ENCORE CAPITAL GROUP INC
Form 424B5
August 07, 2012
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-167074

The information contained in this prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to these securities has become effective under the Securities Act of 1933, as amended. This prospectus supplement and the accompanying prospectus are not an offer to sell nor do they seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated August 7, 2012

PROSPECTUS SUPPLEMENT

(To Prospectus dated June 1, 2010)

Encore Capital Group, Inc.

1,213,799 Shares

Common Stock

The selling stockholders named in this prospectus supplement are offering 1,213,799 shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling stockholders. Our common stock is listed on the Nasdaq Global Select Market under the symbol ECPG. The last reported sale price of our common stock on the Nasdaq Global Select Market on August 6, 2012 was $30.10 a share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-6 of this prospectus supplement and in the documents we file with the Securities and Exchange Commission that are incorporated herein by reference to read about important factors you should consider before buying shares of our common stock.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds, Before Expenses, to the Selling Stockholders	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The selling stockholders have granted the underwriter a 30-day option to purchase up to an additional 182,070 shares of our common stock to cover over-allotments, if any, at the public offering price per share, less underwriting discounts and commissions.

The underwriter expects to deliver the shares of our common stock to purchasers on or about August   , 2012.

Sole Book-running Manager

JMP Securities

The date of this prospectus supplement is August   , 2012.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first is this prospectus supplement, which describes the specific terms of this offering and adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference herein and therein. The second part, the accompanying base prospectus dated June 1, 2010, gives more general information some of which may not apply to this offering, about the common stock which may be sold in this offering and about us. You should read the entire prospectus supplement, the accompanying base prospectus, as well as the information incorporated by reference herein and therein, before making an investment decision.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus. If the description of the offering varies between this prospectus supplement and the accompanying base prospectus, you should rely on the information in this prospectus supplement. Neither we nor the selling stockholders have authorized any dealer, salesman or other person to provide you with information different from that contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus supplement or the accompanying base prospectus. This prospectus supplement and the accompanying base prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus supplement and the accompanying base prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus supplement, the accompanying base prospectus or the documents incorporated by reference is accurate on any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this prospectus supplement, when we refer to Encore Capital Group, Inc. and use phrases such as the Company, Encore, we, our and us, w are referring to Encore Capital Group, Inc. and its subsidiaries as a whole, except where it is clear from the context that any of these terms refers only to Encore Capital Group, Inc. Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus supplement to $ or dollars are to the lawful currency of the United States. Unless we have indicated otherwise, or the context otherwise requires, the information presented in this prospectus supplement assumes no exercise of the underwriter s over-allotment option.

Our logo and other trademarks mentioned in this prospectus supplement, the accompanying base prospectus or any document incorporated by reference herein or therein are our property. Certain trademarks referred to in this prospectus supplement, the accompanying base prospectus or any document incorporated by reference herein or therein may be without the ® or TM symbol, as applicable, but this is not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our right to these trademarks. Other brand names or trademarks appearing in this prospectus supplement, the accompanying base prospectus or any document incorporated by reference herein or therein are the property of their respective owners.

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WHERE YOU CAN FIND MORE INFORMATION

We are currently subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance therewith file periodic reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy (at prescribed rates) any such reports, proxy statements and other information at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to you on the SEC s website at http://www.sec.gov and in the Investors section of our website at http://www.encorecapital.com. Our website and the information contained on that site, or connected to that site, are not incorporated into and are not a part of this prospectus supplement.

We have filed with the SEC a registration statement on Form S-3 with respect to the common stock offered hereby. This prospectus supplement does not contain all the information set forth in the registration statement, parts of which are omitted in accordance with the rules and regulations of the SEC. For further information with respect to us and the common stock offered hereby, reference is made to such registration statement.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

We incorporate information into this prospectus supplement by reference, which means that we disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus supplement, except to the extent superseded by information contained in this prospectus supplement. Information that we file later with the SEC will automatically update and supersede the previously filed information. This prospectus supplement incorporates by reference the documents set forth below, that have been previously filed with the SEC:

- our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 9, 2012;
- our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed with the SEC on May 9, 2012 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 2, 2012;
- our Current Reports on Form 8-K filed with the SEC on February 9, 2012 (only with respect to Item 5.02), April 16, 2012, June 7, 2012, July 24, 2012 and August 3, 2012;
- our Definitive Proxy Statement on Schedule 14A, filed with the SEC on April 27, 2012; and
- the description of our common stock contained in our Registration Statement on Form 8-A filed on June 24, 1999, including any amendment or report filed for the purpose of updating such description.

