ENCORE CAPITAL GROUP INC
Form S-1
September 02, 2003

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 29, 2003
REGISTRATION NO.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Encore Capital Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**6153**	**48-1090909**
(State of Incorporation)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

5775 Roscoe Court

San Diego, California 92123
(877) 445-4581
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Carl C. Gregory, III
President and Chief Executive Officer
Encore Capital Group, Inc.
5775 Roscoe Court
San Diego, California 92123
(877) 445-4581
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Steven D. Pidgeon	**Robin R. Pruitt**	**Charles K. Ruck**
Snell & Wilmer L.L.P.	**Encore Capital Group, Inc.**	**R. Scott Shean**
One Arizona Center	**5775 Roscoe Court**	**Latham & Watkins LLP**
Phoenix, Arizona 85004	**San Diego, California 92123**	**650 Town Center Drive, 20th Floor**
(602) 382-6000	**(877) 445-4581**	**Costa Mesa, California 92626**
		(714) 540-1235

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis under Rule 415 under the Securities Act, check the following box: o

If this Form is filed to register additional securities for an offering under Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed under Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed under Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If delivery of the prospectus is expected to be made under Rule 434, check the following box: o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Amount of Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)(2)	Registration Fee
Common Stock $.001 par value per share	5,750,000 shares	$10.01	$57,557,500	$4,656.40

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c), on the basis of the average high and low sales prices of the Common Stock on August 28, 2003, as reported by the Nasdaq National Market.

(2) Includes shares of common stock that the underwriters have an option to purchase solely to cover over-allotments, if any.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting under said Section 8(a), may determine.

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PRELIMINARY PROSPECTUS
Subject to completion, dated August , 2003

5,000,000 Shares

Common Stock

ENCORE CAPITAL GROUP, INC.

We are offering 3,000,000 shares of our common stock and the selling stockholders identified in this prospectus are offering 2,000,000 shares of our common stock through a syndicate of underwriters. The underwriters also have an option to purchase up to an additional 750,000 shares from the selling stockholders to cover over-allotments. We will receive payments for certain option and warrant exercises by selling stockholders. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our common stock is listed on the Nasdaq Stock Market s National Market under the symbol ECPG. On August 28, 2003, the last reported sale price of our common stock was $10.01 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

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

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to Encore Capital Group, Inc. (before expenses)	$	$
Proceeds to the selling stockholders	$	$

The underwriters expect to deliver the shares on or about , 2003.

Jefferies & Company, Inc.

Brean Murray & Co., Inc.

Roth Capital Partners, LLC

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You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information contained in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

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PROSPECTUS SUMMARY

The items in the summary are described in more detail later in this prospectus. This summary provides an overview of selected information and does not contain all the information you should consider. Therefore, you should also read the more detailed information set out in this prospectus. Except as otherwise indicated, information in this prospectus assumes the agreed-upon conversion of all of our preferred stock into 10,000,000 shares of our common stock, assumes exercise of certain warrants and stock options by the selling stockholders, and assumes no exercise of the underwriters over-allotment option. As used in this prospectus, references to we, our, us and Encore refer to Encore Capital Group, Inc. and its subsidiaries, unless the context requires otherwise.

Our Business

We are a systems-driven purchaser and manager of charged-off consumer receivables portfolios. We acquire these portfolios at deep discounts from their face values using our proprietary valuation process which is based on the 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.

We have been in the collection business for 50 years and started purchasing portfolios for our own account approximately 13 years ago. We purchase charged-off credit card receivables and, to a lesser extent, other consumer receivables, including auto loan deficiencies and general consumer loans. From our inception through June 30, 2003, we had invested over $240 million to acquire 6.7 million consumer accounts with a face value of approximately $11.2 billion.

In May 2000, we acquired selected assets of West Capital Financial Services Corp., which also purchased defaulted receivables portfolios. At that time, West Capital s management team took over the operations of our business. Since then, this management team has refined our purchasing methodologies, significantly expanded and enhanced our collection strategies, improved our financial condition and returned Encore to profitability.

Since new management took over in mid-2000, we have collected approximately $94.0 million through June 30, 2003 from the portfolios we purchased for $39.0 million in 2001, and we have collected approximately $89.2 million through June 30, 2003 from the portfolios we purchased for $62.5 million in 2002.

We purchase discrete pools of consumer receivables directly from credit card originators and other lenders, as well as from a variety of resellers. We have established certain relationships 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. Since mid-2000, we have purchased pools of consumer receivables from 24 credit originators and resellers.

We evaluate each portfolio for purchase using our 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 receivables portfolios. In addition, we have successfully applied this methodology to other types of receivables, such as auto loan deficiencies and consumer loans.

Generally, our objective is to purchase portfolios at a price that allows us to recoup at least 85% of our purchase price within 12 months, and at least 2.7 times our purchase price over 54 months. A substantial majority of our portfolios purchased since the arrival of the new management team in mid-2000 have returned more than 85% of their purchase price within a year, excluding cash generated from selected sales of accounts.

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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:

- outbound calling, driven by proprietary predictive software, by our own sizable collection workforce located at our two call centers;
- the use of multiple third party networks of collection attorneys to pursue legal action where appropriate;
- 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.

By applying these multiple collection processes in a systematic manner, we have greatly increased our collection effectiveness and reduced our total operating expense per dollar collected. Total operating expense per dollar collected was $0.38 for the six months ended June 30, 2003, an improvement from $0.43 in the year ended December 31, 2002 and $0.56 in the year ended December 31, 2001. For the first six months of 2003, we collected a monthly average of $24,082 per average active employee. In the year ended December 31, 2002, we collected a monthly average of $21,656 per average active employee, as compared to a monthly average of $12,875 per average active employee in the year ended December 31, 2001.

Our Industry

The receivables management industry is large and growing rapidly, driven by increasing levels of consumer debt, higher default rates, and increasing use of third-party providers by credit originators to collect their defaulted receivables.

As of May 2003, consumer credit, which excludes mortgages, was $1.76 trillion, up 5.0% from May 2002. Consumer credit grew at an 8.3% compounded annual rate between 1992 and 2002.

