ENCORE CAPITAL GROUP INC
Form 10-K
February 19, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(**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, 2007 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	**(I.R.S. Employer**
Incorporation or Organization)	**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. x

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the registrant totaling 9,770,383 shares was $121,934,380 at June 30, 2007, based on the closing price of the common stock of $12.48 per share on such date, as reported by the NASDAQ Global Select Market.

The number of shares of our Common Stock outstanding at February 5, 2008, was 22,991,810.

Documents Incorporated by Reference

Portions of the registrant s proxy statement in connection with its annual meeting of shareholder to be held in 2008 are incorporated by reference in Items 10, 11, 12, 13, and 14 of Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

Item 1 Business

An Overview of Our Business

Nature of Business

We are a systems-driven purchaser and manager of charged-off consumer receivable portfolios and, through our wholly owned subsidiary Ascension Capital Group, Inc. (Ascension), a provider of bankruptcy services to the finance industry. We acquire receivable portfolios at deep discounts from their face values using our proprietary valuation process that is based upon an analysis of the individual consumer attributes of the underlying accounts. Based upon our ongoing analysis of these accounts, we employ a dynamic mix of collection strategies to maximize our return on investment. The receivable portfolios we purchase consist primarily of unsecured, charged-off domestic consumer credit card, auto loan deficiency and telecom receivables purchased from national financial institutions, major retail credit corporations, telecom companies and resellers of such portfolios. From 2006 through August 2007, we also purchased healthcare receivables from hospitals and resellers of healthcare receivables. In September 2007, we exited our healthcare purchasing and internal collection activities, although we are still receiving collections from certain healthcare portfolios that we purchased. Acquisitions of receivable portfolios are financed from operating cash flows and by borrowings from third parties. See Note 8 to our consolidated financial statements for further discussion of our debt. Encore is a Delaware holding company whose assets consist of investments in its subsidiaries.

We have been in the collection business for 54 years and started purchasing portfolios for our own account approximately 17 years ago. From our inception through December 31, 2007, we have invested over $936.2 million to acquire 22.3 million consumer accounts with a face value of approximately $32.7 billion.

We have established certain relationships with credit card issuers, other lenders and resellers that allow us to purchase portfolios directly through negotiated transactions, and we participate in the auction-style purchase processes that typify our industry. In addition, we enter into forward flow arrangements in which we agree to buy receivables that meet agreed upon parameters over the course of the contract term.

We evaluate each portfolio for purchase using the proprietary valuation and underwriting processes developed by our in-house team of statisticians. Unlike many of our competitors, which we believe often base their purchase decisions primarily on numerous aggregated portfolio-level factors, including the lender/originator, the type of receivables to be purchased, or the number of collection agencies the accounts have been placed with previously, we base our purchase decisions primarily on our analysis of the specific accounts included in a portfolio. Based upon this analysis, we determine a value for each account, which we aggregate to produce a valuation of the entire portfolio. We believe this capability allows us to perform more accurate valuations of receivable portfolios. We have successfully applied this methodology to receivables across multiple asset classes.

After we purchase a portfolio, we continuously refine our analysis of the accounts to determine the best strategy for collection. As with our purchase decisions, our collection strategies are based on account level criteria. Our collection strategies include:

- the use of a nationwide network of collection attorneys to pursue legal action where appropriate;
- outbound calling, driven by proprietary predictive software, by our own collection workforce located at our three domestic call centers and our international call center in India;
- the use of multiple third party collection agencies;
- direct mail campaigns coordinated by our in-house marketing group;

the transfer of accounts to a credit card provider, generating a payment to us; and

the sale of accounts where appropriate.

Investors wishing to obtain more information about Encore Capital Group, Inc. may access our Internet site (www.encorecapitalgroup.com) that allows access to relevant investor related information, free of charge, such as Security and Exchange Commission (SEC) filings, analyst coverage and earnings estimates, press releases, featured articles, an event calendar, and frequently asked questions. SEC filings are available on our website as soon as reasonably practicable after being filed with, or furnished to, the SEC. The contents of our Internet site are not incorporated by reference in this Annual Report on Form 10-K.

Our Strengths

Empirically Based and Technology-Driven Business Processes. We have assembled a team of statisticians, business analysts and software programmers that have developed and continually enhance proprietary valuation models, software and other business systems that guide our portfolio purchases and collection efforts. Our information technology department has developed and continually updates sophisticated software that manages the movement of data, accounts and information throughout the company. These proprietary systems give us the flexibility, speed and control to capitalize on business opportunities.

Account Based Portfolio Valuation. We analyze each account within a portfolio presented to us for purchase to determine the likelihood and expected amount of payment. We utilize an internally-developed valuation process based on a set of proprietary statistical models that predict behavior at the consumer level. Individual consumer characteristics are weighted, account-level payment expectations are determined, the expectations for each account are then aggregated to arrive at a portfolio-level liquidation assessment and a valuation for the entire portfolio is made. Our valuations are derived in large part from information accumulated on approximately 19.8 million accounts acquired since mid-2000, supplemented by external data purchased from providers.

Dynamic Collections Approach. Over the past several years, we have dramatically reduced our dependence on general outbound calling by expanding our collection strategies. Moreover, because the status of individual debtors changes continually, once each quarter we re-analyze all of our accounts with refreshed external data, which we supplement with information gleaned from our own collection efforts. We modify our collection method for each account if warranted.

Experienced Management Team. Our management team has considerable experience in finance, banking, consumer collections and other industries. We believe that the expertise of our executives obtained by managing businesses across numerous other industries has been critical to the enhancement of our operations. Our management team has created a culture of new ideas and progressive thinking, coupled with the increased use of technology and statistical analysis.

Our Strategy

To enhance our position in the industry, we have implemented a business strategy that emphasizes the following elements:

Implement and Refine New and Existing Collection Channels. We continually refine our collection processes, and evaluate new collection strategies, such as strategic outsourcing, to further supplement our traditional call center approach. We believe that our multiple and dynamic approach to collections increases our opportunity to achieve enhanced returns on our investments.

Leverage Expertise in New Markets. We believe that our internally developed underwriting and collection processes can be extended to a variety of charged-off consumer receivables in addition to charged-off credit card receivables. We intend to continue to leverage our valuation, underwriting and collection processes to other charged-off receivable markets, including auto loan deficiencies, telecom and general consumer loans. To date, our purchases in other charged-off receivable markets have generally performed to expectations.

Continue to Build Our Data Management and Analysis Capabilities. We are continually improving our technology platform and our pricing, underwriting and collection processes through software development, statistical analysis and experience.

Consider Complementary Acquisitions. We will actively pursue acquisitions of complementary companies to expand into new markets, add capacity in our current business, or leverage our knowledge of the distressed consumer.

Acquisition of Receivables

Typically, receivable portfolios are offered for sale through a general auction, forward flow contract or direct negotiation. A forward flow contract is a commitment to purchase a defined volume of accounts from a seller for a period of typically 3 to 12 months, though such commitments can extend up to several years. We believe long-term success is achieved by combining a diverse sourcing approach with an account level scoring methodology and a disciplined evaluation process.

Identify purchase opportunities. We employ a team of professionals who maintain relationships with the largest credit grantors in the United States. Their role is to identify purchase opportunities and secure, if possible, exclusive negotiation rights for Encore.

Analyze paper account level analytics. Once a portfolio acquisition is identified, our internal modeling team analyzes information provided by the seller and other external sources, if appropriate, to determine the expected value of each potential new consumer. The expected value of each individual consumer is aggregated into a total portfolio value. We will remain focused on making purchasing decisions based on sound quantitative and qualitative analysis.

Collection Strategies

We expand upon the insights created during our purchasing process when building account collection strategies. Our proprietary consumer-level collectability analysis is the primary determinant of whether an account is actively worked post-purchase. Throughout our ownership period, we continuously refine this analysis to determine the most effective collection strategy to pursue for each account. These strategies consist of:

Legal Action. We generally outsource those accounts where it appears the debtor is able, but is unwilling to pay. We utilize lawyers that specialize in collection matters, paying them a contingency fee on amounts collected. This process is managed by our Legal Outsourcing Department. Prior to sending accounts to a law firm, a specialized internal group of collectors, or *Recovery Collectors*, communicates to the debtor our intention to have a lawyer evaluate the suitability of the account for litigation if payment arrangements cannot be established.

Call Centers. We maintain domestic collection call centers in San Diego, CA, Phoenix, AZ and St. Cloud, MN and an international call center in Gurgaon, India. Each site location consists of multiple collection departments, which are divided by specialties, each consisting of Group Managers supervising Account Managers. Account Managers are trained to use a friendly, but firm approach to assess the willingness of the customer to pay. They attempt to work with customers to evaluate sources and means of repayment to achieve a full or negotiated lump sum settlement or develop payment programs customized to the individual s ability to pay. In some cases, collectors advise the debtors of alternative sources of financing to pay off their debt. In cases where a payment plan is developed, collectors encourage debtors to pay through automatic payment arrangements.