In addition, all documents that we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement and until the offering of the common stock covered by this prospectus supplement is completed shall be incorporated by reference into this prospectus supplement from the respective dates of filing such documents. Unless specifically stated to the contrary, none of the information that we disclose under Items 2.02 or 7.01 of any Current Report on Form 8-K that we may from time to time furnish to the SEC or any other document or information deemed to have been furnished and not filed with the SEC will be incorporated by reference into, or otherwise included in, this prospectus supplement.

Any statement contained in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus supplement shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that also is or is deemed to be incorporated by reference in this

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prospectus supplement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

You may obtain copies of any of these filings by contacting us at the address and telephone number indicated below or by contacting the SEC as described above under the section entitled Where You Can Find More Information. Documents incorporated by reference are available from us without charge, excluding all exhibits unless an exhibit has been specifically incorporated by reference into this prospectus supplement, by requesting them in writing or by telephone at:

Encore Capital Group, Inc.

Attention: Investor Relations

3111 Camino Del Rio North, Suite 1300

San Diego, California 92108

(877) 445-4581

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying base prospectus contain or incorporate by reference 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 Exchange Act. Forward-looking statements may include the words may, will, estimate, intend, continue, believe, expect, plan or anticipate and other similar word forwarding-looking statements include, but are not limited to, statements regarding:

- risks associated with worldwide financial markets and the global economy;
- the fluctuation of our operating results;
- the ability to purchase receivables at sufficiently favorable prices or terms, or at all;
- losses on portfolios consisting of new types of receivables;
- the purchase of receivable portfolios that contain unprofitable accounts and our ability to collect sufficient amounts to recover our costs and to fund our operations;
- sellers delivering portfolios that contain accounts which do not meet our account collection criteria;
- our ability to purchase sufficient quantities of receivable portfolios or collect sufficient amounts on receivables we may own;
- a significant portion of our portfolio purchases during any period that may be concentrated with a small number of sellers;
- the statistical models we use to project remaining cash flows from our receivable portfolios;
- allowance charges based on the authoritative guidance for loans and debt securities acquired with deteriorated credit quality;
- our goodwill or amortizable intangible assets may become impaired and we may be required to record a significant charge to earnings;
- the statutory and regulatory oversight of our business is extensive, and may increase;
- our failure to comply with governmental regulation could result in the suspension or termination of our ability to conduct business, require the payment of significant fines and penalties, or require other significant expenditures;
- our dependence upon third parties to service more than half of our consumer receivable portfolios;

- the ongoing risks of litigation, including individual lawsuits brought against consumers and individual and class action suits brought against us;

- the ongoing risks of regulatory investigations, inquiries, litigation and other actions from governmental agencies, state attorneys general and over governmental bodies relating to our activities;

- negative publicity associated with litigation, governmental investigations, regulatory actions and other public statements could damage our reputation;

- the acquisitions that we have made or may make may prove to be unsuccessful or divert our resources;

- regulatory, political, and economic conditions in India and Costa Rica which expose us to risk; and

- assumptions relating to the foregoing.

Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in this prospectus supplement, the accompanying base prospectus and the documents incorporated by reference herein or therein. Important risks and factors that could cause our actual results to be materially different from our expectations include the factors that are disclosed in the section Risk Factors in this prospectus supplement and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. You should read these factors and the other

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cautionary statements made in this prospectus supplement, the accompanying base prospectus and the documents incorporated by reference herein or therein as being applicable to all related forward-looking statements wherever they appear in this prospectus supplement, the accompanying base prospectus or any document incorporated by reference herein or therein. Each forward-looking statement contained in this prospectus supplement, the accompanying base prospectus and any document incorporated by reference herein or therein reflects management s view only as of the date on which that forward-looking statement was made. You should not place undue reliance on any forward-looking statements we make. We are not obligated to update forward-looking statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this prospectus supplement or to reflect the occurrence of unanticipated events. If we do not update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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SUMMARY

This summary highlights selected information from this prospectus supplement and the accompanying base prospectus to help you understand us and our common stock. The Description of Common Stock section of the accompanying base prospectus contains more detailed information regarding our common stock. We urge you to carefully read this prospectus supplement, the accompanying base prospectus and the documents incorporated by reference herein and therein to fully understand our common stock and the other considerations that are important to you in making a decision about whether to invest in our common stock.

The Company

Encore is a Delaware holding company whose assets consist of investments in its subsidiaries. Encore was incorporated in Delaware in 1999. Our principal executive offices are located at 3111 Camino Del Rio North, Suite 1300, San Diego, California 92108, and our telephone number is (877) 445-4581.