The Federal Reserve Board estimates that consumer credit charge-offs totaled $48.3 billion during the first three months of 2003, representing 2.77% of all consumer credit outstanding as of March 31, 2003. Consumer credit charge-offs grew at a 12.1% compounded annual rate between 1992 and 2002.

Revolving credit, a subset of consumer credit which includes credit cards, rose 5.3% to $725 billion in May 2003 from May 2002. Revolving credit is the fastest growing component of consumer credit, growing at an 11.0% compounded annual rate between 1992 and 2002.

For the first quarter of 2003, the credit card charge-off rate was 5.58%, down from 7.67% in the first quarter of 2002, which marked the highest credit charge-off rates in history. Revolving credit charge-offs reached $44.3 billion in 2002, growing at a 14.2% compounded annual rate between 1992 and 2002.

Historically, credit originators have sought to limit credit losses either through using internal collection efforts with their own personnel or outsourcing collection activities to accounts receivable management providers. Credit originators that have outsourced the collection of defaulted receivables have typically remained committed to third-party providers as a result of the perceived economic benefit of outsourcing and the resources required to reestablish the infrastructure required to support in-house collection efforts. Credit originators outsourced solutions include selling their defaulted receivables for immediate cash proceeds and placing defaulted receivables with an outsourced provider on a contingent fee basis while retaining ownership of the receivables.

The accounts receivable industry is highly fragmented, with approximately 6,000 collection companies in the United States. Most of these collection companies are small, privately-owned companies that collect for others for a contingent fee. We believe that there are fewer than 15-20 large companies (almost all of which remain privately-owned) that purchase the receivables and collect for their own account.

Our Strengths

Since the new management team took over in mid-2000, we have substantially refined our purchasing methodologies, expanded our collection strategies, improved our balance sheet and returned to profitability. We believe that these results are a product of the following strengths and competitive advantages:

Empirically-Based and Technology-Driven Business Processes. We have assembled a team of statisticians, business analysts and software programmers that has developed 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. The expectations for each account are then aggregated to arrive at a valuation for the entire portfolio. Our valuations are derived in large part from information accumulated on approximately 4.1 million accounts acquired since mid-2000.

Dynamic Collections Approach. Over the past two and one-half years, we have dramatically reduced our dependence on general outbound calling by expanding our collection strategies to include direct mail campaigns, greater use of legal actions, account sales, and a relationship with a national credit card company to provide for account balance transfers. 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 change our collection method for each account accordingly.

Experienced Management Team. Our management team has considerable experience in financial, banking, consumer and other industries, as well as the collections industry. We believe that the expertise of our executives obtained by managing in 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.

Ability to Hire, Develop and Retain Productive Collectors and Key Employees. We place considerable emphasis on hiring, developing and retaining effective collectors and other employees who are a key to our continued growth and profitability. As a result of ongoing training, compensation incentives and our progressive corporate culture, we believe that we have been able to achieve a retention rate that is higher than typical for our industry.

Large Database of Consumer Information. From our inception through June 30, 2003, we acquired 6.7 million accounts. We utilize a significant portion of the data from these accounts in our account-level valuation techniques employed in both the acquisition and management of accounts. In the future, we believe this database may be leveraged in other value-creating endeavors, enabling us to form potentially profitable relationships with other companies that can utilize this information in their business.

Our Strategy

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

Implement New and Refine 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 approaches to collection 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

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collection processes to other charged-off receivables markets, including auto loan deficiencies and general consumer loans. We believe that these markets may be less competitive, and therefore may offer more favorable pricing and higher margin opportunities. To date, our purchases of auto loan deficiencies and general consumer loans have performed to expectations.

Increase Our Negotiated Transactions. We have purchased portfolios from a number of credit originators and other sources. We believe that we have earned a reputation as a reliable purchaser and collector of defaulted consumer receivables portfolios, which helps to preserve the reputation of the credit originator. We intend to leverage our industry relationships and reputation to increase purchases through negotiated agreements, including forward flow contracts, and to reduce our reliance on auctions.

Improve Overall Cost of Funds. Recently, we have taken a number of steps to improve our balance sheet, and are now exploring new financing arrangements with the goal of continuing to improve our balance sheet, lowering our cost of funds, and therefore improving our return on equity.

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 intend to be opportunistic, and may pursue the acquisition of complementary companies to add to our expertise in new markets, add capacity, and provide us with additional portfolios to service.

Office Location

Our principal executive offices are located at 5775 Roscoe Court, San Diego, California 92123, and our telephone number is (877) 445-4581. We were incorporated in Delaware in April 1999 as MCM Capital Group, Inc. and changed our name to Encore Capital Group, Inc. in April 2002. Our operating subsidiary, Midland Credit Management, Inc. (Midland Credit), was incorporated in Kansas in September 1953. Our web site is www.encorecapitalgroup.com. The information contained on our web site is not incorporated by reference into and does not form any part of this prospectus.

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THE OFFERING

Shares being offered by us	3,000,000 Shares
Shares being offered by selling stockholders	2,000,000 Shares
Shares to be outstanding after the offering	21,162,435 Shares(1)
Use of proceeds	To repay certain existing indebtedness and provide funds for working capital and general corporate purposes, which may include the acquisition of complementary companies. See Use of Proceeds.
Nasdaq symbol	ECPG

(1) The number of shares of our common stock referred to above that will be outstanding immediately after completion of this offering is based on 7,431,466 shares of our common stock outstanding as of June 30, 2003, 730,969 shares of common stock to be issued upon exercise of options and warrants by selling stockholders concurrent with this offering, and the agreed-upon conversion, concurrent with the close of this offering, of all of our outstanding Series A Senior Cumulative Participating Convertible Preferred Stock into 10,000,000 shares of our common stock, but excludes:

722,851 shares of our common stock issuable upon exercise of warrants with a weighted average exercise price of $0.86 per share (233,812 shares to be issued upon exercise of warrants with a weighted average exercise price of $0.01 per share and offered for sale in this offering are reflected above);

1,540,342 shares of our common stock issuable upon exercise of options with a weighted average exercise price of $0.88 per share (497,157 shares to be issued upon exercise of options with a weighted average exercise price of $0.95 per share and offered for sale in this offering are reflected above); and

up to 542,167 additional shares of our common stock reserved for future issuance under our equity participation plan.

