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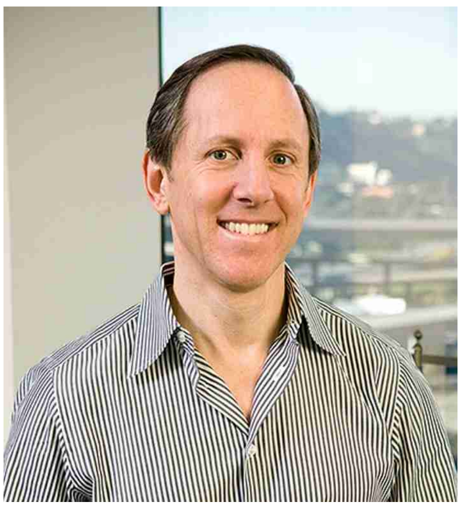
With a Focus on Being Fair and Working With People to Help Them, Encore Capital Group, Inc. has Become a Leader in the Consumer Debt Buying and Recovery Industry

Financial
Credit Services
(ECPG-NASDAQ)

Encore Capital Group, Inc.

3111 Camino Del Rio North, Suite 1300
San Diego, CA 92108
Phone: 858-560-2600
www.encorecapitalgroup.com



Paul Grinberg
Executive V.P. and CFO

BIO:
Mr. Grinberg is the Executive Vice President and Chief Financial Officer of Encore Capital Group. He manages Encore's relationships with the investment community, leads capital raising efforts, and helps explore new growth opportunities. He is responsible for the company's financial reporting, treasury, and risk management functions. During one of the most challenging times in the worldwide credit markets, Mr. Grinberg successfully raised more than $375 million in debt financing for Encore, at favorable terms, enabling the company to take advantage of very strong purchasing opportunities. Mr. Grinberg has significantly enhanced Encore's presence in the investment community, evidenced by new sell-side analyst coverage with strong ratings.

Prior to joining Encore, Mr. Grinberg served as President of Brio Consulting Group, a company he founded that provided financial strategy and consulting services to private equity and venture-backed companies. Previously, 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, and 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. Mr. Grinberg began his career at Deloitte & Touche LLP, ultimately becoming a partner in the firm's Merger and Acquisition Services Group. Mr. Grinberg is currently a director of Bank of Internet USA (NASDAQ: BOFI), an FDIC insured, internet-only bank.

Mr. Grinberg earned an MBA (graduating Beta Gamma Sigma) from Columbia University and a bachelor's degree in accounting (graduating magna cum laude) from Yeshiva University.

In 2012, Mr. Grinberg was named the CFO of the year by the San Diego Business Journal in the large, public company category.

Company Profile:
Encore Capital Group and its subsidiaries (collectively, the "Company") is a leader in consumer debt buying and recovery. The company purchases portfolios of defaulted consumer receivables from major banks, credit unions, and utility providers and partners with individuals as they repay their obligations and work toward financial recovery. Headquartered in San Diego, Encore is a publicly traded NASDAQ Global Select company (ticker symbol: ECPG) and a component stock in the Russell 2000, the S&P SmallCap 600, and the Wilshire 4500.

The Company's operations include sites in San Diego, CA, Phoenix, AZ, St. Cloud, MN, Arlington, TX, New Delhi, India and San Jose, Costa Rica. The Company currently employs more than 2,200 people, and manages a large third-party network of law firms throughout the United States.

Success in our business hinges on understanding, measuring, and predicting financially distressed consumer behavior, and we have invested heavily to build one of the industry's strongest analytic platforms focused on this demographic segment. We purchase consumer receivables based on account-level valuation methods, and employ a suite of proprietary statistical models across the full extent of our business. Moreover, we have one of the industry's largest financially distressed consumer databases, comprising approximately 25 million active accounts. Our strong performance derives from our sophisticated and widespread use of analytics, our broad investments in data and behavioral science, the significant cost advantages provided by both our worldwide operations and our enterprise-wide, account-level cost database, and our demonstrated commitment to conducting business ethically and in ways that support our consumers' financial recovery. We enjoy strong relationships with many of the largest credit providers in the United States, and possess one of the industry's best collection staff retention rates.

