ENCORE CAPITAL GROUP INC
Form 10-K/A
April 30, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 K/A

(Amendment No. 1)

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006 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)	**(I.R.S. Employer Identification No.)**
8875 Aero Drive, Suite 200, San Diego, CA	**92123**
(Address of Principal Executive Offices)	**(Zip Code)**

(877) 445-4581

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.01 Par Value Per Share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

The aggregate market value of the voting stock held by non affiliates of the registrant totaling 16,948,826 shares was $207,962,095 at June 30, 2006 based on the closing price of the common stock of $12.27 per share on such date, as reported by the NASDAQ Global Select Market.

The number of shares of our Common Stock outstanding at April 23, 2007 was 22,799,977.

Documents Incorporated by Reference

None.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends and restates in their entirety Part III, Items 10, 11, 12, 13 and 14 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 which was filed with the Securities and Exchange Commission on February 28, 2007 (the 2006 Form 10-K). In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are being filed as exhibits to this Form 10-K/A under Item 15 of Part IV hereof. No attempt has been made in this Form 10-K/A to modify or update other disclosures as presented in the 2006 Form 10-K.

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PART III

Item 10 Directors, Executive Officers and Corporate Governance

Directors

Our current directors and certain biographical information about each of these individuals are set forth below. Each of our current directors was elected at the last annual meeting of stockholders for a term that continues until the next annual meeting of stockholders or until his or her successor has been elected and qualified.

Name	Age	Title
Barry R. Barkley	63	Director
J. Brandon Black	39	Director, President and Chief Executive Officer
Raymond Fleming	51	Director
Carl C. Gregory, III	62	Director
Eric D. Kogan	43	Director
Alexander Lemond	32	Director
Richard A. Mandell	64	Chairman of the Board of Directors
Peter W. May	64	Director

BARRY R. BARKLEY. Mr. Barkley has served as a director since May 2005 and previously served as Executive Vice President and Chief Financial Officer from May 2000 until May 2005. From March 1998 until joining Encore, Mr. Barkley was the Chief Financial Officer of West Capital Financial Services Corp. In October 1995, Mr. Barkley joined Great Western Financial Corporation as the Corporate Controller reporting to the Vice Chairman. From August 1990 to September 1995, Mr. Barkley was with Banc One Corporation, first as Chief Financial Officer and as a member of the Board of Directors of Bank One, Texas, N.A. and from January 1994, as Executive Director, Corporate Reengineering. Prior to August 1990, Mr. Barkley held a variety of financial positions with Bank of New England Corporation, NBD Bancorporation and KPMG Peat Marwick. Mr. Barkley received a bachelor s degree from Purdue University in 1966 and received an MBA from Indiana University in 1970.

J. BRANDON BLACK. Mr. Black has served as a director since May 2005. Mr. Black joined Encore in May 2000, and has served as our President and Chief Executive Officer since October 2005. Mr. Black also served as our President and Chief Operating Officer from October 2004 to October 2005, and as Executive Vice President and Chief Operating Officer from May 2000 to October 2004. From March 1998 until joining Encore, Mr. Black was the Senior Vice President of Operations for West Capital Financial Services Corp. Prior to joining West Capital, Mr. Black worked for First Data Resources during the period of September 1997 through April 1998 and for Capital One Financial Corporation from June 1989 until August 1997. Mr. Black received a bachelor s degree from the College of William and Mary in 1989 and an MBA from the University of Richmond in 1996.

RAYMOND FLEMING. Mr. Fleming has served as a director of Encore since June 2001. Since August 1999, Mr. Fleming has been the Treasurer of Consolidated Press Holdings Limited, an affiliate of a significant stockholder of Encore. From May 1997 to August 1999, Mr. Fleming was a banker with BT Australia Ltd., an investment banking firm. Prior to that, Mr. Fleming had worked within the Australian banking industry since 1982. Mr. Fleming holds a Bachelor of Economics degree from the University of Sydney and is a Fellow of the Australian Institute of Chartered Accountants.

CARL C. GREGORY, III. Mr. Gregory has served as a director of Encore since May 2000 and served as Vice Chairman from October 2004 to May 2006. From October 2004 until September 2005, Mr. Gregory also served as Vice Chairman and Chief Executive Officer and previously served as President and Chief Executive

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Officer from May 2000 to October 2004. Mr. Gregory received his undergraduate degree in Accounting from Southern Methodist University and an MBA from the University of Southern California.