Third Party Collection Agencies. We selectively employ a strategy that uses collection agencies, which receive a contingency fee for each dollar collected. Generally, we use these agencies where we believe they can liquidate better or less expensively on certain accounts than we can in our internal call centers. These include, among others, accounts that generally have low liquidation expectations, such as accounts with small balances or with limited consumer contact information. We also use agencies to initially provide us a way to scale quickly when large purchases are made and as a challenge to our internal call center collection teams.

Direct Mail. We have an in-house marketing team that develops innovative mail campaigns. The mail campaigns generally offer debtors targeted discounts on their balances owed to encourage settlement of their accounts and to provide us with a low cost recovery method.

Sale. We believe our ability to analyze portfolios enables us to periodically sell a portion of such portfolios to buyers at a favorable price. We may consider selling certain accounts if we believe the current market price exceeds our estimate of the net present value of remaining collections or determine that additional recovery efforts are not warranted. In addition, under contractual obligations with Jefferson Capital, LLC (Jefferson Capital), we sell, on a forward flow basis, all accounts for which the debtor has filed for protection under the United States Bankruptcy Code. This agreement expires concurrently with our forward flow purchase agreement with Jefferson Capital, which expires the earlier of June 2010 or upon our purchase of $3.0 billion of face value in specified portfolio receivables from Jefferson Capital. See Note 12 to our consolidated financial statements for a further discussion of our forward flow purchase agreement.

Account Balance Transfer. We may transfer to our credit card partners accounts for which this approach offers the highest opportunity for success. The credit card partners may offer the debtor the opportunity to establish new credit and to transfer the balance onto a new credit card. If the account is transferred we receive an agreed-upon payment.

Skip Tracing. If a debtor s phone number proves inaccurate when a collector calls an account, or if current contact information for a debtor is not available at the time of account purchase, then the account is automatically routed to our database skip tracing process. We currently use a number of different companies to provide phone numbers and addresses.

Inactive. We use our collection resources judiciously and efficiently by not deploying resources on accounts where the prospects of collection are remote. For example, for accounts where the debtor is currently unemployed, overburdened by debt, incarcerated, or deceased, no collection method of any sort is assigned.

Competition

The consumer credit recovery industry is highly competitive and fragmented. We compete with a wide range of collection companies, financial services companies and a number of well-funded, newer entrants with limited experience in our industry. We also compete with traditional contingency collection agencies and in-house recovery departments. Competitive pressures affect the availability and pricing of receivable portfolios, as well as the availability and cost of qualified recovery personnel. In addition, some of our competitors may have signed forward flow contracts under which originating institutions have agreed to transfer charged-off receivables to them in the future, which could restrict those originating institutions from selling receivables to us. We believe some of our major competitors, which include companies that focus primarily on the purchase of charged-off receivable portfolios, have continued to diversify into third-party agency collections and into offering credit card and other financial services as part of their recovery strategy.

When purchasing receivables, we compete primarily on the basis of the price paid for receivable portfolios, the ease of negotiating and closing the prospective portfolio purchases with us, including our ability to obtain funding and our reputation with respect to the quality of services that we provide. There continues to be consolidation of issuers of credit cards, which have been a principal source of receivable purchases. This consolidation has limited the sellers in the market and has correspondingly given the remaining sellers increasing market strength in establishing the price and terms of the sale of credit card accounts.

Government Regulation

In a number of states we must maintain licenses to perform debt recovery services and must satisfy related bonding requirements. We believe that we have satisfied all material licensing and bonding requirements, and are in compliance with all material government regulations. Adoption of new licensing requirements, or changing interpretations of existing requirements, could restrict our ability to collect in states, subject us to increased regulatory regulations, increase our costs, or adversely affect our ability to enforce our receivables.

The Fair Debt Collection Practices Act (FDCPA) and comparable state statutes establish specific guidelines and procedures which debt collectors must follow when communicating with customers, including the time, place and manner of the communications. It is our policy to comply with the provisions of the FDCPA and comparable state statutes in all of our recovery activities, even though we may not be specifically subject to these laws. Our failure to comply with these laws could have a material adverse effect on us if they apply to some or all of our recovery activities. In addition to the FDCPA, significant federal laws applicable to our business include the following:

Truth-In-Lending Act;	U.S. Bankruptcy Code;
Fair Credit Billing Act;	Gramm-Leach-Bliley Act;
Equal Credit Opportunity Act;	Health Insurance Portability and Accountability Act; and
Fair Credit Reporting Act;	
Electronic Funds Transfer Act;	Regulations that relate to these Acts

Additionally, there may be comparable statutes in those states in which our customers reside or in which the originating institutions are located. State laws may also limit the interest rate and the fees that a credit originator may impose on its customers, and also limit the time in which we may file legal actions to enforce consumer accounts.

The relationship between a customer and a credit card issuer is extensively regulated by federal and state consumer protection and related laws and regulations. While we do not issue credit cards, these laws affect some of our operations because the majority of our receivables were originated through credit card transactions. The laws and regulations applicable to credit card issuers, among other things, impose disclosure requirements when a credit card account is advertised, when it is applied for and when it is opened, at the end of monthly billing cycles, and at year-end. Federal law requires, among other things, that credit card issuers disclose to consumers the interest rates, fees, grace periods and balance calculation methods associated with their credit card accounts. Some laws prohibit discriminatory practices in connection with the extension of credit. If the originating institution fails to comply with applicable statutes, rules, and regulations, it could create claims and rights for the debtors that would reduce or eliminate their obligations under their receivables, and have a possible material adverse effect on us. When we acquire receivables, we generally require the originating institution to contractually indemnify us against losses caused by its failure to comply with applicable statutes, rules and regulations relating to the receivables before they are sold to us.

Federal statutes further provide that, in some cases, consumers cannot be held liable for, or their liability is limited with respect to, charges to their credit card accounts that resulted from unauthorized use of their credit cards. These laws, among others, may give consumers a legal cause of action against us, or may limit our liability to recover amounts owing with respect to the receivables, whether or not we committed any wrongful act or omission in connection with the account.

State and federal laws concerning identity theft, privacy, data security, the use of automated dialing equipment and other laws related to debtors and consumer protection, as well as laws applicable to specific types of debt, impose requirements or restrictions on collection methods or our ability to enforce and recover certain debts. These requirements or restrictions could adversely affect our ability to enforce the collection of the receivables.

The laws described above, among others, as well as any new laws, rules or regulations, may adversely affect our ability to recover amounts owing with respect to the receivables.

Employees

As of December 31, 2007, we had approximately 1,000 employees. None of our employees are represented by a labor union. We believe that our relations with our employees are good.

Item 1A Risk Factors

Risk Factors

Recent instability in the financial markets may have an impact on our business.

Recently, the residential real estate market in the U.S. has experienced a significant downturn due to declining real estate values, substantially reducing mortgage loan originations and securitizations, and precipitating more generalized credit market dislocations and a significant contraction in available liquidity globally. These factors, combined with rising oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and fears of a possible recession. Individual consumers are experiencing higher delinquency rates on various consumer loans and defaults on indebtedness of all kinds has increased. Further declines in real estate values in the U.S. or elsewhere and continuing credit and liquidity concerns could further reduce our ability to collect on our purchased consumer receivable portfolios while adversely affecting their value. In addition, continued or further credit market dislocations or sustained market downturns may reduce the ability of lenders to originate new credit, limiting our ability to purchase consumer receivable portfolios in the future. Further, increased financial pressure on the distressed consumer may result in additional regulatory restrictions on our operations and increased litigation filed against us.

Our quarterly operating results may fluctuate and cause the prices of our common stock and convertible notes to decrease.

Our quarterly operating results will likely vary in the future due to a variety of factors that could affect our revenues and operating expenses in any particular quarter. We expect that our operating expenses as a percentage of collections will fluctuate in the future as we expand into new markets, increase our new business development efforts, hire additional personnel and incur increased insurance and regulatory compliance costs. In addition, our operating results have fluctuated and may continue to fluctuate as the result of the factors described below and elsewhere in this Annual Report on Form 10-K:

- the timing and amount of collections on our receivable portfolios, including the effects of seasonality;
- any charge to earnings resulting from an impairment in the carrying value of our receivable portfolios;
- increases in operating expenses associated with the growth or change of our operations;
- the cost of credit to finance our purchases of receivable portfolios; and
- the timing and terms of our purchases of receivable portfolios.

Due to rising prices for consumer receivable portfolios, there has been considerable variation in our purchasing volume from quarter to quarter and we expect that to continue. The volume of our portfolio purchases will be limited while prices are high. Because we recognize revenue on the basis of projected collections on purchased portfolios, we may experience variations in quarterly revenue and earnings due to the timing of portfolio purchases.

Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and revenues and earnings for any particular future period may decrease. In the future, if operating results fall below the expectations of securities analysts and investors, the price of our common stock and convertible notes likely would decrease.

We may not be able to purchase receivables at sufficiently favorable prices or terms, or at all.