We are a leading provider of debt management and recovery solutions for consumers and property owners across a broad range of assets. We purchase portfolios of defaulted consumer receivables and manage them by partnering with individuals as they repay their obligations and work toward financial recovery. In addition, through our newly acquired subsidiary Propel Financial Services, LLC (Propel), we assist Texas property owners who are delinquent on their property taxes by paying these taxes on behalf of the property owners in exchange for payment agreements collateralized by tax liens on the property.

We conduct business through two operating segments: portfolio purchasing and recovery and tax lien transfer. The operating results from our tax lien transfer segment are immaterial to our total consolidated operating results. However, the total segment assets are significant as compared to our total consolidated assets. As a result, in accordance with authoritative guidance on segment reporting, our tax lien transfer segment is determined to be a reportable segment.

Portfolio purchasing and recovery

Our portfolio purchasing and recovery segment purchases receivables based on robust, account-level valuation methods and employs a suite of proprietary statistical and behavioral models. These investments allow us to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with our methods or goals and precisely align the accounts we purchase with our operational channels to maximize future collections. As a result, we have been able to realize significant returns from the receivables we acquire. We maintain strong relationships with many of the largest credit providers in the United States, and we believe that we possess one of the industry s best collection staff retention rates.

While seasonality does not have a material impact on the business of our portfolio purchasing and recovery segment, collections are generally strongest in our first calendar quarter, slower in the second and third calendar quarters, and slowest in the fourth calendar quarter. Relatively higher collections in the first quarter could result in a lower cost-to-collect ratio compared to the other quarters, as our fixed costs would be constant and applied against a larger collection base. The seasonal impact on our business may be influenced by our purchasing levels, the types of portfolios we purchase, and our operating strategies.

Collection seasonality with respect to our portfolio purchasing and recovery segment can also impact our revenue recognition rate. Generally, revenue for each pool group declines steadily over time, whereas collections can fluctuate from quarter to quarter based on seasonality, as described above. In quarters with lower collections (*e.g.,* the fourth calendar quarter), revenue as a percentage of collections can be higher than in quarters with higher collections (*e.g.,* the first calendar quarter).

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In addition, seasonality could have an impact on the relative level of quarterly earnings. In quarters with stronger collections, total costs are higher, as a result of the additional efforts required to generate those collections. Since revenue for each pool group declines steadily over time, in quarters with stronger collections and higher costs (*e.g.,* the first calendar quarter), all else being equal, earnings could be lower than in quarters with slower collections and lower costs (*e.g.,* the fourth calendar quarter). Additionally, in quarters where a greater percentage of collections come from our legal and agency outsourcing channels, cost to collect will be higher than if there were more collections from our internal collection sites.

Tax lien transfer

Our tax lien transfer segment focuses on the property tax financing industry. We provide property tax solutions to customers in the state of Texas by paying delinquent real estate taxes on behalf of real property owners in exchange for payment agreements collateralized by tax liens on the property. We purchase the property owner s delinquent tax obligation from the local tax authority at par value and work with the property owner to create an affordable payment plan. Revenue from our tax lien transfer segment for the period from May 8, 2012 (i.e., the date of the Propel acquisition) through June 30, 2012, comprised 2% and 1% of total consolidated revenues for the three and six month periods ended June 30, 2012, respectively. Operating income from our tax lien transfer segment for the period from May 8, 2012 (i.e., the date of the Propel acquisition) through June 30, 2012, comprised 2% and 1% of our total consolidated operating income for the three and six month periods ended June 30, 2012, respectively.

Board of Directors

The Company s board of directors consists of eight members, two of whom, Messrs. Mesdag and Teets, are affiliated with the selling stockholders. Messrs. Mesdag and Teets have indicated that they intend to remain on the board following the conclusion of the offering.

The Offering

Common stock offered by the selling stockholders	1,213,799 shares, or 1,395,869 shares if the underwriter s option to purchase additional shares is exercised in full.
Nasdaq Global Select Market symbol	ECPG
Use of proceeds	We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.
Risk Factors	Investing in our common stock involves a high degree of risk. Potential investors are urged to read and consider the risk factors relating to an investment in our common stock set forth under Risk Factors in this prospectus supplement as well as other information we include or incorporate by reference in this prospectus supplement and the accompanying base prospectus.