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Summary Consolidated Financial Data

The following summarizes our historical consolidated financial information. We derived the information, except certain components of selected operating data, as of and for each of the three years ended December 31, 2002 from our audited consolidated financial statements. The information, except certain components of selected operating data, as of June 30, 2003 and for the six months ended June 30, 2002 and 2003, are derived from our unaudited consolidated financial statements and include all adjustments consisting only of normal, recurring adjustments that we consider necessary for a fair presentation of that information. Historical operating results are not necessarily indicative of the results that may be expected for any future period. You should read the summary financial data presented below in conjunction with our consolidated financial statements, the notes to our consolidated statements and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Years Ended December 31,			Six Months Ended June 30, (unaudited)	
	2000	2001	2002	2002	2003
	(In thousands, except per share, cost per dollar and personnel data)				
Consolidated Statements of Income Data:					
Total revenues	$ 36,560	$ 47,845	$ 90,380	$38,325	$56,514
Total operating expenses	59,649	46,824	63,915	29,181	35,684
Income (loss) before interest expense, other income and income taxes	$(23,089)	$ 1,021	$ 26,465	$ 9,144	$20,830
Net income (loss)	$(23,730)(3)	$(10,865)	$ 13,789(1)	$ 926	$11,476(2)
Preferred dividends			(440)	(185)	(251)
Net income (loss) available to common stockholders	$(23,730)(3)	$(10,865)	$ 13,349	$ 741	$11,225
Earnings (loss) per share:					
Basic	$ (3.20)	$ (1.52)	$ 1.82	$ 0.10	$ 1.51
Diluted	$ (3.20)	$ (1.52)	$ 0.84	$ 0.06	$ 0.58
Weighted-average shares outstanding:					
Basic	7,421	7,161	7,339	7,265	7,416
Diluted	7,421	7,161	16,459	14,936	19,723
Selected Operating Data:					
Purchases of receivables portfolios, at cost	$ 6,911(9)	$ 39,030	$ 62,525	$23,622	$45,073
Growth in purchases, at cost(8)	(86.7)%	464.8%	60.2%	24.9%	90.8%
Gross collections for the period	$ 66,117	$ 83,051	$148,808	$69,620	$93,733
Gross collections growth for the period(8)	89.6%	25.6%	79.2%	92.3%	34.6%
Total active collectors at period end(7)	336	419	435	385	491
Total active employees at period end(7)	523	583	611	546	691
Average active employees for the period(7)	554	538	573	563	649
Gross collections per average active employee for the period(7)	$ 119	$ 154	$ 260	$ 124	$ 144
Total operating expenses per average active employee for the period(7)	$ 108(3)	$ 87	$ 112	$ 52	$ 55
Total operating expenses to gross collections	90.2%(3)	56.4%	43.0%	41.9%	38.1%

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	As of June 30, 2003	
	Actual	**Pro-forma**
	(Unaudited and **in thousands)**	
Consolidated Statements of Financial Condition Data:		
Cash	$ 4,250	$ 30,426(4)
Restricted cash	593	593
Investment in receivables portfolios, net	76,910	76,910
Investment in retained interest	3,798	3,798
Total assets	92,357	118,533(5)
Accrued profit sharing arrangement	11,116	11,116
Notes payable and other borrowings, net of discount of $672, actual; $0, pro-forma	41,121	34,543(4)
Capital lease obligations	610	610
Total debt	41,731	35,153(4)
Total liabilities	61,795	54,826(6)
Total stockholders equity	30,562	63,707(4)

(1) Reflects a benefit totaling $6.8 million, or $0.41 per share on a fully diluted basis, recognized in the fourth quarter of 2002 resulting from our reinstatement of our net deferred tax asset.

(2) 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 $0.22 per share on a fully diluted basis.

(3) Includes impairment charges of $20.9 million against the carrying value of thirty-two receivables portfolios acquired in 1999 and 2000, which increased the operating expenses per average active employee for 2000 by $38,000 and which approximates 31.6% of gross collections for 2000.

(4) Reflects, on a pro-forma basis, the effects of this offering (see Capitalization Table).

(5) Reflects, on a pro-forma basis, the estimated $26.2 million net increase in cash resulting from the effects of this offering.

(6) Reflects, on a pro-forma basis, the payment of $0.2 million in accrued and unpaid dividends, the $7.5 million repayment of our Senior Notes (which includes accrued interest of $0.2 million), and the write-off of the related $0.7 million debt discount, resulting from the effects of this offering.

(7) Amounts are unaudited.

(8) Percentage is calculated by taking the current period amount less the prior period amount and dividing the result by the prior period amount.

(9) Includes $2.0 million in receivables portfolios purchased as part of the West Capital acquisition.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below with all of the other information included in this prospectus before making an investment decision. If any of the possible adverse events described below actually occurs, our business, results of operations, or financial condition would likely suffer. In such an event, the market price of our common stock could decline and you could lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

We may not be able to purchase receivables at sufficiently favorable prices, terms, or quantities for us to be successful.

Our long-term success depends upon the continued availability of receivables for purchase on a cost-effective basis. The availability of receivables portfolios at favorable prices and on favorable terms depends on a number of factors, including:

- the continuation of the current growth and charge-off trends in consumer debt and sales of receivables 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 collectibility of, and estimate the value of, portfolios; and
- competitive factors affecting potential purchasers and sellers of receivables.

To operate profitably over the long term, we must continually purchase and collect on a sufficient volume of receivables to generate cash collections and the related revenues that exceed our costs.

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

We acquire and manage 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 non-performing receivables, often using a combination of their in-house collection and legal departments as well as third party collection agencies. 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.

In addition, our ability to recover on our receivables and produce sufficient returns can be negatively impacted by the quality of the purchased receivables, as well as economic and other conditions outside of our control. Certain receivables we purchase fail to comply with certain terms of the purchase agreements under which they were acquired. Although we seek to return these receivables to the sellers and recover our cost, we are not always successful. We cannot guarantee that such sellers will be able to meet their payment obligations to us. Yields may also be affected by general economic conditions and other events not in our control.