Our ability to continue to operate profitably depends upon the continued availability of receivable portfolios that meet our purchasing standards and are cost-effective based upon projected collections exceeding our costs. The market for acquiring receivable portfolios has become more competitive. Our industry has attracted a large amount of investment capital. With this inflow of capital, we have seen a significant increase in the pricing of receivable portfolios to levels that we believe will generate reduced returns on investment and which will negatively affect our results of operations**.**

In addition to the competitive factors discussed above, the availability of consumer receivable portfolios at favorable prices and on favorable terms depends on a number of factors, within and outside of our control, including:

- the continuation of the current growth and charge-off trends in consumer debt;
- the continued sale of receivable portfolios by originating institutions;
- our ability to develop and maintain long-term relationships with key major credit originators;
- our ability to obtain adequate data from credit originators or portfolio resellers to appropriately evaluate the collectability of, and estimate the value of, portfolios; and
- changes in laws and regulations governing consumer lending, bankruptcy and collections

In addition, because of the length of time involved in collecting charged-off consumer receivables on acquired portfolios and the volatility in the timing our collections, we may not be able to identify trends and make changes in our purchasing strategies in a timely manner. Ultimately, if we are unable to continually purchase and collect on a sufficient volume of receivables to generate cash collections that exceed our costs, our business will be materially and adversely affected.

We may not be successful in acquiring and collecting on portfolios consisting of new types of receivables.

We may pursue the acquisition of portfolios consisting of assets with which we have little collection experience. We may not be successful in completing any of these acquisitions. Our lack of experience with new types of receivables may cause us to pay too much for these receivable portfolios, which may substantially hinder our ability to generate profits from such portfolios. Even if we successfully acquire such new types of receivables, our existing methods of collections may prove ineffective for such new receivables and our inexperience may materially and adversely affect our financial condition.

We may not be able to collect sufficient amounts on our receivable portfolios to recover our costs and fund our operations.

We acquire and service receivables that the obligors have failed to pay and the sellers have deemed uncollectible and written off. The originating institutions generally make numerous attempts to recover on their

nonperforming receivables, often using a combination of their in-house collection and legal departments as well as third-party collection agencies. In order to operate profitably over the long term, we must continually purchase and collect on a sufficient volume of receivables to generate revenue that exceeds our costs. These receivables are difficult to collect, and we may not be successful in collecting amounts sufficient to cover the costs associated with purchasing the receivables and funding our operations. If we are not able to collect on these receivables or collect sufficient amounts to cover our costs, this may materially and adversely affect our financial condition.

We may purchase portfolios that contain unprofitable accounts.

In the normal course of our portfolio acquisitions, some receivables may be included in the portfolios that fail to conform to the terms of the purchase agreements and we may seek to return these receivables to the seller for payment or replacement. However, we cannot guarantee that such sellers will be able to meet their obligations to us. Accounts that we are unable to return to sellers may yield no return. If we purchase portfolios containing too many accounts that do not conform to the terms of the purchase contracts or contain accounts that are otherwise uncollectible, we may be unable to collect a sufficient amount and the portfolio purchase could be unprofitable, which would have an adverse effect on our cash flows. If cash flows from operations are less than anticipated, our ability to satisfy our debt obligations, purchase new portfolios and our future growth and profitability may be materially and adversely affected.

The statistical model we use to project remaining cash flows from our receivable portfolios may prove to be inaccurate, which could result in reduced revenues or the recording of an impairment charge if we do not achieve the collections forecasted by our model.

We use our internally developed Unified Collection Score, or UCS model, to project the remaining cash flows from our receivable portfolios. Our UCS model considers known data about our customers accounts, including, among other things, our collection experience and changes in external customer factors, in addition to all data known when we acquired the accounts. There can be no assurance, however, that we will be able to achieve the collections forecasted by our UCS model. If we are not able to achieve these levels of forcasted collection, our revenues will be reduced or we may be required to record an impairment charge, which results in a reduction of our earnings.

We may not be successful in recovering court costs we anticipate recovering.

We contract with a nationwide network of attorneys that specialize in collection matters. We generally refer charged-off accounts to our contracted attorneys when we believe the related debtor has sufficient assets to repay the indebtedness and has, to date, been unwilling to pay. In connection with our agreements with our contracted attorneys, we advance certain out-of-pocket court costs (Deferred Court Costs). Deferred Court Costs represent amounts we believe we will recover from the obligors in addition to the amounts owed on their accounts. These court costs may bedifficult to collect, and we may not be successful in collecting amounts sufficient to cover the amounts deferred in our financial statements. If we are not able to recover these court costs, this may materially and adversely affect our financial condition.

Our industry is highly competitive, and we may be unable to continue to compete successfully with businesses that may have greater resources than we have.

We face competition from a wide range of collection and financial services companies that may have substantially greater financial, personnel and other resources, greater adaptability to changing market needs and more established relationships in our industry than we currently have. We also compete with traditional contingency collection agencies and in-house recovery departments. Competitive pressures adversely affect the availability and pricing of charged-off receivable portfolios, as well as the availability and cost of qualified recovery personnel. Because there are few significant barriers to entry for new purchasers of charged-off receivable portfolios, there is a risk that additional competitors with greater resources than ours, including competitors that have historically focused on the acquisition of different asset types, will enter our market. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors, we may experience reduced access to charged-off receivable portfolios at acceptable prices, which could reduce our profitability.

Moreover, we cannot assure you that we will be able to offer competitive bids for charged-off receivable portfolios. We face bidding competition in our acquisition of charged-off receivable portfolios. In our industry, successful bids generally are awarded on a combination of price, service and relationships with the debt sellers. Some of our current and future competitors may have more effective pricing and collection models, greater adaptability to changing market needs and more established relationships in our industry. They also may pay prices for portfolios that we determine are not reasonable. We cannot assurethat we will be able to offer competitive bids for charged-off consumer receivable portfolios. In addition, there continues to be consolidation of issuers of credit cards, which have been a principal source of receivable purchases. This consolidation has limited the number of sellers in the market and has correspondingly given the remaining sellers increasing market strength in the price and terms of the sale of credit card accounts.

In addition, we believe that issuers of credit cards are increasingly using outsourced, off-shore alternatives in connection with their collection of delinquent accounts in an effort to reduce costs. If these off-shore efforts are successful, these issuers may decrease the number of portfolios available for sale and increase the purchase price for portfolios available for sale.

Our failure to purchase sufficient quantities of receivable portfolios may necessitate workforce reductions, which may harm our business.

Because fixed costs, such as certain personnel costs and lease or other facilities costs, constitute a significant portion of our overhead, we may be required to reduce the number of employees in our collection operations if we do not continually augment the receivable portfolios we service with additional receivable portfolios or collect sufficient amounts on receivables owned or serviced by us. Reducing the number of employees can affect our business adversely and lead to:

- lower employee morale, higher employee attrition rates, fewer experienced employees and higher recruiting and training costs;
- disruptions in our operations and loss of efficiency in collection functions; and
- excess costs associated with unused space in collection facilities.

A significant portion of our portfolio purchases during any period may be concentrated with a small number of sellers.

We expect that a significant percentage of our portfolio purchases for any given fiscal year may be concentrated with a few large sellers, some of which also may involve forward flow arrangements. We cannot be certain that any of our significant sellers will continue to sell charged-off receivables to us on terms or in quantities acceptable to us, or that we would be able to replace such purchases with purchases from other sellers.

A significant decrease in the volume of purchases from any of our principal sellers would force us to seek alternative sources of charged-off receivables. We may be unable to find alternative sources from which to purchase charged-off receivables, and even if we could successfully replace such purchases, the search could take time, the receivables could be of lower quality, cost more, or both, any of which could materially adversely affect our financial performance.

We may be unable to meet our future liquidity requirements.

We depend on both internal and external sources of financing to fund our purchases of receivable portfolios and our operations. Our need for additional financing and capital resources increases dramatically as our business grows. Our inability to obtain financing and capital as needed or on terms acceptable to us would limit our ability to acquire additional receivable portfolios and to operate our business.

We may not be able to continue to satisfy the restrictive covenants in our debt agreements.

All of our receivable portfolios are pledged to secure amounts owed to our lenders. Our debt agreement imposes a number of restrictive covenants on how we operate our business. Failure to satisfy any one of these covenants could result in all or any of the following consequences, each of which could have a materially adverse effect on our ability to conduct business:

- acceleration of outstanding indebtedness;
- our inability to continue to purchase receivables needed to operate our business; or
- our inability to secure alternative financing on favorable terms, if at all.

We use estimates in our revenue recognition and our earnings will be reduced if actual results are less than estimated.

We utilize the interest method to determine revenue recognized on substantially all of our receivable portfolios. Under this method, each pool of receivables is modeled based upon its projected cash flows. A yield is then established which, when applied to the outstanding balance of the pool of receivables, results in the recognition of revenue at a constant yield relative to the remaining balance in the pool . The actual amount recovered by us may substantially differ from our projections and may be lower than initially projected. If differences are material, we may take an impairment charge on all or on a portion of our investment, which would negatively affect our earnings.

We may incur impairment charges based on the provisions of American Institute of Certified Public Accountants Statement of Position 03-03.

