ENCORE CAPITAL GROUP INC
Form DEF 14A
April 26, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

| | | | |
|---|---|---|---|
| ¨ | Preliminary proxy statement | ¨ | **Confidential, for Use of the Commission** |
| x | Definitive proxy statement | | **Only (as permitted by Rule 14a-6(e)(2))** |
| ¨ | Definitive Additional Materials | | |
| ¨ | Soliciting Material Pursuant to §240.14a-12 | | |

# ENCORE CAPITAL GROUP, INC.

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

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**ENCORE CAPITAL GROUP, INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON JUNE 5, 2013**

To Our Stockholders:

We cordially invite you to attend the 2013 annual meeting of stockholders of Encore Capital Group, Inc. Our annual meeting will be held at NASDAQ MarketSite, 4 Times Square, New York, New York 10036, on June 5, 2013, at 10:00 a.m. Eastern time. The annual meeting is being held for the following purposes:

1. To elect eight directors, each for a term of one year;

2. To approve the Encore Capital Group, Inc. 2013 Incentive Compensation Plan for employees, non-employee directors and independent contractors (the 2013 Plan );

3. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013; and

4. To transact such other business that may properly come before the meeting.

As resolved by our Board of Directors, stockholders of record at the close of business on April 12, 2013 are entitled to notice of and to vote at the annual meeting or any postponement or adjournment thereof.

We have enclosed a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which includes our audited consolidated financial statements.

This proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, are available at ***http://materials.proxyvote.com/292554***.

**Your vote is important. Whether or not you plan to attend the meeting in person, please submit your vote as soon as possible using one of the voting methods described in the attached materials. Submitting your voting instructions by any of these methods will not affect your right to attend the meeting and vote in person should you so choose.**

By Order of the Board of Directors,

J. Brandon Black

Chief Executive Officer

April 26, 2013

San Diego, California

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**ENCORE CAPITAL GROUP, INC.**

**3111 CAMINO DEL RIO NORTH, SUITE 1300**

**SAN DIEGO, CALIFORNIA 92108**

**(877) 445-4581**

**PROXY STATEMENT**

This proxy statement relates to the 2013 annual meeting of stockholders of Encore Capital Group, Inc. ( Encore or the Company ), to be held at NASDAQ MarketSite, 4 Times Square, New York, New York 10036, on June 5, 2013 at 10:00 a.m. Eastern time, or at such other time and place to which the annual meeting may be adjourned or postponed. The enclosed proxy is solicited by our Board of Directors (our Board ), and is first being mailed to stockholders entitled to vote at the meeting on or about April 26, 2013.

## QUESTIONS ABOUT THE MEETING

***What is the purpose of the annual meeting?***

At our annual meeting, stockholders will act upon the matters outlined in the accompanying notice of meeting, including (i) the election of eight directors, (ii) the approval of the 2013 Plan and (iii) the ratification of the selection of BDO USA, LLP as our independent registered public accounting firm. Our management will report on Encore s progress and respond to questions from stockholders. In addition, representatives of BDO USA, LLP will be given an opportunity to make a statement and to respond to questions regarding the audit of our consolidated financial statements.

***Who is entitled to vote?***

Only stockholders of record at the close of business on the record date, April 12, 2013, are entitled to receive notice of the annual meeting and to vote the shares that they held on that date at the meeting, or any postponement or adjournment of the meeting.

At the close of business on the record date, April 12, 2013, there were 23,336,320 outstanding shares of our common stock, each of which is entitled to cast one vote.

***Who can attend the meeting?***

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Others may attend the meeting at our discretion. If you have any questions or wish to obtain directions to attend the annual meeting and to vote in person, please call Encore s Investor Relations representative at (877) 445-4581.

***What constitutes a quorum?***

The presence at the meeting, in person or represented by proxy, of a majority of the outstanding shares entitled to vote on the record date will constitute a quorum, which will permit us to hold the annual meeting and conduct business. Proxies received but marked as abstentions, withheld votes and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting. Abstentions include shares present in person but not voting and shares represented by proxy but with respect to which the holder has abstained from voting.

Broker non-votes occur when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power on that item and has not received instructions from the beneficial owner.

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***How do I vote by proxy before the meeting?***

Before the meeting, you may vote your shares in one of the following three ways if your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company:

- By internet at ***www.proxyvote.com***;
- By telephone (from the United States and Canada only) at 1-800-690-6903; or
- By mail by completing, signing, dating and returning the enclosed proxy card in the postage paid envelope provided.

Please refer to the proxy card for further instructions on voting via the internet and by telephone.

Please follow the directions on your proxy card carefully. If your shares are held in a brokerage account in the name of a bank, broker or other nominee (this is called street name ), then you are the beneficial owner of the shares and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. You have the right to direct your bank or broker on how to vote the shares in your account, and your ability to vote by telephone or via the internet depends on the voting procedures used by your broker. You may receive a separate voting instruction form with this proxy statement, or you may need to contact your broker, bank or other nominee to determine whether you will be able to vote electronically using the internet or telephone.

***May I vote my shares in person at the meeting?***

Yes. You may vote your shares at the meeting if you attend in person, even if you previously submitted a proxy card or voted by internet or telephone. Whether or not you plan to attend the meeting, however, we encourage you to vote your shares by proxy before the meeting. Please note that if your shares are held in street name and you wish to vote at the meeting, you will not be permitted to do so unless you first obtain a legal proxy issued in your name from the broker, bank or nominee that holds your shares.

***What if I submit a proxy and then change my mind?***

You may revoke your proxy at any time before it is exercised:

- By filing with the Corporate Secretary of Encore a notice of revocation;
- By sending in another duly executed proxy bearing a later date; or
- By attending the meeting and casting your vote in person.

***What are the Board s recommendations for how I should vote my shares?***

If you sign and return your proxy card with voting instructions, the persons named as proxies will vote the shares represented by your proxy in accordance with your instructions. If you sign and return a proxy card but do not fill out the voting instructions on the proxy, the persons named on the proxy card will vote in accordance with the recommendations of our Board. The Board recommends that you vote your shares as follows:

Proposal 1 **FOR** the election of the nominated slate of directors for a term of one year.

Proposal 2 **FOR** the approval of the 2013 Plan.

Proposal 3 **FOR** the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013.

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

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***What vote is required to approve each item?***

***Election of Directors***. The eight nominees who receive the most votes will be elected to our Board. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of one or more directors will not be voted with respect to the director or directors indicated and will have no effect on the proposal to elect the directors other than that it will be counted for purposes of determining whether there is a quorum present at the annual meeting. Abstentions will have the same effect. Notwithstanding the foregoing, the Company has adopted a Majority Voting Policy that is described on pages 11 and 12 of this proxy statement.

***Other Items***. For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked ABSTAIN with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Because abstentions represent shares entitled to vote on any matter presented for stockholder approval, the effect of an abstention will be the same as a vote against a proposal.

***Effect of Broker Non-Votes***. If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum.

***Can I exercise rights of appraisal or other dissenters rights?***

No. Under Delaware law, holders of our voting stock are not entitled to demand appraisal of their shares or exercise similar rights of dissenters as a result of the approval of any of the proposals to be presented at the annual meeting.

***Who pays for the cost of this proxy solicitation?***

We will bear the cost of solicitation of proxies, including the charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of our outstanding common stock. In addition to the solicitation of proxies by mail, our officers, directors and regular employees may solicit proxies in person, by telephone or by facsimile, none of whom will receive additional compensation for those services.

***How many annual reports and proxy statements are delivered to the same address?***

If you and one or more of our other stockholders share the same address, it is possible that only one annual report and proxy statement was delivered to your address. This is known as householding. Any registered stockholder who wishes to receive separate copies of an annual report or proxy statement at the same address now or in the future may: (i) call Encore at (877) 445-4581 or (ii) mail a request to receive separate copies to: Encore Capital Group, Inc., 3111 Camino Del Rio North, Suite 1300, San Diego, CA 92108, Attention: Corporate Secretary, and we will promptly deliver the annual report and/or proxy statement to you. Stockholders who own our common stock through a broker and who wish to receive separate copies of an annual report and proxy statement should contact their brokers directly. Stockholders currently receiving multiple copies of an annual report and proxy statement at a shared address and who wish to receive only a single copy in the future may direct their request to the same phone number or address listed above.