ERIC D. KOGAN. Mr. Kogan has served as a director of Encore since February 1998 and previously served as Chairman of the Board of Directors from February 1998 until October 2004. Since April 2002, Mr. Kogan has been a Partner of Clarion Capital Partners, a private equity firm based in New York. From April 1993 to April 2002, Mr. Kogan was an officer of Triarc Companies, Inc., a holding company and, through its subsidiaries, the franchisor of the Arby s restaurant system (Triarc), and certain of its subsidiaries, most recently serving as Triarc s Executive Vice President of Corporate Development. Prior to that, Mr. Kogan was Vice President Corporate Development of Trian Group, Limited Partnership (Trian Group), which provided investment banking and management services for entities affiliated with Mr. Peltz and Mr. May, from September 1991 to April 1993. Mr. Kogan received his undergraduate degree from the Wharton School of the University of Pennsylvania and an MBA from the University of Chicago.

ALEXANDER LEMOND. Mr. Lemond has served as a director of Encore since October 2002. He is a managing member of Grove Capital LLC, an investment firm. Mr. Lemond also serves as a member of the board of directors of several private companies, including Farrell Sports Concepts, Inc., a sports equipment business, where he is chairman of the board of directors; Friedman s Inc., a jewelry retail business, where he is chairman of the board of directors; PetroEdge Resources, LLC, an oil and gas exploration and production company; and R.A.B. Holdings, Inc., a holding company for consumer products and distribution businesses. From December 1997 to December 2004, Mr. Lemond was employed by Triarc, most recently serving as Vice President, Corporate Development from November 2000 to December 2004. Prior to that, he was an analyst in the mergers and acquisitions group at Salomon Smith Barney from July 1996 to December 1997. Mr. Lemond holds a BSE degree from the Wharton School of the University of Pennsylvania.

RICHARD A. MANDELL. Mr. Mandell has served as the Chairman of our Board of Directors since October 2004 and has served as a director of Encore since June 2001. He is currently a private investor and financial consultant. Mr. Mandell was a Vice President Private Investments of Clariden Asset Management (NY) Inc., a subsidiary of Clariden Bank, a private Swiss bank, from January 1996 until February 1998. From 1982 until June 1995, Mr. Mandell served as a Managing Director of Prudential Securities Incorporated, an investment banking firm. He also serves as a director of The Smith & Wollensky Restaurant Group, Inc. Mr. Mandell holds a BSE degree from the Wharton School of the University of Pennsylvania and is a Certified Public Accountant.

PETER W. MAY. Mr. May has served as a director of Encore since February 1998. Mr. May has been a director and the President and Chief Operating Officer of Triarc since April 1993. Since April 1993, he also has been a director or manager and officer of certain of Triarc s subsidiaries. Additionally, Mr. May has been President and a founding partner of Trian Fund Management, L.P., a management company for various investment funds and accounts, since November 2005. From its formation in January 1989 to April 1993, he was President and Chief Operating Officer of the Trian Group, which provided investment banking and management services for entities controlled by Mr. Peltz and Mr. May. Mr. May was President and Chief Operating Officer and a director of Triangle Industries, Inc. (Triangle), which, through wholly-owned subsidiaries, was, at that time, a manufacturer of packaging products, copper electrical wire and cable and steel conduit and currency and coin handling products, from 1983 until December 1988. Mr. May holds BA and MBA degrees from the University of Chicago.

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Executive Officers

Our current executive officers and certain biographical information about each of these individuals are set forth below. Executive officers are appointed annually by the Board of Directors and serve at the discretion of the Board.

Name	Age	Position
J. Brandon Black	39	President and Chief Executive Officer
George R. Brooker	43	Senior Vice President, Strategic Outsourcing
Glen Freter	44	Vice President and Controller
Paul Grinberg	46	Executive Vice President and Chief Financial Officer
Robin R. Pruitt	49	Senior Vice President, General Counsel and Secretary

J. BRANDON BLACK. For biographical information on Mr. Black, see disclosure in the Directors section above.

GEORGE R. BROOKER. Mr. Brooker has served as Senior Vice President, Strategic Outsourcing since March 2007. Prior to that, Mr. Brooker served as Vice President of Auto Deficiency Solutions since October 2006, Vice President of Finance and Accounting from May 2005 to October 2006, and as Vice President and Controller from June 2002 to May 2005. From December 1999 until joining Encore, Mr. Brooker was a consultant with Visionary Solutions, LLP a management consulting firm specializing in early stage companies. From January 1997 to November 1999, he served as Vice President of Finance for Ziro Holdings Corporation, a manufacturer and distributor of home furnishings. From August 1995 to November 1996, Mr. Brooker was a financial management associate at Textron, Inc., a Fortune 500 multi-industry company. Additionally, Mr. Brooker spent several years as a Certified Public Accountant with Coopers & Lybrand. Mr. Brooker received a bachelor s degree from San Diego State in 1987 and an MBA from Duke University in 1995.