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

We face competition from a wide range of collection companies and financial services companies which 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 agencies and in-house recovery departments. Competitive pressures adversely affect the availability and pricing of charged-off receivables portfolios, as well as the availability and cost of qualified recovery personnel. As there are few significant barriers to entry for new purchasers of charged-off receivables portfolios, we cannot assure you that additional competitors with greater resources than ours will not enter our market. Moreover, we cannot assure you that we will be able to continue to offer competitive bids for charged-off receivables portfolios. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors are able to do, we may experience reduced access to charged-off receivables portfolios at appropriate prices and reduced profitability.

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

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

High financing costs currently have an adverse effect on our earnings.

In December 2000, we entered into a $75.0 million Secured Financing Facility to fund portfolio purchases. It provides the lender with interest at a stated rate plus participation in the profits from acquired portfolios. For the six months ended June 30, 2003, this arrangement resulted in an effective borrowing rate of 56.3% on portfolio purchases. The facility extends to December 31, 2004 and we cannot terminate it without the lender s approval. Pursuant to an agreement with this lender, we are required to offer this lender the opportunity to finance all purchases of credit card receivables portfolios using this facility. This facility limits the earning potential for portfolios we own that are or were financed under it by increasing our costs of borrowing. The sharing in residual cash flows continues for the entire economic life of the receivables portfolios financed using this facility, and will extend substantially beyond the expiration date of the Secured Financing Facility, which is December 31, 2004.

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 receivables 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 receivables portfolios and to operate our business. In particular, we will need to obtain additional financing when our current Secured Financing Facility expires on December 31, 2004. Additional financing, additional capital or sales of certain receivables for cash may also be needed if we are removed as servicer of receivables that are part of our outstanding financings.

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

Our debt agreements impose a number of restrictive covenants. Failure to satisfy any one of these covenants could result in all or any of the following adverse results:

- acceleration of indebtedness outstanding;
- cross defaults and acceleration of indebtedness under other financing agreements;
- our removal as servicer under our secured financing transactions and possibly other cross-defaulted facilities and loss of servicing fees and other consequences;

liquidation of the receivables in our secured financing transactions and loss of our expected future excess recoveries on receivables in the financed pools;

our inability to continue to make purchases of receivables needed to operate our business; or

our inability to secure alternative financing on favorable terms, if at all.

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

We may be required to change how we account for underperforming receivables portfolios, which would have an adverse effect on our earnings.

The American Institute of Certified Public Accountants has proposed a Statement of Position, *Accounting for Loans and Certain Debt Securities Acquired in a Transfer,* that would revise the accounting standard that governs underperforming receivables portfolios. Under the proposed standard, material decreases in expected cash flows would result in an impairment charge to our earnings while the yield we recognize on the receivables portfolio would remain unchanged. However, material increases in expected cash flows will continue to result in a prospective increase in the yield we recognize on a receivables portfolio.

The estimates we use to calculate our income tax may be challenged resulting in our paying more income taxes.

We utilize estimates in the calculation of our current federal and state income tax liabilities. In our industry, such estimates are subject to substantial interpretation. To the extent federal and state taxing authorities successfully challenge our estimates, we may be required to accelerate the recognition of our revenues or decelerate the recognition of certain of our expenses for income tax reporting purposes. As a result, we may be required to use our financial resources to pay income taxes in periods earlier than we currently expect, which will reduce the funds that would otherwise be available to invest in new receivables portfolios or for other corporate purposes.

We will begin to pay substantial amounts in income taxes after we fully utilize our federal net operating loss carry-forward in 2003.

We have not had to pay federal income taxes for several years as we have utilized our net operating loss carry-forward to offset our federal tax liability. As of December 31, 2002, we had an approximate $14.1 million federal net operating loss carry-forward. We expect to fully utilize this carry-forward in partially offsetting our 2003 federal tax obligation. We expect that we will begin to pay federal income taxes at a 34% rate on future taxable income in the third quarter of 2003. As a result, we will begin to use a portion of our financial resources to pay federal income taxes, which will reduce the funds we have available to invest in new receivables portfolios or for other corporate purposes.

We may not be successful at 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 portfolios, which may also result in

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reduced profitability. Our limited experience in collection of these new types of receivables may result in reduced profitability.

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

Federal and state laws may limit our ability to recover and enforce receivables regardless of any act or omission on our part. Some laws and regulations applicable to credit card issuers may preclude us from collecting on receivables we purchase where the card issuer failed to comply with applicable federal or state laws in generating or servicing the receivables that we have acquired.

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 adversely affect our ability to collect on our receivables, which could adversely affect our earnings. Our failure or the failure of the originators of our receivables to comply with existing or new laws, rules or regulations could limit our ability to recover on receivables, which could reduce our revenues and harm our business.

Because our receivables are generally originated and serviced nationwide, we cannot assure you that the originating lenders have complied with applicable laws and regulations. While receivables acquisition contracts typically contain provisions indemnifying us for losses due to the originating institution s failure to comply with applicable laws and other events, we cannot assure you that any indemnities received from originating institutions will be adequate to protect us from losses on the receivables or liabilities to customers.

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

We operate in an extremely litigious climate and may be named as defendants in litigation, including in class actions under securities laws as well as consumer credit, collections and various other consumer-oriented laws.

If our future quarterly operating results are below the expectations of securities analysts or investors, the price of our common stock will likely decline. Stock price fluctuations may be exaggerated if the trading volume of our common stock continues to be low. 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.

Defending a lawsuit, regardless of its merit, could be costly and could divert management s attention from the operation of our business. The use of certain collection strategies could be restricted if class action plaintiffs were to prevail in their claims. In addition, insurance costs continue to increase significantly and policy deductibles have also increased. All of these factors could have an adverse effect on our consolidated financial condition and results of operations.

We are currently subject to a lawsuit that asserts a claim on behalf of a class of Texas residents. The plaintiff is currently seeking to amend her complaint to expand the class to a nationwide class. There has been no motion for class certification filed as of this date.

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

From time to time, we consider acquisitions of other companies in our industry 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. We may not be able to successfully acquire other businesses or, if we do, we may not be able to successfully integrate these businesses with our own. Further, acquisitions may place additional constraints on our resources such as diverting the attention of our management from other business concerns. Through acquisitions, we may enter markets in which we have limited or no experience. 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.