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## ELECTION OF DIRECTORS

## (PROPOSAL NO. 1)

**General**

Our Board currently consists of nine members, each with a term expiring at the 2013 annual meeting. The Nominating Committee of the Board has recommended, and the Board has nominated, the following incumbent directors for election at the 2013 annual meeting: Kenneth A. Vecchione, George Lund, Willem Mesdag, Francis E. Quinlan, Norman R. Sorensen, J. Christopher Teets, H Ronald Weissman and Warren Wilcox.

In the event that any nominee named below is unable or declines to serve as a director, the Board may change the number of seats on the Board or may designate an alternate nominee to fill the vacancy. If a substitute nominee is named, the proxy holders will vote the proxies held by them for the election of such person, unless contrary instructions are given. We are not aware of any nominee who will be unable or will decline to serve as a director. The term of office for each person elected as a director continues until the next annual meeting of stockholders or until his or her successor has been elected and qualified.

**Required Vote**

If a quorum is present and voting, the eight nominees receiving the highest number of votes will be elected to the Board.

**The Board of Directors recommends a vote FOR election of each of the director nominees.**

**Director Nominees**

Set forth below is certain biographical information about each of our nominees to the Board.

| Name | Age | Position(s) |
|---|---|---|
| Kenneth A. Vecchione | 58 | President |
| George Lund | 48 | Director, Executive Chairman |
| Willem Mesdag | 59 | Director |
| Francis E. Quinlan | 64 | Director |
| Norman R. Sorensen | 67 | Director |
| J. Christopher Teets | 40 | Director |
| H Ronald Weissman | 68 | Director |
| Warren Wilcox | 55 | Director |

**KENNETH A. VECCHIONE**. Mr. Vecchione has served as our President since April 2013. Prior to joining the Company, Mr. Vecchione served as the President and Chief Operating Officer of Western Alliance Bancorp. from April 2010 to April 2013. Mr. Vecchione served as the Chief Financial Officer of Apollo Global Management, L.P., a private equity firm, from November 2007 to March 2010. He also served as Vice Chairman and Chief Financial Officer of MBNA Corporation and as Chief Financial Officer at AT&T Universal Card, First Data Corp Merchant Group and Citicorp Credit Card Services. Mr. Vecchione has served as a director of Western Alliance Bancorp. since October 2007 and as director and Vice Chairman of its subsidiary, Bank of Nevada, since October 2010. Mr. Vecchione also serves as a director of International Securities Exchange and the chairman of its audit and finance committees, and is a director of the Federal Home Loan Bank of San Francisco. Mr. Vecchione is a graduate of SUNY at Albany. Mr. Vecchione s qualifications to serve on the Board include his extensive experience in the financial services industry and service on other financial-industry boards, and his strong background in executive leadership and strategic planning.

**GEORGE LUND**. Mr. Lund has served as our Executive Chairman and an officer since July 2009, as the Chairman of our Board since August 2008 and as a director since September 2007. Mr. Lund is the Chairman and

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CEO of Torch Hill Investment Partners, a private equity firm focusing on defense, intelligence and civil and corporate security and is a director of One American Bank. Prior to joining Torch Hill he was the Chairman and Chief Executive Officer of BANKFIRST, a national issuer of consumer credit, serving in that capacity from 1986 to 2004. Mr. Lund holds a business administration degree from Southern Methodist University. Mr. Lund s qualifications to serve on the Board include his extensive experience in executive leadership and strategic planning, strong regulatory and government affairs knowledge and deep connections in the financial services industry.

**WILLEM MESDAG**. Mr. Mesdag has served as a director since May 2007. He is the Managing Partner of Red Mountain Capital Partners LLC, an investment advisor, and is President of Red Mountain Capital Management, Inc., its Managing Member. Prior to founding Red Mountain, he was an investment banker at Goldman, Sachs & Co. and a securities lawyer at Ballard, Spahr, Andrews & Ingersoll. He joined Goldman, Sachs & Co. in 1981 and was made a General Partner in 1990. Mr. Mesdag holds a bachelor s degree from Northwestern University and a Juris Doctor degree from Cornell Law School. He serves as a director of Davis Petroleum Acquisition Corp., a private company. He also serves as a director of 3i Group plc and Nature s Sunshine Products, Inc., both of which are public companies and have significant international operations. Mr. Mesdag s qualifications to serve on the Board include his career as an investment banker and securities lawyer, which give him extensive experience providing strategic and financial advisory services to complex organizations in the consumer credit and financial services industry.

**FRANCIS E. QUINLAN**. Brigadier General Francis E. Quinlan, United States Marine Corps Reserve (Ret.) has served as a director since September 2011. General Quinlan has practiced law for nearly thirty years, most recently at Newmeyer & Dillion LLP since May 2011. Before entering the practice of law he was an agent with the Federal Bureau of Investigation. As a reserve officer he performed active duty in command positions at the Squadron, Air Group, Air Wing, Marine Expeditionary Force and Joint Force levels of the United States Marine Corps. He has served for ten years as a board director and chairman of the audit committee of Irvine Company LLC; is founding audit committee chairman and member of the investment committee of the California State Compensation Insurance Fund; and is chairman of the audit committee of Santa Fe Trust, Inc. and its sister company, Independent Trust Company of America, LLC. Prior to joining the Board he served on the audit committee of Convoke Systems, Inc., an entity that provides software services to the debt buying industry. He is Emeritus General Counsel and former audit committee chairman of the Marine Corps University Foundation, Inc. Board of Trustees. Mr. Quinlan holds a Master of Laws in Taxation, has represented major financial institutions in matters ranging from governance and compliance to cyber security and has conducted and directed complex financial, tax, Foreign Corrupt Practices Act, internal fraud and national security investigations in his civilian and military careers. His additional qualifications to serve on the Board include financial forensic accounting training with the Federal Bureau of Investigation, completion of information operations, cyber security and inter-agency professional schools at the national level and corporate network security programs involving multi-national enterprises.

**NORMAN R. SORENSEN**. Mr. Sorensen has served as a director since December 2011. Mr. Sorensen is Chairman of the International Insurance Society. Previously, he was Chairman of the International Advisory Council of Principal Financial Group. He was Chairman of Principal International, serving from 2011 to 2012, and President and CEO of International Asset Management and Accumulation of the Principal Financial Group, serving from 2001 to 2011. He has served as Executive Vice President of both Principal Financial Group, Inc. and Principal Life Insurance Company since 2007, as well as held a number of other senior management positions since 1998. Mr. Sorensen served as a senior executive of American International Group, Inc. (insurance services) from 1989 to 1997. He is also Chairman of DE Master Blenders and a Senior Advisor to Deloitte, LLP. Mr. Sorensen s qualifications to serve on the Board include his experience as an executive officer of an international financial services and asset management company, with responsibility over international operations and oversight over asset management and financial services functions and multiple divisional chief financial officers. He has also served as an executive officer of several publicly traded companies.

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**J. CHRISTOPHER TEETS**. Mr. Teets has served as a director since May 2007. Mr. Teets has served as a Partner of Red Mountain Capital Partners LLC, an investment advisor, since February 2005. Mr. Teets also serves as a director of Air Transport Services Group, Inc. and Marlin Business Services Corp., both of which are public companies. Prior to joining Red Mountain Capital Partners LLC, Mr. Teets was an investment banker at Goldman Sachs & Co. Mr. Teets qualifications to serve on the Board include his broad experience in capital markets, providing strategic and financial advisory services and serving as a public company director.