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Summary Consolidated Financial Data

The following tables present our summary consolidated historical financial and other data as of and for the six months ended June 30, 2012 and 2011 and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007. The summary consolidated historical financial and other data as of December 31, 2011 and for the years ended December 31, 2011, 2010 and 2009 are derived from our audited consolidated financial statements which are incorporated herein by reference. The summary consolidated historical financial and other data as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 are derived from our unaudited financial statements, which are incorporated herein by reference, and are not necessarily indicative of the results to be expected for the full year. The unaudited interim summary consolidated historical financial data reflects Ascension Capital Group, Inc. (Ascension) as a discontinued operation and also reflects all adjustments (consisting primarily of normal recurring adjustments except as described in the footnotes to the interim consolidated financial statements) which are, in the opinion of management, necessary to present fairly the financial data for the interim periods.

The summary consolidated historical financial and other data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and the related notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2012 and June 30, 2012, which are incorporated by reference into this prospectus supplement.

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(Unaudited, in thousands, except per share data)	Six Months Ended June 30, 2012	2011
Revenues		
Revenue from receivable portfolios, net [1]	$ 265,136	$ 216,419
Net interest income	2,332	
Total revenues	267,468	216,419
Operating expenses		
Salaries and employee benefits	42,689	33,796
Stock-based compensation expense	4,805	3,575
Cost of legal collections	79,659	77,195
Other operating expenses	24,025	17,040
Collection agency commissions	8,125	7,510
General and administrative expenses	32,240	18,767
Depreciation and amortization	2,660	1,862
Total operating expenses	194,203	159,745
Income from operations	73,265	56,674
Other (expense) income		
Interest expense	(12,012)	(10,962)
Other income (expense)	349	160
Total other expense	(11,663)	(10,802)
Income from continuing operations before income taxes	61,602	45,872
Provision for income taxes	(24,506)	(17,824)
Income from continuing operations	37,096	28,048
(Loss) income from discontinued operations, net of tax	(9,094)	406
Net income	$ 28,002	$ 28,454
Weighted-average shares outstanding:		
Basic	24,850	24,384
Diluted	25,822	25,594
Basic earnings (loss) per share from:		
Continuing operations	$ 1.49	$ 1.15
Discontinued operations	$ (0.37)	$ 0.02
Net basic earnings per share	$ 1.13	$ 1.17
Diluted earnings (loss) per share from:		
Continuing operations	$ 1.44	$ 1.09
Discontinued operations	$ (0.37)	$ 0.02
Net diluted earnings per share	$ 1.08	$ 1.11
Cash flow data:		
Cash flows provided by (used in):		
Operating activities	$ 44,605	$ 31,743
Investing activities	(347,806)	(20,995)

Financing activities	310,168	(6,993)

(1) Includes a net allowance reversal of $0.8 million and a net allowance charge of $6.5 million for the six months ended June 30, 2012 and 2011, respectively.

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(in thousands , except per share data)	Year Ended December 31, 2011	2010	2009	2008	2007
Revenues					
Revenue from receivable portfolios, net[1]	$ 448,714	$ 364,294	$ 299,732	$ 240,802	$ 241,402
Servicing fees and related revenue[2]	18,657	17,014	16,687	15,087	12,609
Total revenues	467,371	381,308	316,419	255,889	254,011
Operating expenses					
Salaries and employee benefits	81,509	65,767	58,025	58,120	64,153
Stock-based compensation expense	7,709	6,010	4,384	3,564	4,287
Cost of legal collections	157,050	121,085	112,570	96,187	78,636
Other operating expenses	39,776	36,387	26,013	23,652	21,533
Collection agency commissions	14,162	20,385	19,278	13,118	12,411
General and administrative expenses	41,730	31,444	26,920	19,445	17,478
Depreciation and amortization	4,661	3,199	2,592	2,814	3,351
Total operating expenses	346,597	284,277	249,782	216,900	201,849
Income from operations	120,774	97,031	66,637	38,989	52,162
Other (expense) income					
Interest expense	(21,116)	(19,349)	(16,160)	(20,572)	(34,504)
Other (expense) income	(394)	316	3,266	5,129	1,071
Total other expense	(21,510)	(19,033)	(12,894)	(15,443)	(33,433)
Income before income taxes	99,264	77,998	53,743	23,546	18,729
Provision for income taxes	(38,306)	(28,946)	(20,696)	(9,700)	(6,498)
Net income	$ 60,958	$ 49,052	$ 33,047	$ 13,846	$ 12,231
Earnings per share:					
Basic	$ 2.48	$ 2.05	$ 1.42	$ 0.60	$ 0.53
Diluted	$ 2.37	$ 1.95	$ 1.37	$ 0.59	$ 0.52
Weighted-average shares outstanding:					
Basic	24,572	23,897	23,215	23,046	22,876
Diluted	25,690	25,091	24,082	23,577	23,386
Cash flow data:					
Cash flows provided by (used in):					
Operating activities	84,579	75,475	76,519	63,071	19,610
Investing activities	(88,088)	(142,807)	(79,171)	(107,252)	(95,059)
Financing activities	651	69,849	699	45,846	73,334

(1) Includes net allowance charges of $10.8 million, $22.2 million, $19.3 million, $41.4 million and $11.2 million for the years ended December 31, 2011, 2010, 2009, 2008 and 2007, respectively.