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Recent legislative actions and proposed regulations will require changes in our board of directors and other corporate governance initiatives, which may be difficult and expensive to implement.

To satisfy the director independence requirements of the provisions of the Sarbanes-Oxley Act of 2002, recently adopted accounting rules, and proposed Nasdaq listing standards, we will be required to substantially reconfigure the makeup of our board of directors, audit committee, nominating committee, and compensation committee. We may not be successful in identifying qualified individuals who are deemed to be independent under applicable standards and willing to serve on our board of directors. Any failure to reconfigure our board of directors and board committees with qualified directors could have an adverse effect on our business.

To implement other required corporate governance initiatives mandated by the Sarbanes-Oxley Act, the Securities and Exchange Commission and the proposed Nasdaq rules, we may be required to enhance our internal controls, hire additional personnel and utilize additional outside legal, accounting and advisory services, all of which would cause our general and administrative expenses to substantially increase. We also expect that the premiums we pay for directors and officers insurance policies will increase in the future as a result of higher claim rates incurred by insurers on other insured companies in recent years. These increased costs will adversely affect our operating results.

We may not be able to manage our growth or effectively obtain the resources necessary to achieve additional growth.

We have expanded significantly in recent years and we intend to maintain our growth strategy. However, expanding our operations places great demands on our management, employees, finances and other resources. To successfully manage our growth, we may need to expand and enhance our administrative infrastructure, further improve our management, financial and information systems and controls, and more effectively recruit, train, manage and retain our employees. 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 are unable to effectively manage our growth, it may adversely affect our financial results.

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. We generally compete for qualified personnel with companies in our business and in the collection agency, tele-services and telemarketing industries. We will not be able to service our receivables effectively, continue our growth and 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 will affect our ability to maintain profitable operations.

We depend on our key personnel, the loss of any of whom would adversely affect our operations.

Our performance is substantially dependent on the performance of our senior management and other key personnel. The loss of the services of one or more of our executive officers or key employees, or the inability to hire new management as needed, could disrupt our operations. Although we have employment agreements with two of our senior executives, there can be no assurances that these agreements will assure the continued services of these officers, nor can we assure you that the non-competition provisions of these agreements will be enforceable.

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

Our success depends in large part on sophisticated telecommunications and computer systems. The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty, operating malfunction 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 receivables portfolios and to access, maintain and expand the databases we use for our collection activities. Any simultaneous failure of both of our information systems and their backup systems would interrupt our business operations.

Our business depends heavily on service provided by various local and long distance telephone companies. A significant increase in telephone service costs or any significant interruption in telephone services could reduce our profitability 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.

While we believe that our existing information systems are sufficient to meet our current and foreseeable demands and continued expansion, our future growth may require additional investment in these systems. 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 could suffer an interruption in services by our primary attorney network as we undergo a change in how we interface with this network.

We use multiple third party networks of collection attorneys to pursue legal action where appropriate. We are changing how we interface with our primary attorney network, which involves a change in software platforms. There can be no assurance that this change will go smoothly. Any disruption of services by this network as a result of conversion difficulties could materially adversely affect collection efforts through this channel.

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. We may not be able to adequately protect our technology and data resources.

Our quarterly operating results may fluctuate and cause our stock price to decrease.

Because of the nature of our business, our quarterly operating results may fluctuate in the future, which may adversely affect the market price of our common stock. The reasons our results may fluctuate include:

- the timing and amount of recoveries on our receivables portfolios;
- any charge to earnings resulting from an impairment in the carrying value of our receivables portfolios or in the carrying value of our retained interest;
- increases in operating expenses associated with the growth of our operations; and
- our removal as servicer of our receivables by our Secured Financing Facility provider.

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RISKS RELATED TO THIS OFFERING AND OUR CAPITAL STRUCTURE

Your ownership interest in Encore will be diluted upon issuance of shares we have reserved for future issuance.

On June 30, 2003, 7,431,466 shares of our common stock were outstanding, and 13,536,329 additional shares of our common stock were reserved for issuance, which includes 10,000,000 shares reserved for issuance upon conversion of our Series A Convertible Preferred Stock. We have reached an agreement with the holders of our Series A Convertible Preferred Stock for them to exercise their right to convert their preferred shares into 10,000,000 shares of our common stock concurrently with the close of this offering. Of these shares, 1,075,614 shares are being offered for sale in this offering.

The following shares were reserved for issuance as of June 30, 2003, in addition to the shares reserved for issuance upon conversion of our Series A Convertible Preferred Stock:

956,663 shares of our common stock issuable upon exercise of warrants outstanding as of June 30, 2003 at a weighted average exercise price of $0.65 per share, of which 233,812 shares with a weighted average exercise price of $0.01 per share are being offered for sale in this offering; and

2,037,499 shares of our common stock issuable upon exercise of options outstanding as of June 30, 2003 at a weighted average exercise price of $0.90 per share, of which 497,157 shares with a weighted average exercise price of $0.95 per share are being offered for sale in this offering; and

up to 542,167 additional shares of our common stock reserved for future issuance under our equity participation plan.

The issuance of these additional shares will reduce your percentage ownership in Encore. The existence of these reserved shares coupled with other factors, such as our relatively small public float, could adversely affect prevailing market prices for our common stock and our ability to raise capital through an offering of equity securities.

Our directors have interests in completing this offering that are different than the interests of our other stockholders.

Five of our nine directors collectively beneficially own 579,095 shares of our Series A Convertible Preferred Stock, a sixth director is employed by an affiliate of a company that beneficially owns an additional 400,000 shares of our Series A Convertible Preferred Stock, and a seventh director is employed by a company owned by a director who holds shares of our Series A Convertible Preferred Stock. Holders of our Series A Convertible Preferred Stock include Eric Kogan and Alexander Lemond, directors of Encore; Robert Whyte, a director and the owner of a company that employs our director, Neville Katz; entities affiliated with Nelson Peltz and Peter May, directors of Encore; and Consolidated Press International Holdings Limited (a significant stockholder of Encore), an affiliate of which employs Raymond Fleming, a director. Concurrently with this offering, these shares of Series A Convertible Preferred Stock will be converted into 9,790,950 shares of our common stock (see Related Party Transactions Preferred Stock), of which 1,075,600 shares will be included in this offering. The directors who are, or are employed by, holders of shares of Series A Convertible Preferred Stock may be more likely to support this offering than if they did not hold such shares.