**H RONALD WEISSMAN**. Mr. Weissman has served as a director since July 2009. Mr. Weissman has served as Chairman of the board of directors of the Federal Home Loan Bank s Office of Finance since August 2009 and as Chairman of its Audit Committee from September 2009 through September 2012. From May 2002 through June 2009, he served as a Senior Partner with Ernst & Young LLP, where he was a member of the Financial Services Office and also served as the leader for the Office of the Chairman Accounts for the Americas International Financial Reporting Standards (IFRS) Network. Prior to joining Ernst & Young LLP in 2002, Mr. Weissman spent 32 years at Arthur Andersen LLP, where he served as an Andersen Worldwide SC partner from 1981 to 2002. He holds an MBA from the Columbia Graduate School of Business and a bachelor s degree from Union College. Mr. Weissman is a Certified Public Accountant and holds an Advanced Professional Director Certification from the American College of Corporate Directors, a national public company director education and credentialing organization. Mr. Weissman s qualifications to serve on the Board include his deep expertise in the complex accounting principles applicable to financial services companies.

**WARREN S. WILCOX**. Mr. Wilcox has served as a director since September 2007. He is currently the head of W2 Associates, LLC, which advises venture capital firms on investments related to financial services and information management. Prior to W2, Mr. Wilcox was Head of Advisory Services and Executive Vice President of Visa Inc., having served in that capacity since March 2008. Prior to Visa, Mr. Wilcox served as Vice Chairman, Marketing and Planning at WaMu Card Services, a division of Washington Mutual, Inc. He was previously Vice Chairman of Providian Financial Corporation (which WaMu acquired in 2005). Prior to joining Providian in 2002, Mr. Wilcox served as the Executive Vice President, Planning and Development at Fleet Credit Card Services from 1998 to 2001. Before Fleet, Mr. Wilcox spent 13 years at Household Credit Services, where he held a variety of senior management positions. Mr. Wilcox holds a Bachelor of Science degree from Illinois State University and a Master of Science degree in Management from Purdue University. Mr. Wilcox s qualifications to serve on the Board include his three decades of executive experience in the consumer credit industry. He has served as a consumer marketing expert for a series of large financial institutions and has expertise in financial risk management and modeling.

**Board Meetings**

The Board met 15 times during 2012 and otherwise acted by unanimous written consent. Each director nominee who served on the Board in 2012 attended at least 75% of the total number of meetings held by the Board. Each director nominee who served on the Board in 2012 attended all committees on which such director served during the period he was a director in 2012, with the exception of Mr. Teets, who attended 4 of the 5 scheduled Audit Committee meetings.

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**Standing Committees**

The Board has standing Audit, Nominating and Compensation Committees. During 2012, the members of these Committees were as follows:

| Name | Audit | Nominating | Compensation |
|---|---|---|---|
| Richard A. Mandell | X | | |
| Willem Mesdag | | X | |
| John J. Oros | | X | |
| Francis E. Quinlan | X | | |
| Norman R. Sorensen | | X | X |
| J. Christopher Teets | X | | X |
| H Ronald Weissman | X | | |
| Warren Wilcox | X | X | X |

Our Board has adopted written charters for the Audit, Nominating and Compensation Committees, and each of those written charters is available on our website at ***www.encorecapital.com***. Click on Investors, then Corporate Governance and then the respective committee charters. The Compensation and Nominating Committees assess the adequacy of their charters from time to time, and the Audit Committee assesses the adequacy of its charter annually. Please note that the information contained on our website is not incorporated by reference in, or considered to be a part of, this proxy statement.

***Audit Committee***. We have a standing Audit Committee that is responsible for assisting the Board in oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. The Audit Committee met five times during 2012, including one special meeting. The Audit Committee did not otherwise act by unanimous written consent.

In performing its duties, the Audit Committee:

- appoints and reviews the performance of our independent registered public accounting firm;
- approves audit and non-audit fees;
- reviews and evaluates our financial statements, accounting principles and system of internal controls regarding finance, accounting, legal compliance and ethical behavior;
- supports the Board by primarily overseeing those risks that may directly or indirectly impact the Company s financial statements, including the areas of financial reporting, internal controls and compliance with public reporting requirements;
- reviews and approves related person transactions; and
- considers other appropriate matters regarding our financial affairs.

***Compensation Committee***. The Compensation Committee is responsible for discharging the responsibilities of the Board with respect to the compensation of our executive officers, administering all of our equity-based plans and periodically reviewing compensation and equity-based plans, with authority to adopt such plans. The Compensation Committee met six times during 2012 and otherwise acted by unanimous written consent.

Among other things, the Compensation Committee has the authority and responsibility under its charter to:

periodically review and approve our policies on executive compensation, benefits and perquisites, including incentive cash compensation plans, or other forms of executive incentives;

annually review and, as required, vote in executive session to set the compensation, benefits and perquisites of the Chief Executive Officer ( CEO ), who serves as our principal executive officer;

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

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

- consider, approve and administer our incentive compensation plans and equity-based plans in which directors, the CEO, other executive officers and other employees and key consultants may be participants, including, but not limited to: (a) approving restricted stock grants, including restricted stock awards ( RSAs ), performance stock awards ( PSAs ), restricted stock unit awards ( RSUs ), performance stock unit awards ( PSUs ), stock option grants and/or other awards, (b) interpreting the plans, (c) determining rules and regulations relating to the plans, (d) modifying or canceling existing grants or awards and (e) imposing limitations, restrictions and conditions upon any grant or award as the Compensation Committee deems necessary or advisable.

The Compensation Committee sets performance goals and objectives for the executive officers, evaluates their performance with respect to those goals, sets the executive officers compensation based upon the evaluation of their performance and approves all employment and severance related agreements with such executives. In evaluating executive officer compensation, the Compensation Committee may retain the services of compensation consultants and considers recommendations from the CEO and Executive Chairman with respect to goals and compensation of the other executive officers. The Compensation Committee also periodically reviews compensation for non-employee directors. All decisions with respect to executive and director compensation are approved by the Compensation Committee.

When reviewing and setting the compensation, benefits and perquisites of the CEO, neither the CEO nor any employee of the Company other than the Executive Chairman is present. The Executive Chairman is not present at any meeting at which his compensation is set by the Compensation Committee. In addition, when the Compensation Committee reviews and sets the compensation, benefits and perquisites of all other executives, the CEO and the Executive Chairman may be present during deliberations at the Compensation Committee s discretion, but the CEO may not be present for voting on officer compensation, benefits or perquisites. Although the CEO generally makes recommendations to the Compensation Committee with respect to executive compensation decisions, including base salaries, cash incentive bonuses and equity-based awards, the Compensation Committee has in the past determined compensation, benefits or perquisites that were different from those recommended by the CEO.

The Compensation Committee approves all grants of equity-based awards, except those awards for the Company s director level or below employees, which approval authority has been delegated to the CEO by the Compensation Committee. Equity award grants to executives are determined based on a periodic review by the Compensation Committee regarding appropriate incentives, with recommendations typically originating from management, consistent with the criteria established in the long-term incentive program adopted by the Compensation Committee.

***Outside Consultants***. The Compensation Committee has the specific authority to hire outside advisors and consultants in its discretion at our expense. Beginning in 2011, the Compensation Committee engaged the law firm of Vedder Price, P.C. ( Vedder Price ) to provide comprehensive legal and executive compensation consulting advice. A more detailed description of Vedder Price s activities for the Compensation Committee is provided in the Compensation Discussion and Analysis section of this proxy statement.

***Nominating Committee***. The function of the Nominating Committee is to consider and recommend qualified candidates for election as directors of the Company. The Nominating Committee met twice in 2012 and otherwise acted by unanimous written consent.

Prior to each annual meeting of stockholders, the Nominating Committee identifies nominees to serve on the Board by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Nominating Committee or the Board decides not to nominate a member for re-election, the Nominating Committee identifies the desired skills and experience of a new nominee in light of the criteria described below. Current members of the Nominating Committee and Board and management are polled for suggestions as to individuals meeting the applicable criteria. Research may also be performed to identify qualified individuals.