(2) Includes revenue from Ascension of $18.6 million, $16.9 million, $16.7 million, $15.0 million, and $12.5 million for the years ended December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

As of June 30, 2012

(in thousands)	
Consolidated statements of financial condition data:	
Cash and cash equivalents	$ 15,014
Investment in receivable portfolios, net	869,859
Total assets	1,167,945
Total debt	702,316
Total liabilities	764,304
Total stockholders equity	403,641

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RISK FACTORS

This section highlights some specific risks related to our common stock and this offering. The list of risks is not intended to be exhaustive and the order in which the risks appear is not intended as an indication of their relative weight or importance. Investing in our securities involves a high degree of risk. You should carefully consider the risks described below and the information set forth under the heading Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, together with all other information included or incorporated by reference in this prospectus supplement and the accompanying base prospectus, before you decide to invest in our common stock. See also Cautionary Note Regarding Forward-Looking Statements above.

Risks Related to Our Common Stock and this Offering

Our common stock price may be subject to significant fluctuations and volatility.

The market price of our common stock has been subject to significant fluctuations. Since the beginning of fiscal year 2012, our closing stock price has ranged from a low of $21.01 on March 22, 2012 to a high of $30.10 on August 6, 2012. These fluctuations could continue. Among the factors that could affect our stock price are:

- our operating and financial performance and prospects;
- our ability to repay our debt;
- our access to financial and capital markets to refinance our debt;
- investor perceptions of us and the industry and markets in which we operate;
- future sales of equity or equity-related securities;
- changes in earnings estimates or buy/sell recommendations by analysts;
- changes in the supply of, demand for or price of debt portfolios;
- our acquisition activity, including our expansion into new markets;
- regulatory changes affecting our industry generally or our business and operations; and
- general financial, domestic, international, economic and other market conditions.

The stock markets in general have experienced high volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

If securities or industry analysts have a negative outlook regarding our stock or our industry, or our operating results do not meet their expectations, our stock price could decline. The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us. If one or more of the analysts who cover our company downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

Future sales of our common stock or the issuance of other equity may adversely affect the market price of our common stock.

Except as described under the heading Underwriting, we are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of additional shares of our common stock or convertible securities, including our outstanding options and restricted shares, or otherwise, will dilute the ownership interest of our common stockholders.

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The liquidity and trading volume of our common stock is limited due to the substantial portion of our common stock held by the selling stockholders and other parties. Sales of a substantial number of shares of our common stock or other equity-related securities in the public market by us, the selling stockholders or others could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

Provisions in our charter documents and Delaware law may delay or prevent acquisition of us, which could decrease the value of shares of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions include advance notice provisions, limitations on actions by our stockholders by written consent and special approval requirements for transaction involving interested stockholders. We are authorized to issue up to five million shares of convertible preferred stock, the relative rights and preferences of which may be fixed by our board of directors, subject to the provisions of our articles of incorporation, without stockholder approval. The issuance of preferred stock could be used to dilute the stock ownership of a potential hostile acquirer. The provisions that discourage potential acquisitions of us and adversely affect the voting power of the holders of common stock may adversely affect the price of our common stock. See Description of Common Stock in the base prospectus.

We do not intend to pay dividends on our common stock for the foreseeable future.

We have never declared or paid cash dividends on our common stock. In addition, we must comply with the covenants in our credit facilities if we want to pay cash dividends. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments and such other factors as our board of directors deems relevant. Accordingly, you may need to sell your shares of our common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them.

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USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders. The selling stockholders will receive all of the net proceeds from the sale of their respective shares of our common stock.

The selling stockholders will pay any underwriting discounts and commissions incurred by the selling stockholders in connection with sales by them. We will bear all other costs, fees and expenses incurred in effecting the registration of the common stock covered by this prospectus supplement including, but not limited to, all registration and filing fees, expenses of our counsel and accountant and expenses of counsel to the selling stockholders, as such expenses pertain to this offering.

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CAPITALIZATION

The following table sets forth our cash and capitalization as of June 30, 2012 on an actual basis.