Our directors, executive officers, and principal stockholders have significant voting power and may take actions that may not be in the best interests of our other stockholders.

After this offering and the concurrent conversion of our Series A Convertible Preferred Stock, our officers, directors, and principal stockholders holding more than five percent of our common stock together will control approximately 60% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to control the management and affairs of our company and all matters

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requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control or a merger, consolidation, or other business combination at a premium price if these stockholders oppose it, and generally may not be in the best interest of our other stockholders.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our stockholders sell substantial amounts of our common stock in the public market after this offering, including shares issued upon the exercise of outstanding options and warrants and the conversion of the Series A Convertible Preferred Stock, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. See Shares Eligible for Future Sale.

If our management team does not effectively use the proceeds of this offering, we may fail to achieve our objectives and our stock price may decline.

Our management has significant flexibility in applying the proceeds that we receive in this offering. We intend to use the proceeds from this offering to redeem or repay certain existing indebtedness, and provide funds for working capital and general corporate purposes. We also may use a portion of the net proceeds to pursue acquisitions of other companies that we believe will complement our business. Because the proceeds are not required to be allocated to any specific investment or transaction, you cannot determine the value or propriety of our management s application of the proceeds prior to your investment, and you may disagree with the ways we choose to utilize these proceeds. We cannot assure you that proceeds used to pursue possible acquisitions or for unspecified general corporate purposes will be invested to yield a significant return, or any return at all.

We can issue preferred stock without your approval, which could adversely affect your rights.

Our certificate of incorporation authorizes us to issue shares of blank check preferred stock, the designation, number, voting powers, preferences, and rights of which may be fixed or altered from time to time by our board of directors. Accordingly, the board of directors has the authority, without stockholder approval, to issue preferred stock with rights that could adversely affect the voting power or other rights of the common stock holders or the market value of the common stock.

Anti-takeover provisions in our charter documents and state law may inhibit beneficial changes of control.

Our certificate of incorporation and by-laws and Delaware law contain provisions which could make it more difficult for a third party to acquire us, even if such a change in control would be beneficial to our stockholders. For example:

- our board of directors has the power to issue shares of preferred stock and set the related terms without stockholder approval;

- we are restricted in our ability to enter into business combinations with interested stockholders;

- our stockholders may hold a special meeting only if our board of directors calls the meeting or if a majority of the votes entitled to be cast at a special meeting make a written demand for the meeting; and

- we require advanced notice for nominating candidates and for stockholder proposals.

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, included or incorporated into this prospectus are forward-looking statements. The words believe, expect, anticipate, estimate, project, and similar expressions often characterize forward-looking statements. These statements may include, but are not limited to, projections of collections, revenues, income or loss, estimates of capital expenditures, plans for future operations, products or services, and financing needs or plans, as well as assumptions relating to these matters. These statements include, among others, statements found under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business.

Actual results could differ materially from those contained in the forward-looking statements due to a number of factors, some of which are beyond our control. Factors that could affect our results and cause them to differ from those contained in the forward-looking statements include:

- the availability and cost of financing;
- our ability to purchase receivables portfolios on acceptable terms;
- our ability to recover sufficient amounts on receivables to fund operations;
- our continued servicing of receivables in our third party financing transactions;
- our ability to hire and retain qualified personnel to recover on our receivables efficiently;
- changes in, or failure to comply with, government regulations; and
- the costs, uncertainties and other effects of legal and administrative proceedings.

Forward-looking statements speak only as of the date the statement was made. They are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. Future events and actual results could differ materially from the forward-looking statements. When considering each forward-looking statement, you should keep in mind the risk factors and cautionary statements found throughout this prospectus and specifically those found above. We are not obligated to publicly update or revise any forward looking statements, whether as a result of new information, future events, or for any other reason.

In addition, it is our policy generally not to make any specific projections as to future earnings, and we do not endorse projections regarding future performance that may be made by third parties.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately $33.3 million from the sale of 3,000,000 shares of common stock in this offering. Net proceeds are what we expect to receive after we pay the underwriting discounts and commissions of $2.2 million and the estimated offering expenses of $0.5 million. For the purpose of estimating net proceeds, we are assuming that the public offering price will be $ per share. The underwriters have an option to purchase up to 750,000 shares of our common stock from the selling stockholders to cover over-allotments. Accordingly, we will receive no additional proceeds if the underwriters over-allotment option is exercised. Since some of the shares being offered will be issued upon the exercise of currently outstanding stock options and warrants, we will receive $0.5 million from the selling stockholders in payment of their option and warrant exercise prices. If the underwriters fully exercise their over-allotment option, we will receive an additional $0.2 million from the selling stockholders in payment of the additional option exercise prices.

We intend to use approximately $7.5 million of the net proceeds of this offering to repay in full our Senior Notes, which includes accrued and unpaid interest. The Senior Notes bear interest at 8.0% per annum and are due in January 2007. We intend to use the remainder of the net proceeds of this offering for working capital and general corporate purposes, which could include the acquisition of charged-off

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receivables portfolios and complementary companies. We will retain broad discretion in the allocation of the net proceeds of this offering.

Pending the uses described above, we will invest the net proceeds of this offering in cash, cash-equivalents, money market funds, or short-term interest-bearing, investment-grade securities to the extent consistent with applicable regulations. We cannot predict whether the proceeds will be invested to yield a favorable return.

We will not receive any proceeds from the sale of common stock by selling stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq Stock Market s National Market under the symbol ECPG . Prior to July 21, 2003, our stock traded on the OTC Electronic Bulletin Board under the symbol ECPG.OB (and before we changed our name, MCMC.OB).

While on the OTC, trading in our stock was often sporadic with a relatively low volume of shares traded. Quotations of the OTC reflect inter-trader prices, without material mark-up, markdown or commission and may not necessarily represent actual transactions.