We do not have a formal diversity policy, but the Nominating Committee does consider a broad range of factors in evaluating prospective director nominees, including the following:

- the appropriate size of the Board;
- a candidate s knowledge, skills and experience, including experience in business, finance, strategic vision, accounting or administration, in light of prevailing business conditions, the needs of the Company and the knowledge, skills and experience already possessed by other members of the Board;
- whether a candidate is independent, as defined by NASDAQ Listing Rules and other applicable standards, and whether circumstances exist that may create the appearance of a conflict of interest;
- a candidate s familiarity with accounting rules and practices applicable to our business;
- a candidate s character, integrity and reputation for working constructively with others;
- whether a candidate has sufficient time available to devote to the duties of a director of the Company;
- the desire to assemble a Board that is strong in its collective knowledge and has a diversity of skills, viewpoints and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge and corporate governance;
- the importance of maintaining productive working relationships among the Board members and between the Board and management for the benefit of all stockholders; and
- recognition of both the considerable benefit of continuity and the fresh perspective provided by the periodic introduction of new members.

The Nominating Committee assesses the effectiveness of its efforts when it evaluates the Board s composition as a part of the annual nomination process.

The Nominating Committee will consider stockholder nominations for directors submitted in accordance with the procedure set forth in Section 3.14 of our Bylaws. We consider each candidate equally based on the factors listed above, regardless of whether the candidate is recommended by a stockholder for election to our Board or is recommended by a member of the Board or a third party search firm. The procedures for stockholder nominated director candidates provide that a notice relating to the nomination in connection with an annual meeting must be timely given in writing to: Encore Capital Group, Inc., Attention: Corporate Secretary, 3111 Camino Del Rio North, Suite 1300, San Diego, CA 92108. To be timely, the notice must be delivered within the time period described in the Stockholder Proposals and Nominations section of this proxy statement. Such notice must be accompanied by the nominee s written consent to serve if elected, must contain information relating to the business experience and background of the nominee and provide information with respect to the nominating stockholder and persons acting in concert with the nominating stockholder and otherwise comply with the requirements outlined in our Bylaws.

**Corporate Governance**

***Director Independence***. The Board has determined that Messrs. Mesdag, Quinlan, Sorensen, Teets, Weissman and Wilcox, who constitute a majority of the Board, are independent directors within the meaning of NASDAQ listing standards. During its independence review, the Board considered transactions and

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relationships between each director or any member of his immediate family and the Company and its subsidiaries and affiliates. The Board also examined transactions and relationships between directors or their affiliates and members of the Company s senior management or their affiliates. With respect to Mr. Mesdag and Mr. Teets, the Board considered the fact that Mr. Mesdag and Mr. Teets are employees of Red Mountain Capital Partners LLC, an approximately 4% stockholder of the Company. The Board concluded that a relationship with a stockholder of the Company in and of itself does not impair a director s independent judgment in connection with his duties and responsibilities as a director of the Company or a member of a committee of the Board. The Board has determined that each member of the Board s Audit, Compensation and Nominating Committees is independent (or similarly designated) based on the Board s application of the standards of NASDAQ, the Securities and Exchange Commission (the SEC ) or the Internal Revenue Service (the IRS ), as appropriate for such committee membership.

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

***Board Leadership Structure***. The Board evaluates its leadership structure on an ongoing basis according to what the Board considers to be best for the Company at any given point in time. Currently, we separate the roles of Executive Chairman and CEO, both of whom serve on the Board and are subject to oversight and review by the independent directors. The Board believes that having a separate Executive Chairman and CEO provides an effective leadership model for the Company at this time and provides the benefit of the distinct abilities and experience of both the Executive Chairman and CEO.

Our Executive Chairman, George Lund, works closely with our management team, including our CEO, to develop our corporate strategy and execute on key corporate initiatives. The CEO is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company. Having the CEO serve on our Board ensures that the Board contains the individual most familiar with the Company s business and industry and promotes open communication between management and our directors. The Executive Chairman and CEO provide advice and recommendations to the full Board for the Board s consideration.

The Board has considered the benefits of having the Executive Chairman function as a bridge between management and the Board, ensuring that both groups act with a common purpose. The Board has also considered Mr. Lund s knowledge regarding our operations and the industry and markets in which we compete and his ability to promote communication, to synchronize activities between the Board and our senior management and to provide consistent leadership to both the Board and the Company in coordinating the strategic objectives of both groups. The Board also believes that many elements of the Board s governance structure ensure a strong, independent Board even though the Board does not have an independent chairman. The Board has determined that each of the other directors is independent, and these directors regularly meet in executive sessions. Thus, we believe that the existing Board leadership structure encourages communication between management, the Executive Chairman and the independent directors and provides an appropriate allocation of roles and responsibilities at this time. The Board s role in the risk oversight process has no effect on its leadership structure.

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

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***Risk Oversight.*** Our Board is actively involved in oversight and review of the Company s risk management efforts, either directly or through its standing committees. Assessing and managing risk and communicating risks to the Board is the responsibility of the Company s Chief Risk Officer. In 2010, the Company s management implemented an Enterprise Risk Management ( ERM ) program, led by certain officers of the Company, including Paul Grinberg, our Chief Financial Officer ( CFO ), with oversight from the Board. The ERM program was established to identify and evaluate key business risks within the financial, operational, regulatory and strategic arenas of the Company and to develop risk monitoring processes and response strategies to transfer, avoid, reduce or accept individual risks as appropriate. Additionally, the ERM program assists management in determining appropriate risk tolerance levels that balance risk mitigation with opportunities to create stockholder value. In 2011, the Company hired a Chief Risk Officer. The Chief Risk Officer administers the ERM program and provides regular reports to the Board and the Audit Committee regarding the ERM program s risk identification, management and mitigation strategy recommendations.

While the Board has retained the responsibility for general oversight of risks and of our ERM program, the Board s standing committees support the Board by regularly addressing various risks in their respective areas of oversight. Specifically, the Audit Committee primarily oversees those risks that may directly or indirectly impact our financial statements, including the areas of financial reporting, internal controls and compliance with public reporting requirements, while the Compensation Committee assists the Board in fulfilling its risk management oversight responsibilities associated with risks arising from employee compensation policies and practices. Each standing committee provides reports to the full Board at regular meetings concerning the activities of the committee and actions taken by the committee since the last regular meeting. Additionally, each Board committee is composed of all independent directors and all directors are actively involved in the risk oversight function.

***Communications with Directors***. We have not adopted a formal process for stockholder communications with the Board. Given our size, the Board does not deem it necessary to adopt formally a written policy regarding stockholder communications. Stockholders, however, can contact the Board or an individual director by writing to: Board of Directors, Encore Capital Group, Inc., 3111 Camino Del Rio North, Suite 1300, San Diego, CA 92108, Attention: Corporate Secretary. Absent unusual circumstances or as contemplated by committee charters, communications received in writing are distributed to members of the Board as appropriate depending on the facts and circumstances outlined in the communication received.

***Outside Advisors***. The Compensation Committee has engaged Vedder Price to assist it in carrying out the Company s executive compensation programs. The Compensation Committee has assessed the independence of Vedder Price pursuant to SEC rules and determined that Vedder Price is independent and its work for the Compensation Committee does not raise any conflict of interest.

***Executive Sessions of Independent Directors***. Independent Board members meet without management present at least twice a year following regularly scheduled Board meetings.

***Policy Regarding Directors Attendance at Annual Meetings***. We encourage directors to attend our annual meeting, but we do not have a policy that requires the attendance of all directors at our annual meeting. Each of our current directors who was a director at the time attended the 2012 annual meeting.

***Majority Voting Policy***. The Company has adopted a Majority Voting Policy, which states that in an uncontested election (i.e., an election where the only nominees are those recommended by the Board), any nominee for director who receives a greater number of votes withheld from election than votes for such election shall promptly tender a resignation to the Board for consideration.

The Nominating Committee shall promptly consider the resignation offer and recommend to the Board action with respect to the tendered resignation, which may include (i) accepting the resignation, (ii) maintaining the director but addressing the underlying cause of the withheld votes, (iii) determining not to renominate the director in the future, (iv) rejecting the resignation or (v) any other action the Nominating Committee deems to be appropriate and in the best interests of the Company. In considering what action to recommend with respect to the tendered resignation, the Nominating Committee will take into account all factors deemed relevant, including without limitation, any stated reasons why stockholders withheld votes for election from such director, the length of service and qualifications of the director whose resignation has been tendered, the overall composition of the Board, the director s contributions to the Company, the mix of skills and backgrounds of the directors and whether accepting the tendered resignation would cause the Company to fail to meet any applicable requirements of the SEC or the NASDAQ Stock Market.