In October 2003, the American Institute of Certified Public Accountants, or AICPA, issued Statement of Position, or SOP, 03-03, *Accounting for Loans or Certain Securities Acquired in a Transfer*. The SOP provides guidance on accounting for differences between contractual and expected cash flows from an investor s initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The SOP is effective for receivable portfolios acquired in fiscal years beginning after December 15, 2004 and was adopted by us on January 1, 2005. The SOP limits the revenue that may be accrued to the excess of the estimate of expected future cash flows over a portfolio s initial cost of accounts receivable acquired. The SOP requires that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of revenue, expense, or on the balance sheet. The SOP freezes the internal rate of return (IRR) originally estimated when the accounts receivable are purchased for subsequent impairment testing. Rather than lower the estimated IRR if the expected future cash flow estimates are decreased, the carrying value of our receivable portfolios would be written down to maintain the then-current IRR. The SOP also amends AICPA Practice Bulletin 6 in a similar manner and applies to all loans acquired prior to January 1, 2005. Increases in expected future cash flows would be recognized prospectively through an upward adjustment of the IRR over a portfolio s remaining life. Any increased yield then becomes the new benchmark for impairment testing. The SOP provides that previously issued annual financial statements do not need to be restated. Historically, as we have applied the guidance of AICPA Practice Bulletin 6, we have moved yields upward and downward, as appropriate under that guidance. However, since the SOP guidance does not permit yields to be lowered, there is an increased probability of our having to incur impairment charges in the future, which would negatively impact our profitability.

Government regulation may limit our ability to recover and enforce the collection of receivables.

Federal and state laws and regulations may limit our ability to recover and enforce the collection of receivables regardless of any act or omission on our part. Laws relating to debt collections also directly apply to our business. Additional consumer protection or privacy laws and regulations may be enacted that impose additional restrictions on the collection of receivables. Such new laws may materially adversely affect our ability to collect on our receivables, which could materially and adversely affect our earnings. Our failure or the failure of third party agencies and attorneys or the originators of our receivables to comply with existing or new laws, rules or regulations could limit our ability to recover on receivables or cause us to pay damages to the original debtors, which could reduce our revenues and harm our business.

Some laws and regulations applicable to credit card issuers or other debt originators may preclude us from collecting on receivables we purchase where the card issuer or originator failed to comply with applicable federal or state laws in generating or servicing the receivables that we have acquired. Because our receivables generally are originated and serviced nationwide, we cannot assure that the originating lenders have complied with applicable laws and regulations. While receivable acquisition contracts typically contain provisions indemnifying us for losses owing to the originating institution s failure to comply with applicable laws and other events, we cannot assure that any indemnities received from originating institutions will be adequate to protect us from losses on the receivables or liabilities to customers.

We purchase accounts in asset classes that are subject to industry-specific restrictions that limit the collections methods that we can use on those accounts. Our inability to collect sufficient amounts from these accounts through available collections methods could materially and adversely affect our financial performance.

Failure to comply with government regulation could result in the suspension or termination of our ability to conduct business.

The collections industry is regulated under various federal and state laws and regulations. Many states and several cities require that we be licensed as a debt collection company. The Federal Trade Commission, state Attorneys General and other regulatory bodies have the authority to investigate consumer complaints against debt collection companies and to recommend enforcement actions and seek monetary penalties. If we fail to comply with applicable laws and regulations, it could result in the suspension or termination of our ability to conduct collection operations, which would materially adversely affect us. In addition, new federal, state or local laws or regulations, or changes in the ways these rules or laws are interpreted or enforced, could limit our activities in the future or significantly increase the cost of regulatory compliance.

We rely on the court system for a significant portion of our collections.

We generate a significant portion of our revenue by collecting on judgments that are granted by courts in lawsuits filed against debtors. A decrease in the willingness of courts to grant such judgments or a change in the requirements for filing such cases or obtaining such judgments could have a material adverse effect on our operations and financial results.

We are subject to ongoing risks of litigation, including individual and class actions under consumer credit, collections, employment, securities and other laws.

We operate in an extremely litigious climate and currently are, and may in the future, be named as defendants in litigation, including individual and class actions under consumer credit, collections, employment, securities and other laws.

In the past, securities class-action litigation has often been filed against a company after a period of volatility in the market price of its stock. Our industry experiences a high volume of litigation, and legal precedents have not been clearly established in many areas applicable to our business. Additionally, employment-related litigation is increasing throughout the country. Defending a lawsuit, regardless of its merit, could be costly and divert management s attention from the operation of our business. Damage awards or settlements could be significant. The use of certain collection strategies could be restricted if class-action plaintiffs were to prevail in their claims. All of these factors could have an adverse effect on our consolidated financial condition and results of operations.

We may make acquisitions that prove unsuccessful or strain or divert our resources.

From time to time, we consider acquisitions of other companies that could complement our business, including the acquisition of entities in diverse geographic regions and entities offering greater access to businesses and markets that we do not currently serve. For instance, during 2005 we aquired Ascension Capital Group and certain assets of Jefferson Capital. See Note 2 to the consolidated financial statements for a further discussion of Acquisition of Businesses. We may not be able to successfully acquire other businesses or, if we do, the acquisition may be unprofitable. In addition, we may not successfully operate the businesses, or may not successfully integrate such businesses with our own, which may result in our inability to maintain our goals, objectives, standards, controls, policies or culture. In addition, through acquisitions, we may enter markets in which we have limited or no experience. The occurrence of one or more of these events may place additional constraints on our resources such as diverting the attention of our management from other business concerns, which can materially adversely affect our operations and financial condition. Moreover, any acquisition may result in a potentially dilutive issuance of equity securities, incurrence of additional debt and amortization of identifiable intangible assets, all of which could reduce our profitability.

We are dependent on our management team for the adoption and implementation of our strategies and the loss of their services could have a material adverse effect on our business.

Our management team has considerable experience in finance, banking, consumer collections and other industries. We believe that the expertise of our executives obtained by managing businesses across numerous other industries has been critical to the enhancement of our operations. Our management team has created a culture of new ideas and progressive thinking, coupled with increased use of technology and statistical analysis. The loss of the services of one or more of our key executive officers could disrupt our operations and seriously impair our ability to continue to acquire or collect on portfolios of charged-off consumer receivables and to manage and expand our business. Our success depends on the continued service and performance of our management team, and we cannot guarantee that we will be able to retain such individuals.

We may not be able to hire and retain enough sufficiently trained employees to support our operations, and/or we may experience high rates of personnel turnover.

Our industry is very labor-intensive, and companies in our industry typically experience a high rate of employee turnover. We generally compete for qualified collections personnel with companies in our business and in the collection agency, teleservices and telemarketing industries and we compete for qualified non-collections personnel with companies in many industries. We will not be able to service our receivables effectively, continue our growth or operate profitably if we cannot hire and retain qualified collection personnel. Further, high turnover rate among our employees increases our recruiting and training costs and may limit the number of experienced collection personnel available to service our receivables. Our newer employees tend to be less productive and generally produce the greatest rate of personnel turnover. If the turnover rate among our employees increases, we will have fewer experienced employees available to service our receivables, which could reduce collections and therefore result in lower revenues and earnings.

Exposure to regulatory and economic conditions in India exposes us to risks or loss of business.

A significant element of our business strategy is to continue to develop and expand offshore operations in India. While wage costs in India are significantly lower than in the U.S. and other industrialized countries for comparably skilled workers, wages in India are increasing at a faster rate than in the U.S., and we experience higher employee turnover in our India site. The continuation of these trends could result in the loss of the cost savings we sought to achieve by moving a portion of our collection operations to India. In the past, India has experienced significant inflation and shortages of foreign exchange, and has been subject to civil unrest. We may be adversely affected by changes in inflation, exchange rate fluctuations, interest rates, tax provisions, social stability or other political, economic or diplomatic developments in or affecting India in the future. In addition, the infrastructure of the Indian economy is relatively poor. Further, the Indian government is significantly involved in and exerts considerable influence over its economy through its complicated tax code and pervasive bureaucracy. In the recent past, the Indian government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in certain sectors of the economy, including the technology industry. Changes in the business or regulatory climate of India could have a material adverse effect on our business, results of operations and financial condition.

India has also experienced persistent though declining mass poverty, civil unrest and terrorism and has been involved in conflicts with neighboring countries. In recent years, there have been military confrontations between India and Pakistan that have occurred in the region of Kashmir and along the Indian-Pakistan border. The potential for hostilities between the two countries has been high in light of tensions related to recent terrorist incidents in India and the unsettled nature of the regional geopolitical environment, including events in and related to Afghanistan and Iraq. Additionally, India s recent nuclear activity could expose it to increased political scrutiny, exclusion, or sanctions. Changes in the political stability of India could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to manage our growth effectively.

We have expanded significantly in recent years. However, future growth will place additional demands on our resources, and we cannot be sure that we will be able to manage our growth effectively. Continued growth could place a strain on our management, operations and financial resources. We cannot assure you that our infrastructure, facilities and personnel will be adequate to support our future operations or to effectively adapt to future growth. If we cannot manage our growth effectively, our results of operations may be materially adversely affected.

The failure of our technology and telecommunications systems could have an adverse effect on our operations.