You should read the information in this table together with Management s Discussions and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and the related notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as updated in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, which is incorporated by reference into this prospectus supplement and the accompanying base prospectus.

	As of June 30, 2012
	(Unaudited, in thousands)
Cash and cash equivalents	$ 15,014
Debt:	
Revolving credit facility	$ 490,000
Propel facility	127,899
Senior secured notes	75,000
Capital lease obligations and other	9,417
Total debt	702,316
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, 24,797 shares issued and outstanding	248
Additional paid-in capital	128,615
Accumulated earnings	277,854
Accumulated other comprehensive loss	(3,076)
Total stockholders equity	403,641
Total capitalization	$ 1,105,957

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PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND POLICY

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol ECPG. The high and low sales prices of the common stock, as reported by the Nasdaq Global Select Market, for each quarter during our two most recent fiscal years and this year are reported below.

	High	Low
Year Ending December 31, 2012		
Third Quarter (through August 6, 2012)	$ 30.47	$ 27.13
Second Quarter	29.64	21.42
First Quarter	24.91	20.87
Year Ended December 31, 2011		
Fourth Quarter	28.50	19.40
Third Quarter	31.78	18.96
Second Quarter	33.16	23.85
First Quarter	27.67	21.65
Year Ended December 31, 2010		
Fourth Quarter	23.67	16.70
Third Quarter	22.92	17.50
Second Quarter	24.09	16.50
First Quarter	18.66	14.65

On August 6, 2012, the closing sale price of our common stock, as reported on the Nasdaq Global Select Market, was $30.10 per share. As of August 6, 2012, there were approximately 15 record holders.

Dividend Policy

As a public company, we have never declared or paid dividends on our common stock. However, the declaration, payment and amount of future dividends, if any, is subject to the discretion of our board of directors, which may review our dividend policy from time to time in light of the then existing relevant facts and circumstances. Under the terms of our credit facilities, we are permitted to declare and pay dividends in an amount not to exceed, during any fiscal year, 20% of our audited consolidated net income for the then most recently completed fiscal year, so long as no default or unmatured default under the facility has occurred and is continuing or would arise as a result of the dividend payment. Under the terms of the syndicated loan facility that we entered into in connection with the acquisition of Propel (the Propel Facility), we are prohibited from declaring and paying dividends if the payment of such dividends will cause a breach of the financial covenants set forth in the Propel Facility. We may also be subject to additional dividend restrictions under future financing facilities.

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SELLING STOCKHOLDERS

A total of 1,213,799 shares of common stock are being offered by the selling stockholders. The following table sets forth information with respect to the selling stockholders and the shares of common stock beneficially owned by the selling stockholders and reflects the shares of common stock offered by this prospectus supplement. Beneficial ownership is determined in accordance with the rules and regulations of the SEC.

Name	Shares Beneficially Owned Prior to Offering		Number of Shares	Shares Beneficially Owned After Offering	
	Number	Percent (1)	Offered (2)	Number	Percent (1)
Red Mountain Capital Partners II, L.P. (3)	517,791	2.09%	264,314	253,477	1.02%
Red Mountain Capital Partners III, L.P. (3)	1,860,044	7.50%	949,485	910,559	3.67%

(1) Applicable percentage ownership is based on 24,807,861 shares of common stock outstanding as of July 16, 2012. Beneficial ownership of shares is determined in accordance with the rules of the SEC and generally includes shares as to which a person holds sole or shared voting or investment power. Shares of common stock subject to options that are presently exercisable or exercisable within 60 days of July 16, 2012 are deemed to be beneficially owned by the person holding such options for the purpose of computing percentage ownership of such person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Red Mountain Capital Partners II, L.P. (RMCP II) is offering 264,314 shares of our common stock. In addition, RMCP II has granted the underwriter the option to purchase from it an additional 39,647 shares of our common stock. If this option to purchase additional shares were exercised in full, after the offering, RMCP II would own 0.86% of our common stock. Red Mountain Capital Partners III, L.P. (RMCP III) is offering 949,485 shares of our common stock. In addition, RMCP III has granted the underwriter the option to purchase from it an additional 142,423 shares of our common stock. If this option to purchase additional shares were exercised in full, after the offering, RMCP III would own 3.10% of our common stock.