GLEN FRETER. Mr. Freter joined Encore in May 2006 as Vice President and Controller. In this role, Mr. Freter is responsible for leading the accounting, financial reporting and bankruptcy group. Mr. Freter came to Encore with over 19 years of experience in corporate finance. Prior to joining Encore, Mr. Freter served as an independent consultant for BioMed Realty Trust, Inc. where he was instrumental in leading the company s Initial Public Offering and its Sarbanes-Oxley compliance program. Prior to that, Mr. Freter served as Chief Financial Officer for two major restaurant chains, Sybra, Inc. (the second largest franchisee of Arby s, Inc.) and Islands Restaurants, Inc. Mr. Freter received his Bachelor of Science in Accounting from Pepperdine University and is a Certified Public Accountant.

PAUL GRINBERG. Mr. Grinberg has served as Executive Vice President and Chief Financial Officer since May 2005. From September 2004 until May 2005, he served as Senior Vice President of Finance. From May 2003 until joining Encore, Mr. Grinberg was the founder and President of Brio Consulting Group, a company that helped venture and private equity backed companies with strategy, M&A, business planning and interim CFO services. From May 2000 until April 2003, Mr. Grinberg served as Chief Financial Officer of Stellcom, Inc., a systems integration firm focused on providing mobile and wireless engineering solutions to Fortune 1000 companies. From February 1997 until April 2000, Mr. Grinberg served as Executive Vice President and Chief Financial Officer of TeleSpectrum Worldwide, Inc., a publicly traded company that provided outsourced call center solutions to Fortune 500 companies. From September 1983 until January 1997, Mr. Grinberg was employed at Deloitte & Touche LLP, where he served in several capacities, the most recent of which was as a partner in the firm s Merger and Acquisition Services Group. Mr. Grinberg also serves as a director, Chairman of the audit committee and member of the compensation and nominating committees of Bank of Internet USA, an FDIC insured internet-only bank. Mr. Grinberg received his bachelor s degree in accounting from Yeshiva University in 1983 and his MBA from Columbia University in 1989, and he is a Certified Public Accountant.

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ROBIN R. PRUITT. Ms. Pruitt joined Encore in September 2001 and serves as Senior Vice President, General Counsel and Secretary. From June 2000 until joining Encore, Ms. Pruitt was Vice President and General Counsel of Mitchell International, Inc., a developer of claims estimating systems for the insurance industry. Ms. Pruitt served as a Vice President of Encore during May and June 2000, and prior to that was Vice President and General Counsel of West Capital Financial Services Corp. from November 1998 to May 2000. From May 1995 to January 1998, Ms. Pruitt served as General Counsel of ComStream Corporation, a designer and manufacturer of satellite communications equipment. Prior to that, Ms. Pruitt practiced general corporate, transactional and securities law in a variety of law firm and corporate settings in New York City and San Diego. Ms. Pruitt received a bachelor s degree in Finance and Economics from the University of South Carolina in 1978 and a JD degree from Boston University School of Law in 1983.

Code of Ethics

The Board has adopted a Code of Ethics applicable to our directors and all employees and officers, including our principal executive officer and our principal financial officer. A copy of the Code of Ethics is available on our website at ***www.encorecapitalgroup.com***. Click on Investors, then Corporate Governance and then Code of Ethics. We may post amendments to or waivers of the provisions of the Code of Ethics, if any, made with respect to any of our directors and executive officers on that website, unless otherwise required by Nasdaq listing standards to disclose any waiver on a Current Report on Form 8-K. Please note that the information contained on our website is not incorporated by reference in, or considered to be a part of, this document.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us during the year ended December 31, 2006 or written representations by the reporting persons, we believe that with respect to the fiscal year ended December 31, 2006 all of the reporting persons complied with all applicable filing requirements, with the exception of one report filed two days late by Glen Freter, Vice President and Controller, to disclose one transaction for the acquisition of an employee stock option.

Audit Committee

We have a standing Audit Committee that is responsible for assisting the Board in oversight of the quality and integrity of the accounting, auditing and financial reporting practices of Encore. The members of the Audit Committee are Eric D. Kogan, Alexander Lemond and Richard A. Mandell, each of whom the Board of Directors has determined is independent under SEC rules and regulations and Nasdaq listing standards. In performing its duties, the Audit Committee:

- appoints Encore s independent registered public accounting firm,
- approves audit and non-audit fees,
- reviews and evaluates our financial statements, accounting principles and system of internal controls regarding finance, accounting, legal compliance and ethical behavior,
- reviews and approves related party transactions, and
- considers other appropriate matters regarding our financial affairs.

***Audit Committee Financial Expert*.** The Board has determined that at least one member of the Audit Committee, Mr. Mandell, is an audit committee financial expert as defined in SEC regulations and also possesses the financial sophistication and requisite experience as required under Nasdaq listing standards.

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Item 11 Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The purpose of this compensation discussion and analysis (CD&A) is to provide information about each material element of compensation earned by our Named Executive Officers during our 2006 fiscal year. The following discussion and analysis should be read in conjunction with the Summary Compensation Table and related tables that are presented in this Form 10-K/A. We discuss the definition of Named Executive Officers in the Summary Compensation Table.

