable laws, including the approvals, licenses, registrations and consents obtained by the Lessor in respect of the Demised Premises and/or the Land;

(d) any breach, defect, deficiency or inadequacy in the Lessor's representations, warranties, covenant and agreement set out in this Deed;

(e) any interference with the Lessee's rights under this Deed whether by the Lessor or any third party (including but not limited to a bank or financial institution);

(f) any inability of the Lessee to exercise its rights in accordance with this Deed;

(g) on account of Lessee's use of the Gym, Facilities Room, Storage Area and UPS Room;

(h) any loss of business or revenue suffered by the Lessee on account of all or any of the Clauses 10.1 (a) to (g) as stated above.

10.2 This Clause shall survive the expiration or termination of this Deed.

11. LESSOR'S RIGHT TO ENTER THE DEMISED PREMISES

11.1 The Lessor through its duly authorised representative shall have the right from time to time, subject to a maximum of once in two consecutive months, to enter the Demised Premises during the normal business hours on any working day after providing the Lessee at least seven (7) days prior written notice for the purpose of inspecting the Demised Premises.

11.2 During such visit, the Lessee shall be at liberty to have its representative accompany the Lessor's representative; it being clarified that the Lessor's representative shall carry an appropriate identification and authority documents and shall undertake the inspection in a manner so as to not cause any inconvenience or interference to the Lessee's business operations.

12. GENERAL

12.1 Costs

Except as expressly otherwise provided in this Deed, each of the Parties hereto shall bear its own legal, accountancy and other costs, charges and expenses connected with the negotiation, preparation and implementation of this Deed and any other Deed incidental to or referred to in this Deed, provided that the costs in respect of stamp duty and registration charges of this Deed shall be borne equally by both the Parties.

12.2 Assignment, Sub-lease or Sale

(a) That in the event the Lessor sells or transfers the Demised Premises and/or the Exclusive Areas, either directly or indirectly (including by way of merger or amalgamation), during the Term to any third party, the Lessor shall ensure that such third party shall be bound by and adheres to the terms and conditions of this Deed to ensure uninterrupted and peaceful enjoyment of the Demised Premises and/or the Exclusive Areas by the Lessee for the Term by ensuring that such third party executes a deed of adherence confirming all terms and conditions of this Deed and an acknowledgement of all outstanding amounts paid by the Lessee to the Lessor whose benefit shall be transferred to such third party. The Lessor hereby agrees that the sale of the Demised Premises and/or the Exclusive Areas to any third party shall only be deemed to have occurred (and accordingly be deemed valid and effective), if a deed of adherence in form and substance mutually agreeable to the Lessee and Lessor is duly executed by such third party and the Lessee. In the event the Lessor decides to securitize the rentals with a bank/financial institutions, Lessor shall have the option to do so provided Lessee’s rights under this Lease Deed are not affected.

(b) During the Term, Affiliate of the Lessee shall have the right to sublease/ use and occupy the Demised Premises and/or the Exclusive Areas which includes amalgamation of the Lessee within any of its group companies/ Affiliates and/or as may be agreed upon inter se between the Lessee and such Affiliates. Lessee will not be entitled to sub-lease the Demised Premises to any third party which is not an

Affiliate. The Lessee shall not sublet the Demised Premises in part or whole without the knowledge, consent and written approval of the Lessor unless such sublet is to an Affiliate.

(c) **Right of First Refusal**:

(i) In the event the Lessor decides to lease, sub-lease or otherwise transfer possession to any third party all or any portion of Tower B during the Term, then before concluding such lease, sub-lease or transfer of possession, the Lessor shall provide written notice of such intended lease, sub-lease or transfer of possession to the Lessee specifying in detail the terms of such intended lease, sub-lease or transfer of possession and shall irrevocably offer to lease, sub-lease or transfer possession to the Lessee Tower B or any applicable portion thereof at the same price and on the same terms as the Lessor intends to lease, sub-lease or transfer possession of Tower B or any applicable portion thereof to such third party (the "**Offer**"). The Lessee may accept such Offer within fifteen (15) days of the receipt of such Offer, failing which, the Lessor shall be free to lease, sub-lease or transfer possession of Tower B or applicable portion thereof to such third party on the same terms and conditions as contained in the Offer. If the terms and conditions of the lease, sub-lease or transfer of possession of Tower B or applicable portion thereof to the third party are more favourable than those contained in the Offer (this shall include leasing, sub-leasing or transferring possession of Tower B or applicable portion thereof at a rate which is less than that Offered to the Lessee), the Lessor shall be bound to incorporate such more favourable terms in an amended Offer to the Lessee by again complying with the procedure laid down in this Clause.