The Board will act on the Nominating Committee s recommendation no later than 90 days following certification of the stockholder vote.

Following the Board s decision on the Nominating Committee s recommendation, the Company will promptly disclose the Board s decision with respect to the tendered resignation and will provide a description of the process by which the decision was reached in a Current Report on Form 8-K filed with the SEC.

Except in certain special circumstances, any director who tenders a resignation pursuant to this provision shall not participate in the Nominating Committee review and recommendation process or the Board s consideration regarding the action to be taken with respect to the tendered resignation.

To the extent that one or more directors resignations are accepted by the Board, the Nominating Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board.

## EXECUTIVE OFFICERS

Set forth below is certain biographical information about each of our current executive officers. Executive officers are appointed by the Board and serve at the discretion of the Board.

| Name | Age | Position(s) |
|---|---|---|
| George Lund | 48 | Executive Chairman |
| J. Brandon Black | 45 | Chief Executive Officer and Director |
| Kenneth A. Vecchione | 58 | President |
| Paul Grinberg | 52 | Executive Vice President, Chief Financial Officer and Treasurer |

**GEORGE LUND** and **KENNETH A. VECCHIONE**. For biographical information on Mr. Lund and Mr. Vecchione, see disclosure in the Directors section above.

**J. BRANDON BLACK**. Mr. Black, who has served as a director since May 2005, is not standing for re-election in 2013. Mr. Black joined the Company in May 2000, served as our President and Chief Executive Officer from October 2005 until April 2013 and has served as our Chief Executive Officer since April 2013. Mr. Black also served as our President and Chief Operating Officer from October 2004 to October 2005, and as Executive Vice President and Chief Operating Officer from May 2000 to October 2004. From March 1998 until we acquired the Company in 2000, Mr. Black was the Senior Vice President of Operations for West Capital Financial Services Corp. Prior to joining West Capital, Mr. Black worked for First Data Resources from September 1997 through April 1998 and for Capital One Financial Corporation from June 1989 until August 1997. Mr. Black holds a bachelor s degree from the College of William and Mary and an MBA from the University of Richmond.

**PAUL GRINBERG**. Mr. Grinberg has served as our Executive Vice President, Chief Financial Officer and Treasurer since May 2005, and he served as Secretary from June 2008 until January 2010. From September 2004

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

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## EXECUTIVE COMPENSATION AND OTHER INFORMATION

## COMPENSATION DISCUSSION AND ANALYSIS

### Executive Summary

This Executive Summary is divided into the following parts:

- The Company s Compensation Philosophy and Purpose;
- Fiscal Year ( FY ) 2012 Compensation of Our Named Executive Officers ( NEOs );
- FY 2012 Performance and How It Affected 2012 NEO Compensation;
- FY 2013 NEO Compensation Levels;
- Current Change-in-Control and Employment Termination Arrangements for 2012; and
- Compensation and Employment Arrangements for FY 2013
- Other NEO Compensation Changes for FY 2012 and 2013

***The Company s Compensation Philosophy and Purpose***

The Company s executive compensation philosophy, and the purpose of this philosophy, is presented below:

- *Pay for Performance and Experience*. Base salaries are commensurate with the executive s or key employee s experience and expertise coupled with an assessment of (i) the executive s contribution to the Company, (ii) the responsibilities and experience of the executive, (iii) the terms of any applicable employment agreements and (iv) the recommendations of senior management. Incentive compensation is likewise tied to performance and experience.
- *Market Comparison*. The Compensation Committee, with the assistance of outside consultants and/or management, periodically reviews market compensation data and other relevant information regarding total direct compensation structures, giving appropriate weight to the data from our market competitors. Our compensation programs must be competitive in order to retain our senior executives.
- *Alignment with Stockholder Interests*. In general, the payment of our incentive compensation is dependent upon the achievement of targeted corporate operating measures as more specifically described below. We believe that basing a component of employee compensation on corporate results and performance aligns employee interests with stockholder interests. In addition, a portion of our executive compensation consists of equity-based incentives, including restricted stock awards ( RSAs ), performance stock awards ( PSAs ), restricted stock unit awards ( RSUs ), performance stock unit awards ( PSUs ) and/or stock option grants, so that executives interests are further aligned with the interests of our stockholders.

*Retention*. We believe that our compensation program should be designed to attract and retain highly talented individuals critical to our success by providing competitive total compensation with significant retention features. Our equity compensation awards are designed to retain our executives and other key employees, while also accomplishing our other compensation goals and objectives.

*Severance*. To provide sufficient assurances to our executives, the Compensation Committee approved severance protection arrangements for each of our current executives, which provide for certain payments if the executive s employment is terminated without cause or if the executive resigns for good reason.

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***FY 2012 Compensation of Our NEOs***

The table shows the compensation and the compensation components we used to pay our three executives who were NEOs for FY 2012:

| Name | Annual Salary | Annual Cash Bonus | Restricted Stock Awards | Stock Options | Other | Total Compensation |
|---|---|---|---|---|---|---|
| George Lund<br>Executive Chairman | $ 500,000 | $ 0 | None | None | $ 30,000 | $ 530,000 |
| J. Brandon Black<br>President & CEO | $ 565,976 | $ 900,000 | 23,000 RSAs granted on 4/6/12 when the stock price was $22.17 and with a grant date fair value of $509,910 | 50,000 stock options granted on 4/6/12 with an exercise price of $22.17 and a grant-date fair value of $597,915 | $ 6,574 | $ 2,580,375 |
| Paul Grinberg<br>EVP, CFO and Treasurer | $ 400,437 | $ 635,000 | 23,000 RSAs granted on 4/6/12 when the stock price was $22.17 and with a grant date fair value of $509,910 | 50,000 stock options granted on 4/6/12 with an exercise price of $22.17 and a grant-date fair value of $597,915 | $ 129,412 | $ 2,272,674 |

Refer to our Summary Compensation Table and accompanying tables for details.

***FY 2012 Performance and How It Affected 2012 NEO Compensation***

The Company had outstanding performance in FY 2012, similar to its performance in FY 2011.

The Company s annual EBITDA, which is the primary performance metric currently used in the Company s executive compensation programs (other than stock price), increased 27.6% for the previous one-year period, from $125.0 million in FY 2011 to $159.5 million in FY 2012, and 58.7% for the previous two-year period, from $100.5 million in FY 2010. This performance determined the amount of cash bonuses paid to our NEOs in February 2013. EBITDA is defined as net income before interest, taxes, depreciation and amortization, discontinued operations, the acquisition of Propel Financial Services, LLC and related entities and other adjustments. EBITDA is a non-GAAP financial measure that should not be considered as an alternative to, or more meaningful than, net income as an indicator of the Company s operating performance. Further, this non-GAAP financial measure, as presented by the Company, may not be comparable to similarly titled measures reported by other companies. The Company has provided a reconciliation of EBITDA to reported net income under GAAP below:

| | FY 2012 | FY 2011 | FY 2010 |
|---|---|---|---|
| Net income | $ 69,477 | $ 60,958 | $ 49,052 |
| Interest expense | 25,564 | 21,116 | 19,349 |
| Provision for income taxes | 51,754 | 38,076 | 27,967 |
| Depreciation and amortization | 5,840 | 4,081 | 2,552 |
| Discontinued Operations | 9,094 | (365) | (1,658) |
| Propel acquisition and other adjustments | (2,229) | 1,134 | 3,238 |
| EBITDA | $ 159,500 | $ 125,000 | $ 100,500 |

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We paid the NEOs the above compensation based on the following:

*Salary Paid in FY 2012*. In February 2012, we increased the annual base salaries of Mr. Black and Mr. Grinberg, effective March 1, 2012. Mr. Black s base salary was increased from $433,088 to $600,000, a 38.5% increase, and Mr. Grinberg s base salary was increased from $304,435 to $425,000, a 39.6% increase. Mr. Lund s base salary remained at $500,000.