For our 2006 fiscal year, our Named Executive Officers were:

- J. Brandon Black, our President and Chief Executive Officer;
- George R. Brooker, our Senior Vice President, Strategic Outsourcing;
- Ron J. Eckhardt, our former Executive Vice President and General Manager;
- Paul Grinberg, our Executive Vice President, Chief Financial Officer and Treasurer; and
- Robin R. Pruitt, our Senior Vice President, General Counsel and Secretary.

The Summary Compensation Table and this CD&A also includes information regarding compensation earned during 2006 by one of our directors, Carl C. Gregory, III, who served as an executive officer of Encore through May 3, 2006 and qualifies as a Named Executive Officer for purposes of executive compensation disclosure in this Form 10-K/A.

This CD&A addresses and provides the context behind the numerical and related information contained in the Summary Compensation Table and related tables and includes actions regarding executive compensation that occurred after the end of our 2006 fiscal year, including the award of bonuses related to 2006 performance, and the adoption of any new, or the modification of any existing, compensation programs.

Processes and Procedures For Considering and Determining Executive and Director Compensation

Our executive compensation program is administered by the Compensation Committee of the Board. The Compensation Committee determines the compensation of our Named Executive Officers and administers our stock incentive plans. Among other things, the Compensation Committee has the authority and responsibility under its charter to:

- periodically review and approve our policies on executive compensation, benefits and perquisites, including incentive cash compensation plans, or other forms of executive incentives;
- annually review and, as required, vote in executive session to set the compensation, benefits, and perquisites of the Chief Executive Officer (CEO);

annually review and, as required, vote in executive session to set the compensation, benefits, and perquisites of all executive officers to satisfy the Compensation Committee that there is equity in the compensation practices and general integrity in conforming to approved plans and policies;

set the compensation and benefits for non-employee directors; and

consider, approve and administer our incentive compensation plans and equity-based plans in which directors, the CEO, other executive officers and other employees and key consultants may be participants, including, but not limited to: (a) approving option grants and restricted stock or other awards, (b) interpreting the plans, (c) determining rules and regulations relating to the plans,

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(d) modifying or canceling existing grants or awards, and (e) imposing limitations, restrictions and conditions upon any grant or award as the Compensation Committee deems necessary or advisable.

Overview

Our Compensation Philosophy and Purpose

The Compensation Committee is chartered with establishing and reviewing the performance and compensation of our Named Executive Officers and other executive officers. Incentive compensation arrangements are the cornerstone of the Compensation Committee s executive compensation policies. Our compensation philosophy is to establish and maintain compensation plans, including base salaries, bonus plans and equity-based compensation plans, that will attract and retain qualified executive officers and key employees necessary for our continued successful operation and growth and ensure that management is rewarded appropriately for its contributions to our growth and profitability in alignment with our objectives and stockholder interests.

Ultimately, our compensation philosophy is generally focused on the following:

Pay for Performance and Experience. Base salaries are commensurate with the executive s or key employee s experience and expertise coupled with an assessment of: (i) the executive officer s contribution to Encore, (ii) the responsibilities and experience of the executive officer, (iii) the terms of applicable employment agreements, and (iv) the recommendations of senior management. Incentive compensation is likewise tied to performance and experience.

Market Comparison. The Compensation Committee, with the assistance of outside consultants and/or management, periodically analyzes market compensation data and other relevant information regarding total direct compensation structures, giving significant weight to the data from our market competitors. Our compensation programs must be competitive in order to retain our senior executives.

A*lignment with Stockholder Interests*. In general, the payment of our incentive compensation is dependent upon the achievement of targeted corporate operating measures. We believe that basing a component of employee compensation on corporate results and performance aligns employee interests with stockholder interests. In addition, a portion of our executive compensation consists of stock incentives, including options and performance-based restricted stock unit awards, so that executive officers interests are further aligned with the interests of our stockholders.

Retention. Finally, we believe that our compensation program should be designed to attract and retain highly talented individuals critical to our success by providing competitive total compensation with significant retention features. As discussed below, we have entered into retention, severance and change of control arrangements with certain key executives. Our option grants and restricted stock unit awards also are designed to retain our executive officers and other key employees, while also accomplishing our other compensation goals and objectives.

Outside Consultants

The Compensation Committee has the specific authority to hire outside advisors and consultants in their discretion at Encore s expense. During 2005, management retained Tecony Associates, an independent compensation consultant, to review the long-term incentive compensation strategy for Encore s executives. After management presented a draft proposal to the Compensation Committee, the Compensation Committee retained Ernst & Young LLP as its own independent third-party compensation consultant in order to validate the benchmarking of long-term incentive compensation provided by management s independent consultant, and to assist the Compensation Committee in creating Encore s long-term incentive compensation policy.