(ii) The Lessee will be able to assign the rights and obligations under this Deed in favour of its Affiliates without prior written consent of the Lessor and will ensure that such Affiliate(s) comply with the terms and conditions of this Deed. In case of any failure to comply with the terms and conditions of this Deed, the lease shall stand terminated and the Lessee will be liable to vacate the premises and to hand over physical possession of the same to the Lessor with immediate effect, but the Lessee will be liable to pay the Rent for the Lock-in-Period.

12.3 ***Force Majeure***

Failure on the part of either Party to perform any of its obligations hereunder ("**First Party**") shall not entitle the other Party to raise any claim against the First Party to the extent that such failure of the First Party arises from the occurrence and continuation of an event of *Force Majeure*. If through *Force Majeure* the fulfillment by either Party of any obligation set forth in this Deed will be delayed, the period of such delay will not be counted on in computing the periods prescribed by this Deed. Any Party failing to perform its obligations under this Deed because of occurrence and continuation of *Force Majeure* shall give notice in writing to the other Party of such *Force Majeure* as soon as possible after such occurrence. Any Party hereto who fails because of *Force Majeure* to perform his obligations hereunder will upon the cessation of *Force Majeure*, take all reasonable steps within its power to resume, with the least possible delay, compliance with its obligations hereunder. If the *Force Majeure* shall continue for a period exceeding thirty (30) days, the Lessee shall be entitled to terminate the Deed upon giving thirty (30) days written notice to the Lessor.

12.4 **Signage**

12.4.1 The Lessee shall have the right to use, affix or exhibit any name plates or any writings or any sign boards at the external facade of the Demised Premises, subject to local laws and with intimation to the Lessor, the absolute ownership of which shall remain that of the Lessee free and clear of any claim by the Lessors, and which is to be removed by the Lessee, at the time of Lessee vacating the Demised Premises The Lessee shall be entitled to use the terrace of the Demised Premises for its publicity, hoardings, neon signs etc. The Lessee shall solely bear the cost of putting up and installing any such signage on the Demised Premises. For avoidance of any doubt it is clarified that the Lessor shall not charge any rent or any amount whatsoever from the Lessee for putting up or installing any signage pursuant to this Clause.

12.4.2 The Lessor shall assist and cooperate with the Lessee in obtaining necessary permissions from governmental authorities and other authorities or adjoining owners and occupants for the Lessee to place or construct signage in and on the Demised Premises as permitted hereunder.

12.5 **Property and Municipal Tax**

The Lessor represents that all incidences of taxes or levies on property with respect to the Demised Premises as on the Effective Date and for the Exclusive Areas (as on the expiry of 3 months after the Effective Date i.e. when they are operational) including any enhancements thereof shall be solely borne by the Lessor. If any property tax or levy on the Demised Premises and/or the Exclusive Areas is levied or demand raised by the statutory authorities in respect of the Demised Premises and/or the Exclusive Areas for a tax, not in force, as on the Effective Date or on the expiry of the 3 months, as the case may be—for the duration of the Term, the same shall be borne by the Lessor and Lessee equally.

13. **GOVERNING LAW AND JURISDICTION**

The validity, construction and performance of this Deed shall be construed and the legal relations between the Parties hereto shall be determined and governed according to the laws of India. The Parties agree to the jurisdiction of the courts of Gurgaon, Haryana.

14. **RELATIONSHIP**

14.1 No provision of this Deed shall be deemed to constitute a partnership or joint venture between the Parties.

14.2 No provision of this Deed shall constitute either Party as the legal representative or agent of the other, nor shall either Party have the right or authority to assume, create or incur any liability or any obligation of any kind, express or implied, against, or in the name of, or on behalf of the other Party.

14.3 No person employed by either Party for the performance of its obligations under this Deed shall be deemed to be an employee of the other Party. Each Party shall be responsible for the payment of all salaries, employment benefits, etc. with respect to all persons who are engaged by it for the performance of any obligations under this Deed and such person shall not be entitled to any salary benefit or any other claim whatsoever from or against the other Party.