The increases to Mr. Black and Mr. Grinberg s salary were based on a review by the Compensation Committee in 2011 of salary levels at many companies similar to the Company by industry, revenue size, market capitalization size and annual net income production. The Compensation Committee found that the fixed compensation levels of the CEO and the CFO were below what the Compensation Committee considered to be competitive. In addition, as part of its risk management program, the Compensation Committee wanted to rebalance its annual cash compensation levels so that there would be more of a weighting toward fixed annual cash than variable annual cash. A more detailed discussion is provided later in this Compensation Discussion and Analysis.

Company performance did not affect the base salary determinations.

*Annual Cash Bonus Awarded in February 2013*. We have a Key Contributor Plan ( KCP ) that we use to pay annual cash bonuses to our NEOs and other senior executives. The performance metric under the KCP for FY 2012 was EBITDA, and the performance target was $137.5 million, which was 10.0% over actual EBITDA achieved in FY 2011 of $125.0 million and 11.3% greater than the EBITDA target for FY 2011 of $123.5 million. Actual EBITDA achieved for FY 2012 was $159.5 million or 16.0% over target.

Mr. Lund, as Executive Chairman, does not participate in the KCP and received no annual cash bonus. Mr. Black and Mr. Grinberg both have target annual cash bonus levels equal to 100% of their annual base salaries and actual levels based on three times the Company performance over target. Actual EBITDA achieved for 2012 was $159.5 million, or 16.0% greater than the 2012 EBITDA target, resulting in a cash bonus payment under the KCP at 148% of target. After considering the Company s outstanding performance in 2012, and noting both the year-over-year EBITDA growth and maintenance of the Company s stock price during a volatile time period, as well as noting the EBITDA targets that had been set, the Compensation Committee used its discretion to increase the payout under the KCP above the earned payout which resulted in a bonus payout to each of Mr. Black and Mr. Grinberg at 150% of base salary.

*Equity Grants Awarded in March 2012*. We report equity grants awarded to our NEOs with respect to the fiscal year when made. While equity awards have a going-forward long-term incentive feature to them, the size of the award generally is based on past awards and the previous year s performance. After taking into account recommendations from the CEO and Senior Vice President of Human Resources, the Compensation Committee exercises its discretion in determining the size of the equity grants made to our NEOs.

*Equity Grants Realized in 2012*. Our NEOs vested in the following RSAs and/or RSUs, and exercised the following number of stock options:

| Name | RSAs Vested (shares / dollar amount) | RSUs Vested (shares / dollar amount) | Stock Options Exercised (shares / dollar amount) |
|---|---|---|---|
| George Lund<br>Executive Chairman | 17,000 / $ 418,200 | None | None |
| J. Brandon Black<br>President & CEO | None | 38,446(1) / $873,848 | 124,070 / $3,164,244 |
| Paul Grinberg<br>EVP, CFO and Treasurer | None | 53,333(2) / $1,375,484 | 36,665 / $1,040,975 |

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(1) Includes 10,613 PSUs, which vested on February 9, 2012.
(2) Includes (i) 2,500 PSUs that vested on February 9, 2012 and (ii) 25,000 RSUs that vested on December 21, 2012, each of which will not be released to Mr. Grinberg until the earlier of (a) his separation from service to the Company or (b) a Change in Ownership of the Company, with those terms having the meanings defined under Internal Revenue Code Section 409A.

*Retirement and Deferred Compensation*. Other than a standard 401(k) plan applicable to all employees, there are no active retirement arrangements for our NEOs. Mr. Black, however, still participates in a frozen deferred compensation plan that is linked to a split-dollar arrangement. The Company does not contribute to this frozen plan. Mr. Black earned $8,307 in his fully vested deferred compensation account in FY 2012.

*Perquisites and Other Compensation*. The Company provides an annual housing allowance for our Executive Chairman of up to $60,000. The Company also offers an executive health screening program whereby our CEO and CFO may obtain a comprehensive physical examination once every three years. In 2012, the Company reimbursed Mr. Black for the cost of this physical examination in the amount of $1,900. In 2012, the Company reimbursed Mr. Grinberg for costs associated with his change in residence in the amount of $123,159. There is no other compensation paid to or on behalf of our NEOs during 2012 other than 401(k) matching contributions contained in the Summary Compensation Table and the payment of premiums payable in respect of Mr. Black and Mr. Grinberg s split-dollar life insurance policies.

***FY 2013 NEO Compensation Levels***

As mentioned above, we increased the annual base salaries of Mr. Black and Mr. Grinberg, effective March 1, 2012 to $600,000 and $425,000, respectively. Mr. Lund s base salary remained at $500,000. The salaries for Mr. Black and Mr. Grinberg were increased by 3% in 2013, resulting in a 2013 base salary of $618,000 to Mr. Black and $437,500 to Mr. Grinberg. There was no change to Mr. Lund s salary for 2013.

The annual cash bonus target levels for Mr. Black and Mr. Grinberg remain at 100% of base salary. Mr. Lund, as mentioned above, does not participate in an annual cash bonus arrangement.

***Current Change-in-Control and Employment Termination Arrangements for 2012***

We do not have formal employment agreements with our NEOs; however, we have entered into severance protection letter agreements with Messrs. Black and Grinberg. In addition, our equity compensation arrangements provide for accelerated vesting in certain instances. As of December 31, 2012, the terms and conditions relating to our employment termination arrangements (whether or not in connection with a change in control) were as follows:

Mr. Lund s unvested equity compensation grants will vest on (i) death, (ii) a termination due to disability or by the Company without cause (actual or constructive) and (iii) upon a change of control. Mr. Lund does not have an arrangement with the Company to receive any cash severance in the event of a termination of employment for whatever reason.

Mr. Black s unvested equity compensation grants will vest on death or a termination due to disability. In addition, his unvested equity compensation granted prior to January 1, 2012 will immediately vest on a change in control (with or without a termination of employment) and his unvested equity granted on or following January 1, 2012 will vest only if he is terminated following a change in control. Under Mr. Black s severance protection letter agreement, if he is terminated by the Company without Cause (which is defined in the severance protection letter agreement) or he terminates his employment for Good Reason (which is also defined in the severance protection letter agreement), he will receive two years of continued base salary, plus 200% of the last three-year average bonus payments, plus a prorated target bonus for the year of termination, plus two years of continued health benefits. In addition, his severance protection letter provides that if any payment or benefit that he receives pursuant to a change in control of the Company or otherwise would be subject to the excise tax under Internal Revenue Code ( IRC ) Section 4999, then such payment will be reduced so that either (i) the largest portion of the payment that would result in no portion of the payment being subject to the excise tax or (ii) the largest portion, up to and including the total, of the payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes and the excise tax (all computed at the highest applicable marginal rate), results in his receipt, on an after-tax basis, of the greater amount of the payment.

Mr. Grinberg s unvested equity compensation grants will vest on death or a termination due to disability. In addition, his unvested equity compensation granted prior to January 1, 2012 will immediately vest on a change in control (with or without a termination of employment) and his unvested equity granted on or following January 1, 2012 will vest only if he is terminated following a change in control. Prior to its January 9, 2013 amendment, under Mr. Grinberg s severance protection letter agreement, if he was terminated by the Company without Cause (which is defined in the severance protection letter agreement) or he terminated his employment for Good Reason (which is also defined in the severance protection letter agreement), he would have received one year of continued base salary, plus 100% of his target bonus, plus a prorated target bonus for the year of termination, plus one year of continued health benefits. In addition, his severance protection letter provides that if any payment or benefit that he receives pursuant to a change in control of the Company or otherwise would be subject to the excise tax under IRC Section 4999, then such payment will be reduced so that either (i) the largest portion of the payment that would result in no portion of the payment being subject to the excise tax or (ii) the largest portion, up to and including the total, of the payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes and the excise tax (all computed at the highest applicable marginal rate), results in his receipt, on an after-tax basis, of the greater amount of the payment.