In addition, we provide bankruptcy support services to some of the largest names in the financial services business through our wholly-owned subsidiary Ascension Capital Group, Inc. ("Ascension"). Leveraging a proprietary software platform dedicated to bankruptcy servicing, Ascension's operational platform integrates lenders, trustees, and consumers across the bankruptcy lifecycle.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

What works is being fair, reasonable… working with people… understanding where they are coming from and how to help them.
- Paul Grinberg

CEOCFO: Mr. Grinberg, what attracted you to Encore Capital Group, and what specific strengths do you bring to the company?

Mr. Grinberg: I joined Encore because I saw an opportunity to help build a great business in a sector where no one might naturally expect it. It was an opportunity to build an ethical business based on information and analytics, and one that could truly make a difference to consumers. Encore was a growing company and an innovator in its space. It had very strong analytics, a strong culture, and good people. Those are always important factors in my decision making process – being able to work with a team that is motivated, ethical, and analytical. I spent many years as a partner at Deloitte in the merger and acquisition group and I had exposure to many businesses that were growing rapidly, both organically and through acquisition. Encore was poised for strong growth at the time, and my background was well suited. In addition, I had a lot of background in the capital markets and -- over the last few years at Encore -- we have been doing a lot in terms of raising capital. As a result, my background, having access to those markets, and the ability to raise capital were all very important. I had also been the CFO of several public and private companies, so I had a broad financial background, which was important for Encore at the time.

CEOCFO: What is the focus and philosophy of Encore Capital Group?

Mr. Grinberg: Over the last few years, we have demonstrated significant growth, as you have seen from our financial results. As it relates to our core business, our focus is really two-fold: first, to continue to execute well in our core business, and second, in order for us to be able to continue that growth, we are focused on expanding the business by deploying capital and new asset classes where we have not previously, and/or expanding our business geographically. Right now, we are only focused on the United States, but there are other areas of the world where the debt purchasing and recovery business exists, so we are looking at exploring potential opportunities outside of the U.S.

A second major focus for us is to better engage our consumers and continue the work we have done with them over the last few years. Our focus has been to shift the relationship with them from being a purely transactional relationship, to one in which we can offer them education, or products, or different types of services, with the goal of helping them get back onto the path of financial health. We then want to help them stay on a path where they do not get over-burdened with debt and are able to continue to meet their financial obligations. Our focus is really to work with our consumers, better understand them, and be able to offer them different types of services that can genuinely help them. You may have seen our recent announcement of the Consumer Credit Research Institute, which we launched just few months ago. The focus of the CCRI is to better understand our consumers and the choices that they make, and then help them back on their road to financial recovery. There is a strong consumer focus in what we are doing today. We believe it is the right thing to do for the consumer. We also think it is the right thing to do for our business.

The third area where we are focused today is to really try to partner with regulators and other government officials as they think about appropriate legislation and regulation for our business and industry, and to be part of shaping appropriate legislation. It is clear that there is a focus on the financial services industry; given our size and the knowledge we have about distressed consumers, we think it is important that we have a seat at the table to help craft appropriate regulation for our industry and for things that may impact the interactions that others have with these consumers.

CEOCFO: How does the Encore Capital approach differ from others in your industry?

Mr. Grinberg: I will divide it up into three areas. From the consumer perspective, our approach is really one of thought leadership. The CCRI and our Consumer Bill of Rights are both areas where we are developing and exhibiting thought leadership around the consumer and how we create long-term relationships with those consumers. Our focus has always been on decision-making at the consumer level. When we buy a portfolio and collect on a portfolio, we are really looking at each individual consumer within that portfolio. We try to understand each consumer's financial situation and whether or not they have the ability to pay. We do not do things on average. We do not apply the same collection strategy or approach to all consumers and if consumers do not have the ability to pay we do not try to collect from them. Our goal is to understand individual consumers, what their personal situation is, and how we can help them get back on the grid and -- by doing that -- enable them to repay their outstanding financial obligations. Others in the industry are focused more at a macro level in that they apply a one-size-fits-all approach to their collection activities, which, unfortunately, gets some of them in trouble, because they are collecting from people who – frankly – they should not be collecting from. We, on the other hand, are very focused on understanding consumers and their ability to pay, and working with them to help them to repay their obligations.