15. **NOTICE**

15.1 Save as otherwise specifically provided in this Deed, any notice, demand or other communication shall be in writing and be served under this Deed may be served upon any Party hereto only by registered speed post acknowledgement due or delivering the same by courier to the Party to be served at its address below, or at such other address as it may from time to time notify in writing to the other Party hereto.

S.No.	Name of the Party	Concerned Official	Address
1	RS Technologies Private Limited (Lessor)	Mr. SP Yadav	Branch Office: 77A, Sector 18, IFFCO Road, Gurgaon 122015
2	Midland Credit Management India Pvt. Ltd. (Lessee)	Mr. Manu Rikhye	Plot # 28-P, Sector 44, Gurgaon 122002

15.2 A notice or demand served by registered speed post acknowledgement due or courier shall be deemed duly served forty-eight (48) hours after posting , in the case of a letter, that such letter was sent properly by registered post, addressed and placed in the post, in the case of courier, that the letter was addressed and delivered to the courier company.

16. **MISCELLANEOUS**

16.1 **Waiver**

(a) The failure of either Party to enforce, in any one or more instances, performance of any of the terms, covenants or conditions of this Deed shall not be construed as a waiver or a relinquishment of any right or claim granted or arising hereunder or of the future performance of any such term, covenant, or condition, and such failure shall in no way affect the validity of this Deed or the rights and obligations of the Parties hereto. The Parties acknowledge that a waiver of any term or provision hereof may only be given by a written instrument executed by each Party hereto.

(b) Any express waiver by either Party of any default by the other Party shall not constitute a waiver of any other default by the defaulting Party or a waiver of any of the non defaulting Party's right.

16.2 **Entire Deed**

This Deed constitutes the entire Deed between the Parties and revokes and supersedes all previous Deeds between the Parties, concerning the matters covered herein whether written oral or implied. The terms and condition of this Deed shall not be changed or modified except by written amendments duly agreed between the Parties.

16.3 **Severability**

Any provision of this Deed which is prohibited, unenforceable or is declared or found to be illegal, unenforceable or void in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remainder of such provision or the remaining provisions of this Deed or affecting the validity or enforceability of such provision in any other jurisdiction. If any such invalidity substantially affects or alters the commercial basis of this Deed, the Parties shall negotiate in good faith to amend and modify the provisions and terms of this Deed as may be necessary or desirable in the circumstances to achieve, as closely as possible, the same economic or commercial effect as the original provisions and terms of this Deed.

16.4 **Authority**

Each Party to this Deed represents that it possesses full power and authority to enter into this Deed and to perform its obligations hereunder and that the legal representative of each Party is fully authorised to sign this Deed.

16.5 **Right to retain original document**

After execution of the Deed, the original thereof shall be retained by the Lessee. The Lessee shall provide a certified true copy (as certified by the office of the Sub-Registrar) of the said original to the Lessor.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE SET THEIR HANDS AND SEAL TO THESE PRESENTS ON THE DAY, MONTH AND YEAR FIRST ABOVE WRITTEN IN PRESENCE OF THE FOLLOWING WITNESSES:

SIGNED, SEALED AND DELIVERED

For and on behalf of
R.S. Technologies Private Limited

(LESSOR)
Authorised Signatory

/s/ Pawan Kumar
Pawan Kumar

For and on behalf of
Midland Credit Management India Private Limited

(LESSEE)
Authorised Signatory

/s/ Manu Rikhye
Manu Rikhye

WITNESSES:

1. /s/ Sudhir Bhardwaj
Sudhir Bhardwaj
Address: 194, Dundahera By Pass Road,
Gharziabad

2. /s/ Subash Chandra Arora
Subash Chandra Arora
Advocate
Address: 625, Saraswati Vihar,
Gurgaon

ANNEXURE I—FLOOR PLAN OF DEMISED PREMISES

	Carpet Area (Sq. Ft.)	Chargeable Super Area (Sq. Ft.)
	Tower – A	
Basement consisting of Parking Area		
Ground Floor	11426	17922
First Floor	10503	16451
Second Floor	10970	17194
Third Floor	10969	17192
Fourth Floor (along with exclusive rights to use of terraces)	10237	14241
Total Area	**54,105**	**83,000**

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: April 29, 2009

By: /s/ J. Brandon Black
J. Brandon Black
President and Chief Executive 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: April 29, 2009

By: /s/ Paul Grinberg

Paul Grinberg
Executive Vice President, Chief Financial
Officer and Treasurer

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 March 31, 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

April 29, 2009

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

April 29, 2009