The high and low closing sales prices of the common stock, as reported by Nasdaq Stock Market s National Market and the OTC Electronic Bulletin Board for each quarter during the our two most recent fiscal years and this year are reported below:

	Market Price	
	High	**Low**
Fiscal Year 2001		
First Quarter	$ 0.58	$0.34
Second Quarter	$ 1.20	$0.36
Third Quarter	$ 0.60	$0.31
Fourth Quarter	$ 0.63	$0.21
Fiscal Year 2002		
First Quarter	$ 0.80	$0.26
Second Quarter	$ 1.01	$0.70
Third Quarter	$ 1.20	$0.45
Fourth Quarter	$ 1.60	$0.75
Fiscal Year 2003		
First Quarter	$ 1.60	$1.05
Second Quarter	$ 9.70	$1.60
Third Quarter (through August 28, 2003)	$14.40	$8.99

The last reported sale price of our common stock on August 28, 2003 was $10.01. Based on information received from our registrar and transfer agent, we believe that there are approximately 870 beneficial holders of our common stock. On June 30, 2003, there were 7,431,466 shares of our common stock outstanding. At June 30, 2003, there were an additional 12,994,162 shares reserved for issuance with respect to our Series A Convertible Preferred Stock and our issued and outstanding options and warrants, resulting in a total of 20,425,628 shares of our common stock on a fully diluted basis.

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DIVIDEND POLICY

We have never declared or paid dividends on our common stock and we anticipate that we will retain earnings to support operations and to finance the growth and development of our business. Therefore, we do not intend to declare or pay dividends on the common stock for the foreseeable future. The declaration, payment and amount of future dividends, if any, will be subject to the discretion of our board of directors, which may review our dividend policy from time to time. In addition, the terms of our Senior Notes restrict us from paying cash dividends on common shares while the notes are outstanding. We intend to repay these Senior Notes in full with proceeds of this offering. Certain of our other current financing facilities also require us to meet and maintain certain financial covenant and other requirements; if we fail to meet those requirements, our ability to pay make dividend payments is further restricted. We may also be subject to additional dividend restrictions under future financing facilities. For a more detailed discussion of our senior financing, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our Series A Convertible Preferred Stock carries a cumulative dividend, payable semi-annually, of 10.0% per annum. Dividends due on August 15, 2002, February 15, 2003 and August 15, 2003 were paid in cash. The dividend rate would increase to 15.0% per annum in the event of a qualified public offering (such as the offering contemplated hereby), a change of control (each as defined) or the sale of all or substantially all of our assets. See Related Party Transactions Preferred Stock for discussion of the agreed-upon conversion of our Series A Convertible Preferred Stock into common stock in connection with this offering.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2003:

on an actual basis; and

on a pro-forma basis to reflect and give effect to the agreed-upon conversion, concurrent with the close of this offering, of all outstanding shares of our Series A Convertible Preferred Stock into 10,000,000 shares of our common stock (see Related Party Transactions Preferred Stock), the payment of $0.2 million for accrued and unpaid dividends on our Series A Convertible Preferred Stock (based on a pro-forma conversion date of June 30, 2003), and the $7.5 million repayment of our Senior Notes (which includes accrued interest of $0.2 million based on an assumed repayment date of June 30, 2003), to reflect and give effect to our receipt of the estimated net proceeds of approximately $33.3 million from the sale of 3.0 million shares of our common stock offered by us in this prospectus at an assumed public offering price of $ per share, after deducting underwriting discounts of $2.2 million and estimated offering expenses of $0.5 million payable by us, and to reflect and give effect to our receipt of the estimated proceeds of approximately $0.5 million from the exercise of options and warrants by selling stockholders.

	As of June 30, 2003	
	Actual	Pro-forma
	(Unaudited and in **thousands, except share data)**	
Cash	$ 4,250	$ 30,426
Notes payable and other borrowings, net of $672 discount, actual; and $0, pro-forma	$ 41,121	$ 34,543
Capital lease obligations	610	610
Total debt	41,731	35,153
Stockholders equity:		
Series A convertible preferred stock, $0.01 par value, 5,000,000 shares authorized, 1,000,000 shares issued and outstanding, actual; zero shares issued and outstanding, pro-forma	10	
Common stock, $0.01 par value, 50,000,000 shares authorized, 7,431,466 shares issued and outstanding, actual; and 21,162,435 shares issued and outstanding, pro-forma	74	212
Additional paid-in capital	31,534	65,223
Accumulated deficit	(1,163)	(1,835)(1)
Accumulated other comprehensive income	107	107
Total stockholders equity	30,562	63,707
Total capitalization	$ 72,293	$ 98,860

(1) Reflects, on a pro-forma basis, the write-off of the $0.7 million debt discount related to the payoff of our Senior Notes, which will be recorded as a charge to earnings.

The table above does not include:

722,851 shares of our common stock issuable upon exercise of warrants with a weighted average exercise price of $0.86 per share (233,812 shares to be issued upon exercise of warrants with a weighted average exercise price of $0.01 per share and offered for sale in this offering are reflected in the table above);

1,540,342 shares of our common stock issuable upon exercise of options with a weighted average exercise price of $0.88 per share (497,157 shares to be issued upon exercise of options with a weighted average exercise price of $0.95 per share and offered for sale in this offering are reflected in the table above); and

up to 542,167 additional shares of our common stock reserved for future issuance under our equity participation plan.

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SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with our consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 1998 and 1999 and the consolidated statements of financial condition data as of December 31, 1998, 1999 and 2000 have been derived from our audited consolidated financial statements, which are not included in this prospectus. The consolidated statements of operations data for the years ended December 31, 2000, 2001 and 2002 and the consolidated statements of financial condition data as of December 31, 2001 and 2002 have been derived from our audited consolidated financial statements, which appear elsewhere in this prospectus. The consolidated statements of operations data for the six months ended June 30, 2002 and 2003 and the consolidated statements of financial condition data as of June 30, 2003 have been derived from our unaudited interim consolidated financial statements that appear elsewhere in this prospectus. These unaudited interim consolidated financial statements include all adjustments consisting only of normal, recurring adjustments that we consider necessary for a fair presentation of that information. Certain components of selected operating data are not derived from our consolidated financial statements. Historical operating results are not necessarily indicative of the results that may be expected for any future period.