From an investor perspective, our business is different from others in the space because of the deep analytics that we have. We collect more than everyone else does. If you look at our deployment of capital in any given year and then what we collect off that deployment of capital, we collect more than anyone else. Because of the analytic platform that we've built and because of the work that we have done in India, our costs are also much lower than everyone else's. As investors look at our space, they will see that what differentiates Encore is that we collect more and we do it for less than others, which generates very strong returns.

The third area, in terms of our difference from others, is from a regulatory perspective. We have been very proactive in trying to create a constructive dialogue with regulators. The Consumer Bill of Rights, which we put in place, was not for regulators. It was something we put in place so that we could communicate to our consumers the commitment that we have to them. By doing that, we demonstrated that we are one of the few companies in our industry that is promoting thoughtful interactions with consumers. This gives us the opportunity to have a seat at the table with regulators to create constructive dialogue around the rules that are going to govern our space.

CEOCFO: What are the details about your recent strong numbers and how do you continue on this same track?

Mr. Grinberg: Well, looking at the numbers, it was a very strong year-end and fourth quarter. Considering last year's collections and cash flow, our earnings were up 20% more from the prior period and that has been consistent over the last couple of years. We are generating close to $400 million of free cash flow every year and we are able to effectively fund all of our purchases through our cash flow, so our leverage continues to decline over time. We believe that we will be able to continue doing that for a couple of reasons: we continue to refine our analytical models, and we have continued to understand the consumer more deeply and understand who has the ability to pay and who does not have the ability to pay. Therefore, we can focus our efforts to work only with those consumers who have the ability to pay. We think that the refinement of our analytical models will enable us to be even more efficient in the future, which will continue to drive down costs. The other thing, in terms of growth, that we are focused on is identifying new asset classes where we can deploy capital. Today, we are focused on the credit card space and in the telecom space. However, there are other areas where consumers are struggling and where issuers are selling debt, so we are focused on doing that to continue the growth. There is also geographic diversification, so our business exists in the United States and in the UK, as well as other countries. We spend a lot of time trying to understand the market in other geographies so that if and when the right opportunity exists in terms of a business acquisition, and we identify one that has the right team, the right leadership, and the right approach to their interaction with the consumers, we can potentially acquire those businesses.

CEOCFO: Are you able to share any of the new asset classes Encore Capital that might be of interest?

Mr. Grinberg: We have not publicly talked about which specific asset classes we are looking at, but I will give you some examples of other areas where there are consumer charge-offs, and where there are opportunities. We acquire telecom receivables today, and there are similar types of receivables. For example, cable bills, and the internet service in your home where all those services are being bundled together now by some utility providers. They are not actively selling their charged-off debt, so that may be an opportunity. The student loan market is one that is very large and there clearly are delinquencies and charge-offs in those spaces. There are a number of asset classes that are in the secured space. Today, we are very much focused on purchasing unsecured debt, but there are many asset classes that are tied to either a car, or a home, or other assets, where there may be an opportunity to deploy capital. Those are just some examples of what else is out there, without being specific that we are going to enter into any of those, but those are some examples.

CEOCFO: With a large network of people and locations; how do you ensure that the respect that Encore gives consumers goes down to every level?