(3) Information with respect to RMCP II and RMCP III is based in part on a Schedule 13D and Amendment Nos. 1, 2, 3, 4 and 5 thereto filed with the SEC on April 16, 2007, April 23, 2007, May 18, 2007, October 22, 2007, March 8, 2011 and November 8, 2011, respectively, by Red Mountain Capital Partners LLC (RMCP LLC), RMCP II, RMCP III, RMCP GP LLC (RMCP GP), Red Mountain Capital Management, Inc. (RMCM) and Willem Mesdag (the Red Mountain Schedule 13D) and a Form 4 filed with the SEC on June 14, 2012 jointly by RMCP LLC, RMCP II, RMCP III, RMCP GP, RMCM and Mr. Mesdag. RMCP II has sole voting and investment power with respect to 517,791 of the shares and RMCP III has sole voting and investment power with respect to 1,860,044 of the shares. RMCP GP is the general partner of each of RMCP II and RMCP III and thus may be deemed to control each of RMCP II and RMCP III. RMCP LLC is the managing member of RMCP GP and thus may be deemed to control RMCP GP and each entity directly or indirectly controlled by RMCP GP. RMCM is the managing member of RMCP LLC and thus may be deemed to control RMCP LLC and each entity directly or indirectly controlled by RMCP LLC. Mr. Mesdag is the president, sole executive officer, sole director and sole shareholder of RMCM and thus may be deemed to control RMCM and each entity directly or indirectly controlled by RMCM. Because each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to control RMCP II and RMCP III, each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to beneficially own, and to have the power to vote or direct the vote, or dispose or direct the disposition of, all of the these shares. J. Christopher Teets is a non-managing member of RMCP LLC and does not control any of these entities. Messrs. Mesdag and Teets were elected as directors of Encore on May 11, 2007, and Mr. Teets is a member of our Audit Committee. The shares disclosed for the selling stockholders do not include 25,528 fully vested deferred issuance RSUs which were previously issued to Mr. Mesdag as director compensation for board service. The address for each of RMCP LLC, RMCP II and RMCP III is 10100 Santa Monica Blvd., Suite 925, Los Angeles, California 90067.

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MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a general discussion of the material U.S. federal income and estate tax consequences of the acquisition, ownership and disposition of our common stock by a non-U.S. holder. For purposes of this discussion, you are a non-U.S. holder if you are a beneficial owner of our common stock, and you are not, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S., or of any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust, in general, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust or if the trust has made a valid election to be treated as a U.S. person under applicable U.S. Treasury regulations.

This discussion does not consider:

- U.S. state, U.S. local or non-U.S. tax consequences;
- all aspects of U.S. federal income and estate taxes or specific facts and circumstances that may be relevant to a particular non-U.S. holder s tax position;
- the tax consequences for the stockholders, partners or beneficiaries of a non-U.S. holder;
- special tax rules that may apply to particular non-U.S. holders, such as partnerships (including any entity treated as a partnership for U.S. federal income tax purposes), financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, broker-dealers and traders in securities; or
- special tax rules that may apply to a non-U.S. holder that holds our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment.

If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, is a holder of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership that may acquire our common stock, or a partner in such a partnership, you should consult a tax advisor regarding the tax consequences to you of the partnership s acquisition, ownership and disposition of our common stock.

The following discussion is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, existing and proposed Treasury regulations and administrative and judicial interpretations, all as of the date of this prospectus supplement, and all of which are subject to change, retroactively or prospectively. The following summary assumes that you hold our common stock as a capital asset. No ruling has been or will be sought from the U.S. Internal Revenue Service, or IRS, with respect to the matters discussed herein, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of our common stock, or that any such contrary position would not be sustained by a court. **Each non-U.S. holder should consult a tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax consequences of acquiring, holding and disposing of shares of our common stock.**

Dividends

As stated above under Price Range of Our Common Stock and Dividend Policy Dividend Policy, as a public company, we have never declared or paid dividends on our common stock. In the event that we make distributions on our common stock, those payments will constitute dividends for U.S. federal tax purposes to the

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extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed our current and accumulated earnings and profits, they first will constitute a return of capital and will reduce a non-U.S. holder s basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock (see Gain on Disposition of Common Stock below). Any dividend paid to a non-U.S. holder on our common stock will generally be subject to U.S. federal withholding tax at a rate of 30%, or a lower rate under an applicable income tax treaty. You are urged to consult your tax advisors regarding your entitlement to benefits under a relevant income tax treaty. Generally, in order for us to withhold tax at a lower treaty rate, you must provide us with an IRS Form W-8BEN certifying your eligibility for the lower treaty rate.