Role of Executives in the Compensation Setting Process

The Compensation Committee generally solicits management s assistance on determining executive compensation as it deems appropriate. However, when reviewing and setting the compensation, benefits, and perquisites of the CEO, neither the CEO nor any employee of Encore may be present. In addition, when the Compensation Committee reviews and sets the compensation, benefits, and perquisites of all executive officers, the CEO may be present during deliberations at the Compensation Committee s discretion, but the CEO may not be present for voting on officer compensation, benefits or perquisites. The CEO generally makes recommendations to the Compensation Committee with respect to executive officer compensation decisions, including base salaries, cash incentive bonuses and equity-based awards.

The Compensation Committee approves all grants of equity-based awards. Equity award grants to executive officers are determined based on a periodic review by the Compensation Committee regarding appropriate incentives, with recommendations typically originating from management, consistent with the criteria established in the long-term incentive program adopted by the Compensation Committee.

Elements of our Compensation Program

Our compensation plans are designed to provide a competitive total compensation package consistent with our performance in the marketplace. The compensation program for each of our Named Executive Officers includes:

- base salary;
- annual cash incentive bonus;
- stock-based compensation incentive;
- severance and change of control agreements (in certain circumstances); and
- participation in other benefit plans and programs.

While executives have more of their total compensation at risk than other employees, the principles that serve as the basis for Named Executive Officer compensation practices apply to the compensation plans for all employees who are eligible for incentive compensation; namely, corporate and individual performance drive incentive compensation.

Base Salary

The first component of Encore s executive compensation package is base salary. Our philosophy is to pay base salaries that are commensurate with the executive s experience and expertise, taking into account competitive market data for executives with similar backgrounds, experience and expertise. The factors considered by the Compensation Committee in making its evaluation and determination regarding the appropriateness of base salary include:

- an assessment of each executive officer s contribution to Encore;
- the responsibilities and experience of each executive officer;
- competitive market data, individual performance, and other relevant information regarding base salary structures;

the terms of any applicable employment agreements;

the detriment to us should the executive leave Encore s employ; and

recommendations of senior management.

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The Compensation Committee reviews each executive officer s base salary and benefits from time to time as it deems appropriate.

With respect to its periodic review of salaries for our Named Executive Officers and other executive officers in 2006, the Compensation Committee considered data provided by our management which included an assessment of corporate performance, as well as individual performance of each executive. The base salaries set for 2006 were believed to be consistent with Encore s compensation philosophy, which attempts to establish a strategic balance between pay at risk and market competitiveness.

CEO Salary. The base salary for our CEO is set forth in the employment agreement we entered into with him in June 2005. The material terms of his agreement are described in the narrative following the Summary Compensation Table section and the Potential Payments Upon a Termination or Change in Control section.

We disclose the salary earned in 2006 by our Named Executive Officers in the Salary column of the Summary Compensation Table.

Annual Cash Incentive Bonus

The second component of our executive compensation package is an annual cash incentive bonus. Each executive s target bonus is a stated percentage of his or her annual salary. Actual bonuses paid to executive officers under our annual performance-based cash incentive plan are computed based upon achievement of our targeted operating measures and an evaluation of individual performance. We believe that variable bonus opportunities should (i) be used to provide higher rewards for higher performers, and (ii) drive the successful achievement of short term critical business objectives.

The Compensation Committee exercises its discretion in awarding cash bonuses to our executives. Subject to the terms of any applicable employment agreement, the Compensation Committee may determine not to approve an award for any or all officers or to reduce the amount of any such award, even if the targets are met. The Compensation Committee periodically reviews the bonus component of executive incentive compensation and, in addition to bonuses paid under our plan, the Compensation Committee may approve payment of discretionary bonuses for performance or other reasons for certain executives.

Factors Considered. Generally speaking, the factors the Compensation Committee may consider in making its evaluation and determination regarding the appropriateness of providing for, and making payments to the executive officers and key employees under, our cash incentive bonus plan include:

- corporate performance against targeted operating measures;
- the terms of any applicable employment agreement;
- quantifiable individual performance; and
- the Compensation Committee s evaluation of each officer s contribution, taking into account the recommendations of the CEO.

The Compensation Committee established the goals and parameters for the 2006 annual cash incentive program based on corporate financial objectives reflected in our 2006 operating plan approved by the Board. The Compensation Committee has determined a bonus target, stated as a percentage of base salary, for each of our executive officers. For 2006, the plan contemplated a one-for-one percentage increase in target bonus payouts for amounts by which the corporate targets were exceeded, and a three-for-one percentage decrease for the amount by which the corporate targets were missed, subject in each case to discretionary adjustment by the Compensation Committee. As a result, if we only achieved 67% of the established targets, no bonuses would be payable under the plan. This structure is designed to provide an incentive for the plan participants to achieve or exceed the goals set forth in our operating plan, while ensuring that bonus payouts are diminished if the corporate targets are not achieved.