Our success depends in large part on sophisticated computer and telecommunications systems. The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty, operating malfunction, software virus, or service provider failure, could disrupt our operations. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to properly bid on prospective acquisitions of receivable portfolios and to access, maintain and expand the databases we use for our collection activities. Any simultaneous failure of our information systems and their backup systems would interrupt our business operations.

Our business depends heavily on services provided by various local and long-distance telephone companies. A significant increase in telephone service costs or any significant interruption in telephone services could negatively affect our operating results or disrupt our operations.

We may not be able to successfully anticipate, invest in or adopt technological advances within our industry.

Our business relies on computer and telecommunications technologies, and our ability to integrate new technologies into our business is essential to our competitive position and our success. We may not be successful in anticipating, managing, or adopting technological changes on a timely basis. Computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles.

We are making significant modifications to our information systems to ensure that they continue to meet our current and foreseeable demands and continued expansion, and our future growth may require additional investment in these systems. These system modifications may exceed our cost or time estimates for completion or may be unsuccessful. If we cannot update our information systems effectively, our results of operations may be materially adversely affected.

We depend on having the capital resources necessary to invest in new technologies to acquire and service receivables. We cannot assure you that adequate capital resources will be available to us.

We may not be able to adequately protect the intellectual property rights upon which we rely.

We rely on proprietary software programs and valuation and collection processes and techniques, and we believe that these assets provide us with a competitive advantage. We consider our proprietary software, processes and techniques to be trade secrets, but they are not protected by patent or registered copyright. We may not be able to adequately protect our technology and data resources, which may materially diminish our competitive advantage.

Our results of operations may be materially adversely affected if bankruptcy filings increase or if bankruptcy or other debt collection laws change.

Our business model may be uniquely vulnerable to an economic recession which typically results in an increase in the amount of defaulted consumer receivables, thereby contributing to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings, a debtor s assets are sold to repay credit originators, with priority given to holders of secured debt. Since the defaulted consumer receivables we often purchase are generally unsecured, we often would not be able to collect on those receivables. In addition, since we purchase receivables that are seriously delinquent, this is often an indication that many of the consumer debtors from whom we collect would be unable to service their debts going forward and are more likely to file for bankruptcy in an economic recession. We cannot assure you that our collection experience would not decline with an increase in bankruptcy filings. If our actual collection experience with respect to a defaulted consumer receivable portfolio is significantly lower than we projected when we purchased the portfolio, our earnings could be negatively affected.

In 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act (the Protection Act) was enacted which made significant changes in the treatment of consumer filers for bankruptcy protection. Since the Protection Act was enacted, the number of bankruptcy filings has decreased, and the volume of business at Ascension has decreased as a result. We cannot determine the impact of the Protection Act on the number of bankruptcy filings, on a prospective basis, and its impact on the collectability of consumer debt.

Item 1B Unresolved Staff Comments

None.

Item 2 Properties

At December 31, 2007, we occupied the indicated square footage in the leased facilities described below:

Location	Square Footage	Lease Expiration Date	Primary Use
San Diego, California	51,000	April 2015	Corporate headquarters, call center, and strategic outsourcing activities
Phoenix, Arizona	63,000	September 2008[1]	Call center
St. Cloud, Minnesota	43,000	June 2008[2]	Call center
Arlington, Texas	28,600	December 2010	Bankruptcy servicing center
Gurgaon, India	29,000	November 2010	Call center

1 This lease expires in September 2008 and we are currently renegotiating the lease to reduce the leased premises to 33,000 square feet at the same location.

2 This lease expires in June 2008 and we are currently renegotiating the lease to increase the leased premises to 49,000 square feet at the same location. We anticipate the new lease will have a five-year term expiring in June 2013.

We believe that our leased facilities are generally well maintained and in good operating condition. We believe that these facilities are suitable and sufficient for our present operation needs.

Item 3 Legal Proceedings

On October 18, 2004, Timothy W. Moser, one of our former officers, filed an action in the United States District Court for the Southern District of California against us, and certain individuals, including several of our officers and directors. On February 14, 2005, we were served with an amended complaint in this action alleging defamation, intentional interference with contractual relations, breach of contract, breach of the covenant of good faith and fair dealing, intentional and negligent infliction of emotional distress and civil conspiracy arising out of certain statements in our Registration Statement on Form S-1 originally filed in September 2003 and alleged to be included in our Registration Statement on Form S-3 originally filed in May 2004. The amended complaint seeks injunctive relief, economic and punitive damages in an unspecified amount plus an award of profits allegedly earned by the defendants and alleged co-conspirators as a result of the alleged conduct, in addition to attorney s fees and costs. On May 2, 2006, the court denied our special motion to strike pursuant to California s anti-SLAPP statute, denied in part and granted in part our motion to dismiss, denied a variety of *ex parte* motions and applications filed by the plaintiff and denied the plaintiff s motion for leave to conduct discovery or file supplemental briefing. The court granted the plaintiff 30 days in which to further amend his complaint, and on September 1, 2006, the plaintiff filed a second amended complaint in which he amended his claim for negligent infliction of emotional distress. On May 25, 2006, we filed a notice of appeal of the court s order denying the anti-SLAPP motion, which is pending. On September 16, 2006, we filed a motion to stay the case pending the outcome of the appeal. This motion was granted on March 27, 2007. On April 9, 2007, the plaintiff filed a motion requesting an accelerated early neutral evaluation conference, which the court denied on April 16, 2007. Our management believes the claims are without merit and intends to vigorously defend the action. Although the outcome of this matter cannot be predicted with certainty, management does not currently believe that this matter will have a material adverse effect on our consolidated financial position or results of operations.

On September 7, 2005, Mr. Moser filed a related action in the United States District Court for the Southern District of California against Triarc Companies, Inc. (Triarc), which at the time, was a significant stockholder of ours, alleging intentional interference with contractual relations and intentional infliction of emotional distress. The case arises out of the same statements made or alleged to have been made in our Registration Statements mentioned above. On January 7, 2006, Triarc was served with an amended complaint seeking injunctive relief, an order directing Triarc to issue a statement of retraction or correction of the allegedly false statements, economic and punitive damages in an unspecified amount and attorney s fees and costs. Triarc tendered the defense of this action to us, and we accepted the defense and will indemnify Triarc, pursuant to the indemnification provisions of the Registration Rights Agreements dated as of October 31, 2000 and February 21, 2002, and the Underwriting Agreements dated September 25, 2004 and January 20, 2005 to which Triarc is a party. Although the outcome of this matter cannot be predicted with certainty, management does not currently believe that this matter will have a material adverse effect on our consolidated financial position or results of operations.

Claims based on the Fair Debt Collection Practices Act (FDCPA) and comparable state statutes may result in class action lawsuits, which can be material to us due to the remedies available under these statutes, including punitive damages. A number of cases styled as class actions have been filed against us. To date, a class has been certified in several of these cases. Several of these cases present novel issues on which there is no legal precedent. As a result, we are unable to predict the range of possible outcomes. There are a number of other lawsuits or claims pending or threatened against us. In general, these lawsuits, claims and counterclaims have arisen in the ordinary course of business and involve claims for actual damages arising from alleged misconduct or improper reporting of credit information by our employees or us. Although litigation is inherently uncertain, based on past experience, established reserves, the information currently available and the possible availability of insurance and/or indemnification from originating institutions in some cases, our management does not believe that the currently pending and threatened litigation or claims will have a material adverse effect on our consolidated financial position or results of operations. However, future events or circumstances, currently unknown to management, will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on our consolidated financial position, liquidity or results of operations in any future reporting periods.

Item 4 Submission of Matters to a Vote of Security Holders

On October 30, 2007, we held our annual meeting of stockholders. At the annual meeting, J. Brandon Black, Carl C. Gregory, III, Timothy J. Hanford, George Lund, Richard A. Mandell, Willem Mesdag, John J. Oros, J. Christopher Teets and Warren Wilcox were elected to serve as directors. The votes for the election of directors are set forth below:

Name of Nominee	Votes For	Votes Withheld
J. Brandon Black	21,568,201	285,400
Carl C. Gregory, III	18,716,164	3,137,437
Timothy J. Hanford	21,512,917	340,684
George Lund	21,569,401	284,200
Richard A. Mandell	21,567,961	285,640
Willem Mesdag	21,567,461	286,140
John J. Oros	21,569,401	284,200
J. Christopher Teets	21,569,401	284,200
Warren Wilcox	21,569,401	284,200

At the annual meeting, the stockholders also approved Proposal 2, ratifying the appointment of BDO Seidman, LLP as our independent registered public accounting firm for fiscal year 2007. The votes for Proposal 2 were as follows:

Votes For	Votes Against	Abstentions	Broker Non-votes
21,797,958	52,242	3,400	0

PART II

Item 5 Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol ECPG.