The table below shows the dollar amounts that would be payable to our NEOs if there had been a change in control and/or if their employment had been terminated on December 31, 2012 (and using a stock price of $30.62 in all instances) based on the following scenarios:

there is a change in control without a termination of employment ( single trigger );

there is a change in control and there is a termination of employment without Cause or for Good Reason ( double trigger );

there is no change in control and there is a termination of employment without Cause or for Good Reason;

death; and

disability.

In the case of Mr. Grinberg, the amounts below do not reflect the January 9, 2013 amendments to his agreement.

| Name | Single Trigger Change in Control * | Double Trigger Change in Control * | Without Cause or for Good Reason | Death | Disability |
|---|---|---|---|---|---|
| George Lund | $ 918,600 | $ 918,600 | $ 918,600 | $ 918,600 | $ 918,600 |
| J. Brandon Black | $ 1,486,700 | $ 6,070,936 | $ 3,457,475 | $ 2,613,460 | $ 2,613,460 |
| Paul Grinberg | $ 1,041,169 | $ 3,549,042 | $ 1,284,563 | $ 2,244,479 | $ 2,244,479 |

* Note: these amounts do not produce an excise tax under IRC Section 4999.

***Compensation and Employment Arrangements for 2013***

In 2013, we made the following changes regarding our NEO compensation and employment arrangements:

- We hired Kenneth A. Vecchione to serve as our new CEO. Mr. Vecchione became the Company s President on April 8, 2013 and will become CEO on May 31, 2013. His compensation arrangement includes a base salary of $825,000 and a target bonus of 100% of base salary. His annual long-term incentive compensation target is 200% of base salary. He was awarded 100,000 RSAs vesting 20% per year upon joining the Company. He is also provided with an annual housing allowance of $60,000. If his employment is terminated by the Company without Cause or by him for Good Reason (as such terms are defined in his severance protection letter agreement), he will be paid a severance consisting of 200% of his base salary, plus 200% of his 3-year average paid bonuses, plus a pro rata bonus for the year of termination if performance goals are actually achieved, plus 24 months of Company-provided COBRA. In addition, all of his unvested equity awards will fully vest. Mr. Vecchione has agreed to be subject to a two-year non-competition and non-solicitation agreement.

- Mr. Black and the Company agreed to a transition and consulting agreement where Mr. Black would be paid $3,100,000 over a three-year period and receive Company-provided COBRA. This payment level generally was based on Mr. Black s existing severance protection letter as well as his new obligations to provide consulting services to the Company over the next three years and to refrain from competing with the Company over the same three-year period.

- Mr. Grinberg s severance protection letter agreement was amended on January 9, 2013, in order to ensure continuity of his services through 2014. His amended severance protection letter agreement changes the severance amount to which Mr. Grinberg is entitled from 100% to 150% of his then-current salary in the event that his employment is terminated without Cause or he resigns for Good Reason (as such terms are defined in his amended severance protection letter agreement) at any time during the term of the amended severance protection letter agreement. The amended severance protection letter agreement also adds to the definition of Good Reason any resignation by Mr. Grinberg from the Company on or after July 1, 2014, so long as he provides the Company with 90 days prior written notice of such resignation. The amended severance protection letter agreement also changes the maximum number of months from 12 to 18 for which the Company will pay Mr. Grinberg s COBRA continuation premiums for group health benefits. On January 9, 2013, Mr. Grinberg also entered into a letter agreement with the Company pursuant to which the Compensation Committee guaranteed Mr. Grinberg that his 2013 annual bonus will be paid out at least at its target amount. The Company also agreed to cover the relocation costs associated with Mr. Grinberg s change in residence and to provide Mr. Grinberg with a monthly allowance for commuting expenses of $8,500.

- The Compensation Committee in April 2013 adopted the Encore Capital Group, Inc. Compensation Recovery Policy under which the Compensation Committee may clawback incentive compensation erroneously paid, granted or awarded to a senior executive if it determines the senior executive has committed misconduct that causes demonstrably significant financial and reputational harm to the Company. If the Compensation Committee seeks recovery of incentive compensation erroneously paid to a senior executive, the Company will disclose this with specificity in a Form 8-K or other document filed with the Securities and Exchange Commission, so long as the underlying event has already been publicly disclosed in the Company s filings with the Securities and Exchange Commission.

***Other NEO Compensation Changes for FY 2012 and 2013***

In 2012 the Compensation Committee continued to review the Company s executive compensation practices and made the following changes:

- Include in all equity awards made in 2012 and thereafter a double-trigger arrangement whereby accelerated or continued vesting will occur only if there is both a change in control and a termination of employment;

- Use RSAs instead of RSUs, primarily to avoid application of IRC Section 409A;
- Have 60% of the annual equity awards beginning in 2013 consist of PSAs; and
- Qualify executive incentive compensation beginning in 2013 as performance-based compensation for purposes of IRC Section 162(m).

**Fiscal 2012 Compensation Details**

**Introduction**

The purpose of this compensation discussion and analysis ( CD&A ) is to provide information about each material element of compensation earned by our NEOs during our 2012 fiscal year. The following discussion and analysis should be read in conjunction with the 2012 Summary Compensation Table and related tables and narrative that are presented in this proxy statement.

For our 2012 fiscal year, our NEOs were:

- George Lund, our Executive Chairman;
- J. Brandon Black, our President and CEO; and
- Paul Grinberg, our Executive Vice President, CFO and Treasurer.

This CD&A addresses and provides the context behind the numerical and related information contained in the 2012 Summary Compensation Table and related tables and includes the award of bonuses related to 2012 performance that occurred after the end of our 2012 fiscal year.

**Fiscal 2012 Key Developments**

Our compensation policy in 2012 was to maintain our existing compensation programs, but to implement several changes that we felt were necessary based on current market practices. Highlighted below are some of the key actions and decisions with respect to our executive compensation programs for fiscal 2012 as approved by the Compensation Committee:

*Increase base salaries*. Following a compensation study conducted in 2011, the base salaries for Mr. Black and Mr. Grinberg were increased in 2012 to $600,000 and $425,000, respectively.

*Performance-based compensation awards and payouts*. Our executive compensation is linked to the achievement of performance targets or specific strategic objectives. As with past years, through the KCP, Mr. Black and Mr. Grinberg (but not Mr. Lund) were eligible to earn cash incentive compensation based upon achievement of specific EBITDA targets for fiscal year 2012 recommended and approved by the Compensation Committee and that are designed to challenge the executive team to high performance.

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

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

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

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

*Alignment with Stockholder Interests*. In general, the payment of our incentive compensation is dependent upon the achievement of targeted corporate operating measures as more specifically described below. We believe that basing a component of employee compensation on corporate results and performance aligns employee interests with stockholder interests. In addition, a portion of our executive compensation consists of stock incentives, including RSAs, PSAs, RSUs, PSUs and/or stock options, so that executives interests are further aligned with the interests of our stockholders.

*Retention*. We believe that our compensation program should be designed to attract and retain highly talented individuals critical to our success by providing competitive total compensation with significant retention features. Our equity awards are designed to retain our executives and other key employees, while also accomplishing our other compensation goals and objectives.

*Severance*. To provide sufficient assurances to our executives, the Compensation Committee approved severance protection arrangements for each of our current executives, which provide for certain payments if the executive s employment is terminated without cause or if the executive resigns for good reason.

***Role of the Compensation Committee***. During 2012, the Compensation Committee consisted of J. Christopher Teets (Chairman), Warren Wilcox and Norman Sorensen (who joined the Compensation Committee on January 9, 2012). The Compensation Committee s primary activity occurs following the close of the fiscal year, when the Committee: (i) approves grants of RSAs, PSAs, PSUs, RSUs and stock options; (ii) determines whether performance targets have been satisfied for performance-based equity granted during previous fiscal years; (iii) approves total compensation levels for our NEOs for the fiscal year just concluded, including any salary increases and cash bonuses; and (iv) approves payments under the KCP applicable to our NEOs for the current fiscal year.