Mr. Grinberg: I will focus first internally, how we ensure that, and how we ensure that with our partners. From an internal perspective, because we do have call centers across the U.S. and elsewhere in the world, it starts with having very strong management in every location. We have retained very strong management teams at all of our domestic sites as well as in India and Costa Rica. We make sure that we get the right people in place and that they communicate the right message. There is a lot of physical presence that we have with our senior team in India and Costa Rica. We are always traveling back and forth between the two countries, so that we can communicate and make sure that we are communicating strategy, that we are communicating what is appropriate and what is not appropriate. I just got back from India last month, and the CEO just returned from India. The person that runs their HR organization is in the U.S. this week, so there is a lot of back and forth between the various locations. In addition, we have made great use of video conferencing technology. We literally have worldwide meetings in which we have people from all of our sites participating, where we talk about strategy and culture. We have Town Hall meetings across the organization, so we do a lot of work there. Our training is all centralized and the development of people is all centralized. We have training in things like the Consumer Bill of Rights, and we have training in all of the laws that govern how we collect from consumers. We have a zero-tolerance policy, so if one of our account managers (as we refer to our collectors) violates any of those rules, there is literally a zero-tolerance policy. They are no longer going to be doing that work for us at Encore. It is something we talk about, the Consumer Bill of Rights, externally, but we talk about it a lot internally and make sure everyone is focused on it. Externally, with our law firm partners and the collection agencies we may use -- although we do not use very many, as most of what we do is internal -- we have very high standards for identifying those firms that do their work well within the letter and spirit of the law. We have account managers internally that are assigned to manage several law firms or agencies, and these they monitor on a regular basis. We have very good monitoring of what our external partners are doing. We also have an audit group here that goes out to the various law firms and agencies that we do business with and conducts audits of what they do. This includes financial auditing as well as compliance with various rules that exist, and against a set of standard operating procedures, which we communicate to them and by which they must abide in order to work with Encore. We have very strong monitoring of all of our partners.

CEOCFO: Is reaching investors a focus for Encore?
Mr. Grinberg: As a public company, it always is, because you have different investors that come into the business at different points in time and at different price points. As a result, it is always something that we are focused on. The investors we typically attract are those that focus on growth companies with a solid financial record and a strong management team. We have been able to buck the macroeconomic trends that have hurt many other companies over the last few years. We are a business that has done well, in both good macroeconomic conditions and bad. One of the things that we are focused on in communicating to investors is the nature of our business and what it really is. If people are looking at the long-term success of Encore, one of the things that we communicate to them is the fact that our model is one that is really focused on helping consumers over a long period of time. If you think about the cycle during which someone struggles with debt, it is delinquent not being paid, the credit card issuer has a very short period of time that they can get that consumer to pay, because they are required by statute to write off that debt after six months. Therefore, they have an incentive to compel a consumer to pay in a very short window of time, which may not be in the best interest of that consumer, because that consumer could be struggling. Once the issuer charges it off, they could place it with a collection agency or they could sell it. If they place it with an agency, the account may shift from agency to agency every four to six months, which creates a lot of confusion for the consumer, because they have different people calling them all the time. The collection agency has an incentive to generate a collection in a very short window of time or else they do not get paid.

Our motto, one that we are talking to investors about, is that we purchase the account and we never sell it. Therefore, the relationship with the consumer and Encore is a long-term relationship. As a result, we are not necessarily focused on generating cash from the consumer in four months like a collection agency would be. We are focused on how to help that consumer repay the obligation over a reasonable period of time. For us, that may be six to eight years, during which we work with consumers to try to get them to pay. Since we are out there trying to attract new investors, we are very focused on talking about our business model, how it is different from many others in the recovery industry, and how it is positioned to genuinely help the consumer in the long run. Those are things that should enable us to attract investors. We also have the previously-mentioned discussions with regulators. We are thinking about the consumer and helping the consumer. We believe that issuers should be moving more toward selling to debt buyers as opposed to placing accounts with contingent agencies or other kinds of strategies. All those things bode well for the long-term success of Encore and, therefore, a good investment for a potential investor.