The high and low sales prices of our common stock, as reported by NASDAQ Global Select Market for each quarter during our two most recent fiscal years, are reported below:

	Market Price	
	High	**Low**
Fiscal Year 2007		
First Quarter	$ 12.66	$ 9.24
Second Quarter	$ 12.64	$ 9.47
Third Quarter	$ 12.81	$ 9.34
Fourth Quarter	$ 12.23	$ 8.94
Fiscal Year 2006		
First Quarter	$ 19.07	$ 14.52
Second Quarter	$ 14.97	$ 8.87
Third Quarter	$ 13.25	$ 11.30
Fourth Quarter	$ 14.49	$ 12.33

The closing price of our common stock on February 5, 2008, was $7.67 per share and there were 125 holders of record, including 108 NASD registered broker/dealers.

The following Performance Graph and related information shall not be deemed soliciting material or filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph compares the total cumulative stockholder return on our common stock for the period December 31, 2002, through December 31, 2007, with the cumulative total return of (a) the NASDAQ Index and (b) Asset Acceptance Capital Corp. (following its initial public offering in January 2004), Asta Funding, Inc. and Portfolio Recovery Associates, Inc. (following its initial public offering in September 2002), which we believe are comparable companies. The comparison assumes that $100 was invested on December 31, 2002, in our common stock and in each of the comparison indices.

	12/02	12/03	12/04	12/05	12/06	12/07
Encore Capital Group, Inc.	$ 100.00	$ 1,372.73	$ 2,161.82	$ 1,577.27	$ 1,145.45	$ 880.00
NASDAQ Composite	$ 100.00	$ 149.75	$ 164.64	$ 168.60	$ 187.83	$ 205.22
Peer Group	$ 100.00	$ 171.83	$ 268.34	$ 288.19	$ 264.75	$ 216.47

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 Revolving Credit Facility, 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 the result of the dividend payment. We may also be subject to additional dividend restrictions under future financing facilities.

Item 6 Selected Financial Data

This table presents selected historical financial data of Encore and its consolidated subsidiaries. This information should be carefully considered in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. The selected data in this section are not intended to replace the consolidated financial statements. The selected financial data (except for Selected Operating Data) in the table below, as of December 31, 2005, 2004, and 2003 and for the years ended December 31, 2004 and 2003, were derived from our audited consolidated financial statements not included in this report. The selected financial data as of December 31, 2007, and 2006 and for the years ended December 31, 2007, 2006, and 2005, were derived from our audited consolidated financial statements included elsewhere in this report. The Selected Operating Data was derived from the books and records of the Company. (in thousands, except per share, and personnel data):

	As of and For The Years Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Revenues					
Revenue from receivable portfolios, net[1]	$ 241,402	$ 239,340	$ 215,931	$ 177,783	$ 115,882
Servicing fees and related revenues[2]	12,609	15,800	5,904	692	1,620
Total revenues	254,011	255,140	221,835	178,475	117,502
Operating expenses					
Salaries and employee benefits	64,153	63,962	52,410	47,193	39,286
Stock-based compensation expense	4,287	5,669			
Cost of legal collections	78,636	52,079	35,090	28,202	15,827
Other operating expenses	21,533	22,585	16,973	13,645	11,335
Collection agency commissions	12,411	18,030	17,287	4,786	
General and administrative expenses	17,478	17,310	13,375	9,212	6,509
Depreciation and amortization	3,351	3,894	2,686	1,951	2,023
Total operating expenses	201,849	183,529	137,821	104,989	74,980
Income before other (expense) income and income taxes	52,162	71,611	84,014	73,486	42,522
Other (expense) income					
Interest expense	(13,904)	(12,512)	(9,530)	(3,069)	(4,456)
Contingent interest expense	(4,123)	(18,520)	(23,187)	(32,261)	(16,023)
Pay-off of future contingent interest	(11,733)				
Other income, net	1,071	609	929	690	7,380[3]
Total other expense	(28,689)	(30,423)	(31,788)	(34,640)	(13,099)
Income before income taxes	23,473	41,188	52,226	38,846	29,423
Provision for income taxes	(8,431)	(17,180)	(21,135)	(15,670)	(11,003)
Net income	15,042	24,008	31,091	23,176	18,420
Preferred stock dividends					(374)
Net income available to common stockholders	$ 15,042	$ 24,008	$ 31,091	$ 23,176	$ 18,046
Earnings per common share:					
Basic	$ 0.66	$ 1.06	$ 1.39	$ 1.05	$ 1.65
Diluted	$ 0.64	$ 1.03	$ 1.30	$ 0.99	$ 0.88

	As of and For The Years Ended December 31,				
	2007	2006	2005	2004	2003
Weighted-average shares outstanding:					
Basic	22,876	22,754	22,299	22,072	10,965
Diluted	23,386	23,390	23,998	23,481	20,873
Cash flow data:					
Cash flows provided by (used in):					
Operating activities	$ 15,834	$ 38,027	$ 31,226	$ 36,412	$ 33,971
Investing activities	$ (95,059)	$ (37,190)	$ (144,344)	$ (90,157)	$ (19,472)
Financing activities	$ 73,334	$ 2,928	$ 110,413	$ 24,864	$ 23,361
Selected operating data:					
Purchases of receivable portfolios, at cost[4]	$ 208,953	$ 144,287	$ 195,554	$ 103,374	$ 89,834
Gross collections for the period	$ 355,193	$ 337,097	$ 292,163	$ 234,676	$ 190,519
Average active employees for the period[5]	907	858	739	728	679
Gross collections per average active employee for the period	$ 392	$ 393	$ 395	$ 322	$ 281
Consolidated statements of financial condition data:					
Cash and marketable securities	$ 4,900	$ 10,791	$ 7,026	$ 49,731	$ 38,612
Restricted cash	3,776	4,660	4,212	3,432	842
Investment in receivable portfolios, net	392,209	300,348	256,333	137,963	89,136
Investment in retained interest					1,231
Total assets	483,495	395,338	368,445	201,142	138,285
Accrued profit sharing arrangement		6,869	16,528	20,881	12,749
Total debt	272,420	200,132	198,121	66,828	41,638
Total liabilities	311,975	244,202	250,093	105,127	66,914
Total stockholders equity	$ 171,520	$ 151,136	$ 118,352	$ 96,015	$ 71,371

(1) Includes net impairments of $11.2 million for the year ended December 31, 2007, $1.4 million for the year ended December 31, 2006, and $3.1 million for the year ended December 31, 2005. Also includes gains from whole portfolio sales totaling $0.3 million for the year ended December 31, 2003.

(2) Includes $12.5 million, $15.7 million and $5.5 million in revenues from Ascension Capital Group for the years ending December 31, 2007, 2006 and 2005, respectively.

(3) Reflects a non-recurring net pre-tax gain totaling $7.2 million, recognized in the first quarter of 2003 upon settlement of a lawsuit against the seller of certain accounts. This resulted in an after tax net gain of $4.4 million or $0.21 per share on a fully diluted basis.

(4) Purchase price includes an $11.7 million, $10.6 million and $4.3 million allocation of the forward flow asset for 2007, 2006 and 2005, respectively. See Note 2 to the consolidated financial statements for a further discussion of our forward flow asset.

(5) Excludes employees of Ascension Capital Group, which average approximately 133, 184, and 198, for the years ended December 31, 2007, 2006, and 2005, respectively.

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

We are a systems-driven purchaser and manager of charged-off consumer receivable portfolios and a provider of bankruptcy services to the finance industry. We acquire receivable portfolios at deep discounts from their face values using our proprietary valuation process that is based on the consumer attributes of the underlying accounts. Based upon the ongoing analysis of these accounts, we employ a dynamic mix of collection strategies to maximize our return on investment.

Contingent Interest Pay-off

On May 7, 2007, we entered into an agreement with the lender under our Secured Financing Facility to eliminate all future contingent interest payments, for a one-time payment of $16.9 million. This agreement released the lender s security interests in the remaining receivables originally financed under the Secured Financing Facility. This payment, less $5.2 million accrued on our balance sheet ($11.7 million, or $6.9 million after the effect of income taxes), is included in total other expense in our statements of operations for the year ended December 31, 2007. The charge reduced earnings per share by approximately $0.30 for the year ended December 31, 2007. Subsequent to the second quarter of 2007, we were no longer obligated to make any contingent interest payments under the Secured Financing Facility and as a result, no longer record such interest in our statements of operations.

Cost Savings Initiatives

In September 2007, we announced certain cost savings initiatives aimed at reducing our overall operating expenses. These initiatives included reducing our workforce by 115 people and exiting from our healthcare purchasing and collection activities. The reduction in workforce comprised 70 people at our call center in Phoenix, Arizona, 30 people at our bankruptcy servicing center in Arlington, Texas and 15 people at our corporate headquarters in San Diego, California.

The cost associated with exiting our healthcare purchasing and collection activities was approximately $1.7 million, including a charge of $1.4 million related to the impairment of our healthcare receivable portfolios and $0.3 million of salaries and benefits, primarily severance payments, for our healthcare purchasing and collection employees.

Additionally, we recorded a one-time charge of approximately $1.1 million in the third quarter of 2007 related to our reduction in workforce. This one-time charge is composed primarily of severance payments for our former employees.