Specifically, for 2006, the Compensation Committee established three corporate target components all of which were given the same amount of weight with respect to whether corporate metrics were achieved. These three corporate targets were based on:

- earnings per share (diluted);
- gross collections (less expenses and capital expenditures); and
- collections on purchases prior to 2006 (less impairments).

In 2006, the plan s formula for determining the potential bonus pool calculated a payout at 88% of the target amount based upon a weighted average achievement rate of 96% of the corporate targets highlighted above. The Compensation Committee approved a four percentage point increase in the bonus pool to bring the total payout to 92% of the target amount based upon the collective achievements of Encore s key contributors made in 2006 that were not adequately reflected in the plan s formula for that period.

CEO Annual Bonus. Our CEO is the only Named Executive Officer who currently has an employment agreement that sets forth the level of bonus he is eligible to receive. Under his employment agreement, our CEO is entitled to receive a guaranteed annual bonus of 50% of his then-current base salary and an additional discretionary annual bonus of up to 50% of his then-current base salary, for a total potential annual bonus of up to 100% of his then-current base salary. The discretionary bonus amount is based upon the CEO s performance during the previous year as evaluated by the Compensation Committee or Board, as appropriate (in their sole and absolute discretion), taking into account corporate operating performance as determined in large part by the three corporate targets discussed above.

We disclose the annual cash incentive awards earned by each of our Named Executive Officers in 2006 in the Bonus and Non-Equity Incentive Plan Compensation columns of the Summary Compensation Table and the narrative following that table.

Stock-Based Compensation Incentives

The third component of our executive compensation package is stock-based compensation incentives, which have traditionally taken the form of non-qualified stock options. The Compensation Committee periodically considers grants of options and restricted stock units to our executive officers and key employees to more closely align the interests of our executive officers and key employees with the long-term interests of Encore and our stockholders.

Plans. The 1999 Equity Participation Plan (1999 Plan), as amended, reserved up to 3,300,000 shares of our common stock for awards granted to employees, directors and consultants. Pursuant to the 1999 Plan, we could grant stock options at a price in excess of 85% of the fair market value on the date of the grant and for a term not to exceed ten years. Options generally vested ratably over a three-year period unless otherwise determined by the Compensation Committee.

On March 30, 2005, our Board of Directors adopted the 2005 Stock Incentive Plan (2005 Plan) for Board members, employees, officers, executives, consultants and advisors. The 2005 Plan was effective as of March 30, 2005 and was approved by our stockholders at the annual meeting on May 3, 2005. The 2005 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance shares, and performance-based awards to eligible individuals. Upon adoption, an aggregate of 1,500,000 shares of our common stock were available for awards under the 2005 Plan, in addition to shares subject to ungranted options that were available for future awards under the 1999 Plan. In addition, shares subject to options and awards granted under either the 1999 Plan or the 2005 Plan that terminate or expire are available for grant under the 2005 Plan.

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Long-Term Incentive Program. On November 1, 2005, the Compensation Committee approved a long-term incentive program under the 2005 Plan with the intent of making annual grants of performance-based restricted stock units and/or non-qualified stock options to executive officers and other eligible employees, subject to the following criteria:

- the aggregate value of the annual grants will be based on a stated percentage of the recipient s base salary;
- the target award percentage for eligible recipients, grouped by management seniority, will be determined by the Compensation Committee annually, based upon competitive market data; and
- the performance targets for the performance shares and the vesting schedules for both the restricted stock units and/or stock options will also be determined by the Compensation Committee annually.

We had not considered issuing restricted stock units prior to 2005. Historically, option grants were given favorable accounting and tax treatment and, given that option grants are extremely common in the markets in which we operate, we had no compelling reason to look to other forms of equity compensation until the implementation of Statement of Financial Accounting Standards No. 123(R) changed the accounting treatment for stock options effective 2006. Since the implementation of FAS 123(R), many public companies have begun issuing restricted stock units. We believe that one advantage to using restricted stock units is that we can issue fewer shares when compared to stock option grants, which will be less dilutive to our stockholders.

Stock-Based Compensation Incentives for 2006. Due to Encore s evaluation of strategic alternatives, there were no grants of stock-based compensation to our Named Executive Officers during 2006. On April 28, 2006, the Compensation Committee approved an amendment to the terms of stock options granted on October 29, 2003 to Messrs. Black, Gregory and Kogan in order to bring these option agreements into compliance with newly-enacted Section 409A of the Internal Revenue Code. See the subheading entitled Option Award Modifications in the narrative following the Summary Compensation Table for further discussion.