CEOCFO: Do you feel that investors understand what Encore is all about once they get the opportunity to really pay attention or does Encore Capital really have to fight the negative stereotype of the debt collection industry?
Mr. Grinberg: When we spend time with investors and explain the story, they definitely do get it. Many of our investors have been investors for a long time. When people focus on underlying fundamentals of the business and recognize that our industry, which one may look at it initially and say, ‘these guys are debt collectors,’ they perceive discomfort associated with companies doing what we do. At the end of the day, however, our business is a crucial part of the credit cycle: if we did not exist and did not do what we do, credit would either be too expensive for all of us or it would not be available for most of us. Without this important part of the cycle, everyone in the economy would be bearing the costs through very expensive credit or no access to credit at all. That is a message that investors are starting to understand. As we get in front of regulators more, and as we get in front of attorneys-general and others in the government more, and communicate that -- and actually show them that through data and research like what the CCRI is doing, people recognize that we are an important part of the financial cycle. It is not a matter of whether Encore should be doing what we are doing or whether it is good or bad, it is a matter of how do we get companies like Encore to be the successful ones, because they are doing it the right way: they are approaching the consumer in a fair and reasonable manner. Investors are getting it and regulators are starting to get it. It is a long transition from the perception of what our industry was a few years ago to where we are trying to get to. However, we are slowly getting there and people are appreciating the fact that we are doing what we are

doing in a very different – and better – way from others.

CEOCFO: Do you find that most consumers want to pay their debt and welcome the opportunity to find a way to do so?

Mr. Grinberg: When our account managers are talking to consumers on the phone, I think most of those consumers recognize that they borrowed the money and they have an obligation to repay it. There are some that choose not to or do not believe they have an obligation to do so, but, for the most part, people want to repay their outstanding obligations. Many are just struggling financially for whatever reason and we try to work with them to help them create a plan that works within their means to repay their debt obligations. For those consumers who are unable to repay it, we have hardship strategies for them and we do not pursue them. For example, for someone on social security that just cannot afford to pay, we do not pursue collections for those consumers. There are other situations, many of which are enumerated in the Consumer Bill of Rights, where we actually do not try to collect from consumers, because they just cannot pay. Many of them do want to pay. Unfortunately, there are those consumers that have the ability to pay, but choose not to, and for those we must use litigation. That is sort of our last resort, because it is very expensive for us and we do not want to have to do it. There are certainly consumers who -- through our analysis -- we have determined they have the ability to pay, they just choose not to. Therefore, we may be forced to litigate with those, but it is a last resort. Our goal is always to work with consumers to figure out how to help them, within their means, to repay their obligations. In virtually every case, we offer a discount. In many cases, it is a substantial discount, so those who repay may not repay 100% of their outstanding obligation. When they do start paying, we cease all interest or accruing interest on their account. What we are doing is trying to help them fix their financial picture as much as we can and in many cases, that is what they really want themselves.

CEOCFO: Final thoughts, what should people remember most when they read about Encore Capital Group?

Mr. Grinberg: Hopefully, the take-away is that Encore Capital Group is a company that is growing very quickly, with growth that has been consistent and strong. We have a great balance sheet and we are poised for continued growth in the future. One take-away that people should see from the financial perspective in terms of our business is that we are very focused on working with consumers in a way that helps them get back on the road to financial recovery. We are doing what we do in a very ethical way and we are focused on only collecting from those consumers that have the ability to pay us. We do that through a lot of data, analysis, and decision science, as well as a lot of discussions with consumers. When our account managers get on the phone with people they are not aggressive with them in trying to force them to pay. They try to understand their individual situation and as they help them, they pay us. Another thing that, hopefully, regulators and others see is that we are a very ethical company, focused on productive interactions with consumers that are reasonable, not only within the letter and spirit of the law, but that we go well beyond what is required of us. This is not just because we think it is the right thing to do, but because we think that it is in the best interest of the consumer and, ultimately, that it is in the best interest of our company's long-term success. Someone who does not have the ability to pay is not going to pay Encore, no matter what we say or do. Unfortunately, there are too many people in the collection industry that go beyond what they should do and, frankly, it just does not work. What works is being fair, reasonable, offering discounts, working with people, being able to empathize with them, and understanding where they are coming from and how to help them.

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