Acquisition of outstanding membership interest in India operation

We have experienced tremendous growth in our India operation since its inception in the fourth quarter of 2005. Our India operation has become an integral part of our organizational strategy. On October 30, 2007, we entered into a membership interest purchase agreement with our then joint venture partner, to acquire its 49% ownership interest in our India operation. As a result, on October 30, 2007, we acquired full ownership of our India site. The total purchase price was $2.3 million in cash. Prior to the acquisition, our India site was determined to be a variable interest entity, subject to the provisions of Interpretation No. 46, (revised December 2003), *Consolidation of Variable Interest Entities,* and was already included in our consolidated financial statements. The entire purchase price of $2.3 million was allocated to goodwill. See Note 2 to the consolidated financial statements for additional information related to the acquisition.

Amendments of Revolving Credit Facility

During 2005, we entered into a three-year revolving credit facility (Revolving Credit Facility), to be used for the purposes of purchasing receivable portfolios and for general working capital needs. This Revolving Credit Facility has been amended several times to meet our needs. We entered into four amendments to our Revolving Credit Facility during the year ended December 31, 2007. The most significant of these amendments was entered into and effective on December 27, 2007, to increase the borrowing base of our Revolving Credit Facility. The amendment expands the size of the facility to $230 million, with an accordion feature that provides for an additional $70 million in availability under certain circumstances. As a result, the allocated revolving loan commitments of each of the lenders under the facility has been increased as stated in the amendment. See Note 8 to the consolidated financial statements for a further discussion of our debt and amendments to our Revolving Credit Facility.

Purchases and Collections

Purchases by Paper Type

The following table summarizes the types of charged-off consumer receivables portfolios we have purchased for the periods presented *(in thousands):*

	Years Ended December 31,		
	2007	**2006**	**2005**
Credit card	$ 188,207	$ 66,657	$ 176,379
Other	20,746	77,630	19,175
Total purchases	$ 208,953	$ 144,287	$ 195,554

Collections by Channel

During 2007, 2006 and 2005, we utilized numerous business channels for the collection of charged-off credit cards and other receivables. The following table summarizes the gross collections by collection channel *(in thousands)*:

	Years Ended December 31,		
	2007	**2006**	**2005**
Collection sites[(1)]	$ 126,093	$ 129,009	$ 127,980
Legal collections	169,005	118,712	88,144
Collection agencies[(1)]	33,325	49,696	44,384
Sales	24,001	34,035	26,739
Other	2,769	5,645	4,916
Gross collections	$ 355,193	$ 337,097	$ 292,163

(1) Collection agencies for the year ended December 31, 2005, includes collections made by the employees of Jefferson Capital through the end of the three-month transition services agreement, which expired in September 2005. Collections made by these employees subsequent to the expiration of the transition services agreement are included in collection sites. Collections by Jefferson Capital employees included in collection agencies were $3.4 million during the term of the transition services agreement.

Gross collections increased $18.1 million, or 5.4%, to $355.2 million during the year ended December 31, 2007, from $337.1 million during the year ended December 31, 2006.

Gross collections increased $44.9 million, or 15.4%, to $337.1 million during the year ended December 31, 2006, from $292.2 million during the year ended December 31, 2005.

Results of Operations

Results of operations in dollars and as a percentage of total revenue were as follows *(in thousands, except percentages)*:

	2007		2006		2005	
Revenues						
Revenue from receivable portfolios, net	$ 241,402	95.0%	$ 239,340	93.8%	$ 215,931	97.3%
Servicing fees and other related revenue	12,609	5.0%	15,800	6.2%	5,904	2.7%
Total revenues	254,011	100.0%	255,140	100.0%	221,835	100.0%
Operating expenses						
Salaries and employee benefits	64,153	25.2%	63,962	25.0%	52,410	23.6%
Stock-based compensation expense	4,287	1.7%	5,669	2.2%		
Cost of legal collections	78,636	31.0%	52,079	20.4%	35,090	15.8%
Other operating expenses	21,533	8.5%	22,585	8.9%	16,973	7.7%
Collection agency commissions	12,411	4.9%	18,030	7.1%	17,287	7.8%
General and administrative expenses	17,478	6.9%	17,310	6.8%	13,375	6.0%
Depreciation and amortization	3,351	1.3%	3,894	1.5%	2,686	1.2%
Total operating expenses	201,849	79.5%	183,529	71.9%	137,821	62.1%
Income before other (expense) income and income taxes	52,162	20.5%	71,611	28.1%	84,014	37.9%
Other (expense) income						
Interest expense	(13,904)	(5.5)%	(12,512)	(4.9)%	(9,530)	(4.3)%
Contingent interest expense	(4,123)	(1.6)%	(18,520)	(7.3)%	(23,187)	(10.5)%
Pay-off of future contingent interest	(11,733)	(4.6)%				
Other income	1,071	0.4%	609	0.2%	929	0.4%
Total other expense	(28,689)	(11.3)%	(30,423)	(12.0)%	(31,788)	(14.4)%
Income before income taxes	23,473	9.2%	41,188	16.1%	52,226	23.5%
Provision for income taxes	(8,431)	(3.3)%	(17,180)	(6.7)%	(21,135)	(9.5)%
Net income	$ 15,042	5.9%	$ 24,008	9.4%	$ 31,091	14.0%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenue

Our revenue consists primarily of portfolio revenue and bankruptcy servicing revenue. Portfolio revenue consists of accretion revenue and zero basis revenue. Accretion revenue represents revenue derived from pools (quarterly groupings of purchased receivable portfolios) with a cost basis that has not been fully amortized. Revenue from pools with a remaining unamortized cost basis is accrued based on each pool s effective interest rate applied to each pool s remaining unamortized cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and impairments. The effective interest rate is the internal rate of return derived from the timing and amounts of actual cash received and anticipated future cash flow projections for each pool. All collections realized after the net book value of a portfolio has been fully recovered (Zero Basis Portfolios) are recorded as revenue (Zero Basis Revenue). We account for our investment in receivable portfolios utilizing the interest method in accordance with the provisions of the AICPA s Statement of Position 03-03, *Accounting for Certain Debt Securities Acquired in a Transfer* (SOP 03-03). Servicing fee revenue is revenue primarily associated with bankruptcy servicing fees earned from our subsidiary, Ascension Capital Group, Inc. (Ascension), a provider of bankruptcy services to the finance industry.

The following tables summarize collections, revenue, end of period receivable balance and other related supplemental data by year of purchase (*in thousands, except percentages*):

	For the Year Ended December 31, 2007					As of December 31, 2007	
	Collections[1]	Net Revenue	Revenue Recognition Rate	% of Total Revenue	Net Impairment	Unamortized Balance	Monthly IRR
ZBA[2]	$ 15,164	$ 15,164	100.0%	6.3%	$	$	
2002	10,216	8,476	83.0%	3.5%	(699)	1,823	26.3%
2003	26,605	22,130	83.2%	9.2%	(2,485)	4,417	30.7%
2004	34,626	22,231	64.2%	9.2%	(3,861)	20,721	8.0%
2005	107,800	67,733	62.8%	28.1%	(2,466)	87,350	5.6%
2006	92,265	62,010	67.2%	25.6%	(1,563)	95,739	4.9%
2007	68,048	43,658	64.2%	18.1%	(156)	182,159	4.3%
Total	$ 354,724	$ 241,402	68.1%	100.0%	$ (11,230)	$ 392,209	5.4%

	For the Year Ended December 31, 2006					As of December 31, 2006	
	Collections[1]	Net Revenue	Revenue Recognition Rate	% of Total Revenue	Net (Impairment) Reversal	Unamortized Balance	Monthly IRR
ZBA[2]	$ 28,588	$ 28,588	100.0%	11.9%	$	$	
2001	2,766	1,263	45.7%	0.5%	135		19.4%
2002	24,185	17,578	72.7%	7.3%	(799)	3,566	22.3%
2003	55,093	44,310	80.4%	18.5%	434	8,902	24.7%
2004	54,832	37,330	68.1%	15.6%	(648)	33,131	8.0%
2005	128,556	84,033	65.4%	35.2%	(471)	127,477	4.8%
2006	42,354	26,238	61.9%	11.0%	(30)	127,272	3.8%
Total	$ 336,374	$ 239,340	71.2%	100.0%	$ (1,379)	$ 300,348	5.5%

(1) Does not include amounts collected on behalf of others.

(2) Gross collections and revenue related to the retained interest are included in these tables.