Severance and Change of Control Agreements

Philosophy Related to Change of Control Agreements. On June 5, 2006, the Compensation Committee approved amendments to our pre-existing severance and change of control agreements with Mr. Black, our CEO, and Mr. Grinberg, our CFO. In addition, on June 5, 2006, the Compensation Committee also approved, and we entered into, a severance and retention agreement with each of Ron J. Eckhardt, our former Executive Vice President and General Manager, Consumer Debt; Robin R. Pruitt, our Senior Vice President and General Counsel; George Brooker, our Senior Vice President, Strategic Outsourcing; and Glen Freter, our Vice President and Controller. These agreements were entered into in connection with our June 5, 2006 announcement that our Board had formed a Special Committee to identify and evaluate various strategic alternatives to enhance stockholder value, including the potential sale of Encore, and only had terms of one year if a Change in Control (as defined in these agreements) did not occur within this period.

On February 27, 2007, the Special Committee completed its review of strategic alternatives and our Board concluded that, in light of the alternatives available, the better alternative was to withdraw from the process and continue to execute our existing business plan. Effectively, this will result in the expiration, in June 2007, of the severance and retention agreements entered into with Messrs. Brooker and Freter and Ms. Pruitt. Mr. Eckhardt s agreement is no longer in effect due to his retirement in March 2007. A summary of those agreements is provided below in the Potential Payments Upon a Termination or Change in Control section under the subheading Change in Control Severance and Retention Agreements.

We believe that the ongoing provisions of our severance and change of control agreements for Messrs. Black and Grinberg are consistent with the principal objectives of our compensation programs. We believe that the compensation elements that would be triggered by a change in control are (i) consistent with the market in which we operate, (ii) at appropriate levels when viewed in relation to the benefits they provide us and our stockholders and the overall value of our company, (iii) designed to compensate Messrs. Black and Grinberg for playing a significant role in managing the affairs of Encore, and (iv) will provide an important safety net that allows Messrs. Black and Grinberg to focus on our business and pursue the course of action that is in the best interests of our stockholders by alleviating some concerns regarding their personal financial well-being in the event of a change of control transaction. The executives are subject to certain restrictions in exchange for receiving the financial and other benefits under their agreements, as described in more detail in the Potential Payments Upon a Termination or Change in Control section. We believe imposition of these restrictions serves our best interests and the best interests of our stockholders.

Other Benefit Plans and Programs

Our Named Executive Officers are eligible to participate in benefit programs designed for all of our full-time employees. These programs include a tax qualified 401(k) savings plan, and medical, dental, disability and life insurance programs. In addition, our Named Executive Officers as well as other key employees are eligible to participate in our non-qualified deferred compensation plan. This plan permits deferral of a portion of the participant s compensation until a specified period of time, and the participants may invest the amounts deferred in one of several funds. The primary purpose of this plan is to provide an opportunity for additional tax-deferred retirement savings to our executives and key employees whose contributions to our 401(k) plan may be subject to limitation under applicable IRS regulations. More detail related to the operation of our non-qualified deferred compensation plan is provided in the Non-Qualified Deferred Compensation section.

We also maintain split-dollar life insurance on certain of our Named Executive Officers that is financed by participant contributions to our non-qualified deferred compensation plan. This insurance is maintained for the Named Executive Officers and in the amounts listed in the table below. Pursuant to this program, the Compensation Committee authorized Encore to enter into split dollar agreements with the participants whereby ten percent of the total benefit payable in the event of death would be payable to the beneficiaries of such participants.

	Aggregate Death Benefit
J. Brandon Black	$ 1,000,000
Paul Grinberg	$ 800,000
Robin R. Pruitt	$ 800,000
George Brooker	$ 800,000

Perquisites

We do not provide material executive perquisites to our Named Executive Officers.

Tax Considerations

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code limits the deductibility of executive compensation paid by publicly-held corporations to $1 million for each Named Executive Officer. We generally try to ensure that our compensation satisfies Section 162(m) requirements for deductibility, though we cannot assure you that the Internal Revenue Service would reach the same conclusion. Though the Compensation Committee does not currently anticipate any restrictions on the future deductibility of compensation for our officers, it will not necessarily limit executive compensation to amounts that are deductible under Section 162(m).

Non-performance-based compensation paid to our Named Executive Officers for the 2006 fiscal year did not exceed the $1 million limit per employee.

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Other Matters Relating to Executive Compensation

Speculative and Hedging Transactions

We have a comprehensive insider trading policy that, among other things, provides that our employees, officers, directors and key consultants shall not engage in speculative transactions such as short sales, or the purchase or sale of puts, calls or other derivatives of our securities. The purpose of this policy, among other things, is to assist our employees in avoiding potential conflicts of interest that could result in unwanted perceptions and negative impact on our stock price. The policy also discourages the purchase of company securities on margin and contains additional restrictions applicable to insiders, including our executive officers and directors. Insiders are permitted to engage in forward sales, collars or other hedging transactions with the prior approval of the Board, or its Chairman after consultation with a majority of the Board.