As referenced in the preceding paragraph, if you claim the benefit of an applicable income tax treaty rate, you generally will be required to satisfy applicable certification and other requirements. However,

- in the case of common stock held by a foreign partnership, the certification requirement will generally be applied to partners and the partnership will be required to provide certain information;

- in the case of common stock held by a foreign trust, the certification requirement will generally be applied to the trust or the beneficial owners of the trust depending on whether the trust is a foreign complex trust, foreign simple trust, or foreign grantor trust as defined in the U.S. Treasury regulations; and

- look-through rules apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

A non-U.S. holder that is a foreign partnership or a foreign trust is urged to consult its tax advisor regarding its status under these U.S. Treasury regulations and the certification requirements applicable to it.

If you are eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty, you may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund on a timely basis with the IRS.

If the dividend is effectively connected with your conduct of a trade or business in the U.S. and, if required by an applicable income tax treaty, is attributable to a permanent establishment maintained by you in the U.S., the dividend will generally be exempt from U.S. federal withholding tax, provided that you supply us with a properly executed IRS Form W-8ECI. In this case, the dividend will be taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons and, if you are a foreign corporation, you may be subject to an additional branch profits tax at a rate of 30% or a lower rate as may be specified by an applicable income tax treaty.

Gain on Disposition of Common Stock

You generally will not be subject to U.S. federal income tax on gain recognized on a disposition of our common stock unless:

- the gain is effectively connected with your conduct of a trade or business in the U.S. and, if required by an applicable income tax treaty, is attributable to a permanent establishment maintained by you in the U.S., in which case the gain will be taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons and, if you are a foreign corporation, you may be subject to an additional branch profits tax at a rate of 30% or a lower rate as may be specified by an applicable income tax treaty;

- you are an individual who holds our common stock as a capital asset, are present in the U.S. for 183 days or more in the taxable year of the disposition and meet other requirements, in which case the gain will be taxed at a rate of 30% (or a lower rate as may be specified by an applicable income tax treaty) but may be offset by U.S. source capital losses (even though you are not considered a resident of the U.S.), provided that you have timely filed U.S. federal income tax returns with respect to such losses; or we are or have been a United States real property holding corporation, or USRPHC, for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition

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and the period that you held our common stock and certain other conditions are met, in which case the gain will be taxed on a net income basis in the manner described in the first bullet paragraph above. We believe that we are not currently, and we do not anticipate becoming in the future, a USRPHC for U.S. federal income tax purposes.

Additional Tax on Net Investment Income.

Recently enacted legislation generally imposes a tax of 3.8% on the net investment income of certain individuals, trusts and estates for taxable years beginning after December 31, 2012. Among other items, net investment income generally includes gross income from dividends and net gain attributable to the disposition of certain property, less certain deductions. Prospective investors should consult their tax advisors regarding the possible implications of this legislation in their particular circumstances.

Information Reporting and Backup Withholding

Dividends paid to you are subject to information reporting and may be subject to U.S. backup withholding. The information reporting rules require us to report annually to the IRS and to you the amount of distributions on our common stock paid to you and the amount of any tax withheld with respect to those distributions. These information reporting requirements apply even if no withholding was required because the distributions were effectively connected with your conduct of a trade or business in the U.S., or withholding was reduced or eliminated by an applicable income tax treaty. This information also may be made available under a specific treaty or agreement with the tax authorities in the country in which you reside or are established. You will be exempt from backup withholding if you provide an IRS Form W-8BEN or otherwise meet documentary evidence requirements for establishing that you are a non-U.S. person or otherwise establish an exemption.

The gross proceeds from the disposition of our common stock may be subject to information reporting and backup withholding. If you sell your common stock outside the U.S. through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the U.S., then the U.S. backup withholding and information reporting requirements generally (except as provided in the following sentence) will not apply to that payment. However, U.S. information reporting, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the U.S., if you sell our common stock through a non-U.S. office of a broker that:

- is a U.S. person;
- derives 50% or more of its gross income in specific periods from the conduct of a trade or business in the U.S.;
- is a controlled foreign corporation for U.S. tax purposes; or
- is a foreign partnership, if at any time during its tax year, one or more of its partners are U.S. persons who in the aggregate hold more than 50% of the income or capital interests in the partnership, or the foreign partnership is engaged in a U.S. trade or business,

unless the broker has documentary evidence in its files that you are a non-U.S. person and various other conditions are met or you otherwise establish exemption.

If you receive payments of the proceeds of a sale of our common stock through a U.S. office of a broker, the payment is subject to both U.S. backup withholding and information reporting unless you provide an IRS Form W-8BEN certifying that you are a non-U.S. person or you otherwise establish an exemption.

You generally may obtain a refund or credit of any amount withheld under the backup withholding rules that exceeds your income tax liability by filing a refund claim with the IRS.

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