Total revenue was $254.0 million for the year ended December 31, 2007, a decrease of $1.1 million, or 0.4%, compared to total revenue of $255.1 million for the year ended December 31, 2006. Revenue, excluding Ascension s bankruptcy servicing fees for 2007 and 2006 of $12.5 million and $15.7 million, respectively, increased $2.1 million, or 0.9%, to $241.5 million. The increase in portfolio revenue was primarily the result of additional accretion revenue associated with higher purchasing volumes in 2007 compared to 2006 and increased accretion revenue related to new operating initiatives. The increase in portfolio revenue was partially offset by a greater impairment on receivable portfolios, lower revenue recognition rates and a reduction in Zero Basis Revenue. During the year ended December 31, 2007, we recorded a net impairment provision of $11.2 million, including a $1.4 million impairment on our healthcare receivables in connection with exiting our healthcare purchasing and collecting activities, compared to a net impairment provision of $1.4 million in the prior year. The increase in the impairment provision in 2007, as compared to 2006, was primarily due to three factors. First, in the fourth quarter, we experienced a shortfall in collections against our forecast, a large percentage of which came from our older pool groups, which have very high monthly IRRs. Second, during the last two quarters of 2007, we experienced a trend in which a larger percentage of collections from our legal channel came from multi-payment settlements versus single-payment settlements. Given the high IRRs in our older pool groups, when payments are extended over a longer period of time and the cash flows are delayed, this generally results in an impairment provision, even if we receive the collections in the future. Despite this recent trend in the shift in payment types from single-payment settlements to multi-payment settlements in our legal channel, we have not experienced any material shifts in our overall payer rates or settlement rates. Finally, since it is reasonable to

assume that current economic conditions will have some negative impact on consumers willingness or ability to repay their accounts, we felt it was prudent to reduce some of our near-term forecasted collections, which resulted in an increase to the impairment provision. The lower revenue recognition rates were due to a greater portion of our collections coming from our 2004 to 2007 portfolio purchases that have lower revenue recognition rates than our 2003 and prior purchases, due to a more competitive pricing environment since 2004.

During the year ended December 31, 2007, $14.3 million (exclusive of $0.9 million of Zero Basis Revenue on the retained interest) was recognized as Zero Basis Revenue, a $13.0 million decrease from the $27.3 million (exclusive of $1.3 million of Zero Basis Revenue on the retained interest) recognized during the year ended December 31, 2006. The reduction in Zero Basis Revenue was primarily the result of the sale of certain receivables portfolios in 2006 from Zero Basis Portfolios and an expected reduction in collections from Zero Basis Portfolios. In 2006, we sold accounts amounting to approximately $1.9 billion in face value for $13.9 million. This sale resulted in additional Zero Basis Revenue of $3.4 million for the year ended December 31, 2006. Additionally, we expect the revenue from our Zero Basis Portfolios to decline in future quarters as collections from these portfolios diminish.

Revenue associated with bankruptcy servicing fees earned from Ascension, a provider of bankruptcy services to the finance industry, was $12.5 million for the year ended December 31, 2007, a decrease of $3.2 million, or 20.4%, compared to revenue of $15.7 million for the year ended December 31, 2006. The decrease in Ascension revenue was due to the high volume of bankruptcy placements in October 2005 just prior to the effective date of the Bankruptcy Reform Act (the Act). Consistent with our revenue recognition policy, the revenue associated with the significant number of Chapter 7 bankruptcy placements in October 2005 was recognized during the year ended December 31, 2006. We have experienced a significant decline in bankruptcy placements since the effective date of the Act. Although bankruptcy placements have not returned to the levels experienced prior to the Act, they have increased gradually from the low levels experienced in late 2005 and 2006.

During the year ended December 31, 2007, we invested $209.0 million to acquire portfolios with face values aggregating $6.9 billion, for an average purchase price of 3.0% of face value. This is a $64.7 million increase, or 44.8%, in the amount invested compared with the $144.3 million invested during the year ended December 31, 2006, to acquire portfolios with a face value aggregating $3.7 billion, for an average purchase price of 3.9% of face value.

Operating Expenses

Total operating expenses were $201.8 million for the year ended December 31, 2007, an increase of $18.3 million, or 10.0%, compared to total operating expenses of $183.5 million for the year ended December 31, 2006.

Operating expenses are explained in more detail as follows:

Salaries and employee benefits

Total salaries and employee benefits increased by $0.2 million, or 0.3%, to $64.2 million during the year ended December 31, 2007, from $64.0 million during the year ended December 31, 2006. The increase was primarily the result of a $1.6 million increase in severance expenses largely associated with the reduction in our workforce and the decision to exit our healthcare purchasing and collection activities, offset by decreases of $0.8 million in salary and wages, $0.2 million in bonuses, $0.2 million in payroll taxes and $0.2 million in health insurance costs due to reduced headcount as a result of the reduction in workforce in September 2007.

Stock-based compensation expenses

Stock-based compensation decreased by $1.4 million, or 24.4%, to $4.3 million during the year ended December 31, 2007, from $5.7 million during the year ended December 31, 2006. This decrease was primarily the result of a reduction of approximately $0.4 million of expenses related to changes in assumptions used in calculating our stock-based compensation, a reduction in expense of $1.5 million resulting from forfeited shares and a reduction in expense of $0.5 million resulting from stock options fully vested during the year ended December 31, 2007, offset by additional expenses of $1.0 million associated with new equity grants issued during the year ended December 31, 2007 and $0.1 million associated with a modification of certain stock options.

Cost of legal collections

The cost of legal collections increased $26.5 million, or 51.0%, to $78.6 million during the year ended December 31, 2007, as compared to $52.1 million during the year ended December 31, 2006. These costs represent contingent fees paid to our nationwide network of attorneys and costs of litigation. The increase in contingent fees was primarily the result of an increase of $50.3 million, or 42.4%, in gross collections through our legal channel. Gross legal collections amounted to $169.0 million during the year ended December 31, 2007, compared to $118.7 million collected during the year ended December 31, 2006. The cost of legal collections increased as a percent of gross collections through this channel to 46.5% during the year ended December 31, 2007, from 43.9% during the year ended December 31, 2006, primarily as a result of increased upfront court costs expensed associated with our pursuit of legal collections. Upfront court costs expensed were $28.0 million for the year ended December 31, 2007, including a reduction in expense of $0.8 million in connection with a change in our expected recovery rate. Upfront court costs expensed were $15.5 million for the year ended December 31, 2006. See Legal Outsourcing Collections and Related Costs under Supplemental Performance Data for further discussion of cost of legal collections.

Other operating expenses

Other operating expenses decreased $1.1 million, or 4.7%, to $21.5 million during the year ended December 31, 2007, from $22.6 million during the year ended December 31, 2006. This decrease was primarily the result of a decrease in Ascension s legal expense, a decrease in the amortization of a previously acquired deferred revenue asset, a decrease in skiptracing expenses, and a decrease in recruiting expenses, offset by an increase in the number of direct mail campaigns and its related expense. Ascension s legal expense decreased $0.9 million, or 37.4%, to $1.6 million during the year ended December 31, 2007. Amortization of a previously acquired deferred revenue asset decreased $0.9 million, or 48.9%, to $1.0 million during the year ended December 31, 2007. Skiptracing expenses decreased $0.4 million, or 22.0%, to $1.4 million during the year ended December 31, 2007. Recruiting expenses decreased $0.9 million, or 55.5%, to $0.7 million during the year ended December 31, 2007. The cost of direct mail campaigns increased $2.1 million, or 28.0%, to $9.6 million during the year ended December 31, 2007, compared to $7.5 million during year ended December 31, 2006.

Collection agency commissions

During the year ended December 31, 2007, we paid $12.4 million in commissions to third party collection agencies, or 37.2% of the related gross collections of $33.3 million, compared to $18.0 million in commissions, or 36.3% of the related gross collections of $49.7 million, during the year ended December 31, 2006. The decrease in commissions is consistent with the decrease in collections through this channel. The increase in commission rate as a percentage of the related gross collection is primarily the result of the mix of accounts placed with the agencies. Commissions, as a percentage of collections in this channel, vary from period to period depending on, among other things, the time from charge-off of the accounts placed with an agency. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time.

General and administrative expenses

General and administrative expenses increased $0.2 million, or 1.0%, to $17.5 million during the year ended December 31, 2007, from $17.3 million during the year ended December 31, 2006. The increase was primarily the result of approximately $0.5 million of increased accounting and consulting service fees related to the filing of our 1999-2005 state tax returns, a $1.4 million net increase in general corporate expenses and $0.7 million of increased building rent, offset by a $1.3 million decrease in costs associated with the strategic alternatives process, and a $1.1 million decrease in litigation settlement costs.

Depreciation and amortization

Depreciation and amortization expense decreased $0.5 million, or 13.9%, to $3.4 million during the year ended December 31, 2007, from $3.9 million during the year ended December 31, 2006. Depreciation expense remained consistent at $2.3 million during the years ended December 31, 2007 and 2006. Amortization expense relating to intangible assets acquired in conjunction with the acquisition of Ascension in the third quarter of 2005 was $1.1 million for the year ended December 31, 2007, compared to $1.6 million for the year ended December 31, 2006.

Interest expense

Interest expense decreased $1.2 million, or 4.1%, to $29.8 million during the year ended December 31, 2007, from $31.0 million during the year ended December 31, 2006.

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

	For the Years Ended December 31,			
	2007	2006	$ Change	% Change
Stated interest on debt obligations	$ 12,401	$ 10,637	$ 1,764	16.6%
Amortization of loan fees and other loan costs	1,503	1,875	(372)	(19.8)%
Subtotal	13,904	12,512	1,392	11.1%
Contingent interest	4,123	18,520	(14,397)	(77.7)%