Option Grants

While we do not have a formal policy, our options and other grants are priced at market value on the date of grant (generally the date of Board or Compensation Committee approval).

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee, which is composed solely of independent members of the Board of Directors, assists the Board in fulfilling its responsibilities with regard to compensation matters and is responsible under its Committee charter for determining the compensation of Encore s executive officers. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K/A.

Compensation Committee Members:

Peter W. May, Chairman

Raymond Fleming

Alexander Lemond

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2006 SUMMARY COMPENSATION TABLE

The following table sets forth information concerning compensation earned by, or paid to, each of our Named Executive Officers for services provided to us and our subsidiaries for the year ended December 31, 2006. Our Named Executive Officers include: (1) all persons serving as our principal executive officer or acting in a similar capacity during 2006; (2) all persons serving as our principal financial officer or acting in a similar capacity during 2006; (3) the three most highly paid executive officers who were serving as executive officers at the end of 2006 other than the principal executive officer and the principal financial officer; and (3) up to two additional individuals who would have been included except that the individual was not serving as an executive officer at the end of 2006.

Nameand PrincipalPosition	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(4)	All Other Compen- sation ($)(5)	Total ($)
J. Brandon Black, *President and Chief Executive Officer*	2006	$ 385,000	$ 192,500		$ 1,333,031	$ 161,700	$ 5,325	$ 2,077,556
Paul Grinberg, *Executive Vice President and Chief Financial Officer*	2006	$ 258,192		$ 43,689	$ 950,144	$ 239,200	$ 5,314	$ 1,496,539
Ron J. Eckhardt, Former Executive *Vice President and General Manager*(6)	2006	$ 255,120			$ 495,274	$ 117,875	$ 4,083	$ 872,352
Robin R. Pruitt, *Senior Vice President, General Counsel and Secretary*	2006	$ 223,767		$ 21,845	$ 131,397	$ 118,478	$ 5,781	$ 501,268
George Brooker, *Senior Vice President, Strategic Outsourcing*	2006	$ 164,207		$ 13,107	$ 101,813	$ 85,900	$ 4,919	$ 369,946
Carl C. Gregory, III, *Director and Former Vice Chairman*(7)	2006	$ 231,311			$ 16,295	$ 25,000	$ 15,476	$ 288,082

(1) Reflects an annual guaranteed cash bonus equal to 50% of Mr. Black s salary granted pursuant to his employment agreement, described in more detail in the narrative following this table.

(2) No restricted stock units (RSUs) were awarded to Named Executive Officers in 2006. Amounts in this column represent the compensation cost recognized for financial statement reporting purposes under Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payments*, in 2006 with respect to awards of RSUs granted in prior periods, adjusted to disregard any estimates of forfeitures. See Note 8 of the consolidated financial statements in Encore s Annual Report on Form 10-K for the year ended December 31, 2006 regarding assumptions used to determine the valuation of our RSU awards. More detail regarding the outstanding RSUs is provided in the Outstanding Equity Awards at Fiscal Year-End table.

(3) No option awards were granted to Named Executive Officers in 2006. Amounts in this column represent the compensation cost recognized for financial statement reporting purposes under SFAS No. 123R in 2006 with respect to awards of options granted in prior periods, adjusted to disregard any estimates of forfeitures. See Note 8 of the consolidated financial statements in Encore s Annual Report on Form 10-K for the year ended December 31, 2006 regarding assumptions used to determine the valuation of outstanding options. More detail regarding outstanding options is provided in the Outstanding Equity Awards at Fiscal Year-End table.

(4) Amounts consist of discretionary bonus awards granted by the Compensation Committee in February 2007 for individual and company performance in 2006 and awarded, in the case of Mr. Black, pursuant to his employment agreement as described in more detail in the narrative following this table, and in the case of the other Named Executive Officers, pursuant to our annual cash incentive bonus plan, as described in more detail in the Compensation Discussion and Analysis section.

(5) For 2006, includes matching contributions to our 401(k) plan and term life insurance benefits, offered to all employees of Encore, in the following amounts, respectively: Mr. Black, $3,750 and $335; Mr. Grinberg, $3,750 and $281; Mr. Eckhardt, $3,802 and $281;

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Ms. Pruitt, $3,750 and $247; Mr. Brooker, $3,750 and $167; and Mr. Gregory, $5,000 and $162. Also includes the economic benefit of premiums paid for split dollar life insurance policies secured for the following Named Executive Officers, in the following amounts: $1,240 for Mr. Black; $1,283 for Mr. Grinberg; $1,784 for Ms. Pruitt; and $1,002 for Mr. Brooker. For Mr. Gregory, the amount reported in this column also includes $10,314 for health insurance premiums paid on his behalf in 2006.

(6) Mr. Eckhardt retired from Encore effective March 29, 2007.

(7) Mr. Gregory served as Vice Chairman