***Outside Consultants***. The Compensation Committee has the specific authority to hire outside advisors and consultants in its discretion at the expense of the Company. In 2012, the Compensation Committee engaged Vedder Price to assist it in carrying out the Company s executive compensation programs. The Compensation Committee has assessed the independence of Vedder Price pursuant to SEC rules and determined that Vedder Price is independent and its work for the Compensation Committee does not raise any conflict of interest.

**Compensation Committee s Action in 2012**

In 2012, the Compensation Committee took the following actions with respect to our executive compensation programs in 2012:

*Single-trigger vs. double-trigger accelerated vesting of equity grants on a change in control.* Previously, we provided our NEOs and other top executives with accelerated vesting of equity awards on the occurrence of a single-trigger. The Compensation Committee decided that all future equity grants will accelerate or continue to vest only on the occurrence of both a change in control and certain terminations of employment (death and a termination due to disability are still single-trigger);

*Performance shares*. Beginning in 2013, we use PSAs for all or a portion of the equity compensation program;

*Section 162(m).* Beginning in 2013, qualify incentive compensation as performance-based compensation for purposes of tax deductibility under IRC Section 162(m); and

*Increase in base salaries*. In 2012, the Compensation Committee reviewed the compensation data described below under the heading Executive Compensation Comparisons. While no specific data

point or collections of data points were used to set annual base salaries, the Compensation Committee took these data points into account to determine what it considered to be competitive base salaries for our NEOs.

**Other Compensation Committee Action for 2012**

The Compensation Committee continued its review of the Company s executive compensation programs during 2012, specifically reviewing the following:

- deferred compensation/split-dollar arrangements for our NEOs; and
- executive termination arrangements (both for change-in-control and non-change-in-control circumstances).

**Executive Compensation Comparisons**

The Compensation Committee annually takes into consideration evolving market practices, to ensure that it remains informed of current practices when making compensation decisions. In 2011, the Compensation Committee engaged Vedder Price to extract, compile, assemble and provide to the Compensation Committee a large volume of executive compensation data for comparison purposes.

Vedder Price and the Compensation Committee created the following four comparison groups :

- industry group (with annual revenues between $100 million and $5 billion)
- annual revenue group (with annual revenues between $350 million and $410 million)
- annual net income group (with annual net income between $45 million and $55 million)
- market capitalization group (with market capitalizations between $500 million and $650 million).

A full list of the comparison companies are set forth in Appendices A, B, C and D at the end of our proxy statement filed on April 27, 2012. The Compensation Committee reviewed this compensation data and took the data into account in setting compensation levels for our NEOs for 2012; however, the data in and of itself did not determine these compensation levels. While this comparison is similar to benchmarking, the Compensation Committee considers its review of this data to be a comparison and not a benchmarking.

In addition, the Compensation Committee closely reviewed the executive compensation data at a group of peer companies consisting of Asset Acceptance Capital Corp., Asta Funding, Inc., NCO Group, Inc. and Portfolio Recovery Associates, Inc. These companies were selected because they are close industry peers to the Company and, with the exception of NCO Group, Inc., all publicly traded companies. As in previous years, the Compensation Committee considers the compensation practices of these peer companies; however, it does not use peer group data to base, justify or provide a framework for compensation decisions. The Compensation Committee also does not target any element of compensation or total compensation to a specific range within the peer group. Rather, it uses peer group data to obtain a general understanding of current compensation practices and to aim to provide total compensation packages that are competitive with prevailing practices in our industry.

**Role of Executives in the Compensation Setting Process**

The Compensation Committee generally solicits management s assistance in determining executive compensation as it deems appropriate. For 2012, the Compensation Committee determined salary levels, bonus and equity awards for Mr. Black and Mr. Grinberg in collaboration with Mr. Lund. Mr. Lund s salary is determined solely by the Compensation Committee. The Compensation Committee looks to the Human Resources department and its outside advisors for advice regarding the design and implementation of compensation plans, programs and practices. Representatives from the Human Resources department, as well as Mr. Lund, often attend portions of Compensation Committee meetings to make presentations regarding, and to discuss management s viewpoint of, various compensation issues.

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**Elements of our Compensation Program**

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

- base salary;
- annual cash incentive bonus;
- equity-based compensation incentives;
- severance protection and/or change-in-control arrangements; and
- participation in other benefit plans and programs.

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

**Processes and Procedures for Considering and Determining Executive and Director Compensation**

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

- an assessment of each NEO s contribution to the Company;
- the responsibilities and experience of each NEO;
- competitive market data, individual performance and other relevant information regarding base salary structures;
- the terms of any applicable employment agreements;
- the detriment to us should the NEO leave the Company s employ; and
- the recommendations of senior management.

The Compensation Committee generally reviews each NEO s base salary and benefits on an annual basis and from time to time as it deems appropriate.

With respect to its periodic review of salaries for our NEOs and other executives in 2012, the Compensation Committee considered data provided by our management in 2011, which included an assessment of corporate performance, as well as individual performance of each NEO. The base salaries set for 2012 were believed to be consistent with our compensation philosophy, which attempts to establish a strategic balance between pay at risk and market competitiveness. In particular, the increase in Mr. Black s and Mr. Grinberg s base salaries to annual rates of $600,000 and $425,000, respectively, effective March 1, 2012, were determined to be consistent with competitive levels and did not constitute merit increases.

There was no change to Mr. Lund s annual base salary in 2012, which remained at $500,000 and which had been set by the Compensation Committee in July 2009 upon his appointment as Executive Chairman. The Compensation Committee believes that Mr. Lund s base salary remains competitive and commensurate with his role and responsibilities at the Company.

We disclose the salary earned in 2012 by our NEOs in the Salary column of the 2012 Summary Compensation Table.

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***Annual Cash Incentive Bonus.*** The second component of our NEO compensation package is an annual cash incentive bonus program under our KCP. Pursuant to the terms of the KCP, each NEO s target bonus is a stated percentage of his base salary; however, our NEOs would not receive a bonus if threshold performance goals are not met. The Compensation Committee does have the authority not to award a bonus or to award a bonus that is greater or less than the specified payout under the KCP. Actual bonuses paid to our NEOs under the KCP are based upon (i) achievement of our corporate performance against pre-established, targeted operating measures and (ii) the Compensation Committee s discretion to increase or decrease the payout above or below the earned payout. The Compensation Committee believes that variable bonus opportunities provide higher rewards for higher performers and drive the successful achievement of short-term critical business objectives. Mr. Lund s compensation package excludes participation in the KCP otherwise available to the Company s other NEOs.

Based on the Company s annual strategic operational and financial objectives for fiscal year 2012, a Board-approved, Company EBITDA target of $137.5 million, representing a 11.4% increase over 2011 target EBITDA of $123.4 million, was established as the appropriate operating measure by the Compensation Committee for determining bonus awards to our NEOs under the KCP. Payouts at target would be equal to 100% of base salary for each of Mr. Black and Mr. Grinberg and actual levels based on three times the Company performance over target. EBITDA as calculated by us may be adjusted for unusual items at the Compensation Committee s discretion. Actual EBITDA for 2012 was $159.5 million, representing an increase of 27.6% over 2011 actual EBITDA of $125.0 million and resulting in a cash bonus payout under the KCP at 148% of target. After considering the Company s outstanding performance in 2012, and noting both the year-over-year EBITDA growth and maintenance of the Company s stock price during a volatile time period, as well as noting the EBITDA targets that had been set, the Compensation Committee used its discretion to increase the payout under the KCP above the earned payout which resulted in a bonus payout to each of Mr. Black and Mr. Grinberg at 150% of base salary. Information on the 2012 bonuses awarded to Mr. Black and Mr. Grinberg can be found in the Summary Compensation Table.

***Equity-Based Compensation Incentives.*** The third component of our NEO compensation package is equity-based compensation incentives, which have traditionally taken the form of non-qualified stock options, RSUs, PSUs and RSAs. The Compensation Committee considers annual grants of stock options, RSUs, PSUs and RSAs to our NEOs and key employees to more closely align the interests of our executive officers and key employees with the long-term interests of the Company and our stockholders and to assist in promoting executive retention. Beginning in 2013, the Compensation Committee determined that 60% of the NEOs annual equity gra