	Years ended December 31,					Six months ended June 30, (unaudited)	
	1998	1999	2000	2001	2002	2002	2003
	(In thousands, except per share, and cost per dollar and personnel data)						
Consolidated statements of operations data:							
Revenues							
Revenue from receivables portfolios(1)	$17,470	$12,917	$ 15,434	$ 32,581	$ 80,961	$33,232	$55,257
Revenue from retained interest		7,836	11,679	9,806	5,707	3,218	214
Gain on securitization	9,300						
Servicing fees and related revenue	105	7,405	9,447	5,458	3,712	1,875	1,043
Total revenues	26,875	28,158	36,560	47,845	90,380	38,325	56,514
Operating expenses							
Salaries and employee benefits	7,472	18,821	23,423	27,428	35,137	17,202	19,129
Other operating expenses	2,200	3,479	6,211	5,708	7,934	3,348	5,011
Cost of legal collections			129	5,457	11,028	4,469	7,518
General and administrative expenses	1,290	3,019	5,458	5,750	6,314	2,971	3,013
Restructuring charges			1,388				
Provision for portfolio losses			20,886(4)		1,049		
Depreciation and amortization	427	964	2,154	2,481	2,453	1,191	1,013
Total operating expenses	11,389	26,283	59,649	46,824	63,915	29,181	35,684
Income (loss) before interest, other income, and income taxes	15,486	1,875	(23,089)	1,021	26,465	9,144	20,830
Interest expense	(2,982)	(2,166)	(7,829)	(10,945)	(18,592)	(8,012)	(8,956)
Other income (expense), net	(199)(11)	206	(69)	208	213	157	7,289(2)

Income (loss) before income taxes	12,305	(85)	(30,987)	(9,716)	8,086	1,289	19,163
(Provision for) benefit from income taxes	(4,950)(11)	34	7,257	(1,149)	5,703(3)	(363)	(7,687)
Net income (loss)	7,355	(51)	(23,730)(4)	(10,865)	13,789	926	11,476
Preferred dividends					(440)	(185)	(251)
Net income (loss) available to common stockholders	$ 7,355	$ (51)	$ (23,730)(4)	$ (10,865)	$ 13,349	$ 741	$ 11,225
Earnings (loss) per share:							
Basic	$ 1.49	$ (0.01)	$ (3.20)	$ (1.52)	$ 1.82	$ 0.10	$ 1.51
Diluted	$ 1.47	$ (0.01)	$ (3.20)	$ (1.52)	$ 0.84	$ 0.06	$ 0.58
Weighted-average shares outstanding:							
Basic	4,941	5,989	7,421	7,161	7,339	7,265	7,416
Diluted	4,996	5,989	7,421	7,161	16,459	14,936	19,723

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	Years ended December 31,					Six months ended June 30, (unaudited)	
	1998	1999	2000	2001	2002	2002	2003
	(In thousands, except per share, and cost per dollar and personnel data)						
Cash flow data:							
Cash flows provided by (used in):							
Operating	$ 3,434	$ (3,405)	$(15,831)	$ 8,853	$ 24,690	$ 5,929	$19,693
Investing	9,155	(59,491)	12,399	(21,773)	(11,158)	3,781	(9,045)
Financing	(8,408)	58,590	3,968	13,444	(14,192)	(9,833)	(7,150)
Selected operating data:							
Purchases of receivables portfolios, at cost	$24,762	$ 51,969	$ 6,911(12)	$ 39,030	$ 62,525	$23,622	$45,073
Growth in purchases, at cost(10)	35.7%	109.9%	(86.7)%	464.8%	60.2%	24.9%	90.8%
Gross collections for the period	$15,940	$ 34,877	$ 66,117	$ 83,051	$148,808	$69,620	$93,733
Gross collections growth for the period(10)	210.9%	118.8%	89.6 %	25.6%	79.2%	92.3%	34.6%
Total active collectors at period end(8)	NAV(9)	NAV(9)	336	419	435	385	491
Total active employees at period end(8)	446	585	523	583	611	546	691
Average active employees for the period(8)	NAV(9)	NAV(9)	554	538	573	563	649
Gross collections per average active employee for the period(8)	NAV(9)	NAV(9)	$ 119	$ 154	$ 260	$ 124	$ 144
Total operating expenses per average active employee for the period(8)	NAV(9)	NAV(9)	$ 108(4)	$ 87	$ 112	$ 52	$ 55
Total operating expenses to gross collections	71.5%	75.4%	90.2%(4)	56.4%	43.0%	41.9%	38.1%

	As of December 31,					As of June 30, 2003 (unaudited)	
	1998	1999	2000	2001	2002	Actual	Pro-forma
Consolidated statements of financial condition data:							
Cash	$ 4,658	$ 352	$ 888	$ 1,412	$ 752	$ 4,250	$ 30,426(5)
Restricted cash		2,939	2,468	3,053	3,105	593	593
Investment in receivables portfolios	2,052	57,473	25,969	47,001	64,168	76,910	76,910
Investment in retained interest	23,986	30,555	31,616	17,926	8,256	3,798	3,798
Total assets	34,828	101,540	71,101	77,711	89,974	92,357	118,533(6)
Accrued profit sharing arrangement				2,378	11,180	11,116	11,116
Notes payable and other borrowings, net	7,005	47,418	53,270	69,215	47,689	41,121	34,543(5)
Capital lease obligations	506	1,262	2,233	1,236	344	610	610
Total debt	7,511	48,680	55,503	70,451	48,033	41,731	35,153(5)
Total liabilities	20,906	68,512	61,022	80,069	70,432	61,795	54,826(7)
Total stockholders equity (deficit)	13,922	33,028	10,079	(2,358)	19,542	30,562	63,707(5)

(1) Includes gains from whole portfolio sales totaling $1.5 million, $6.1 million, and $0.7 million, for the years ended December 31, 1998, 1999, and 2002, respectively.

(2) 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 $0.22 per share on a fully diluted basis.

(3) Reflects a benefit totaling $6.8 million, or $0.41 per share on a fully diluted basis, recognized in the fourth quarter of 2002 resulting from our reinstatement of our net deferred tax asset.

(4) Includes impairment charges of $20.9 million against the carrying value of thirty-two receivables portfolios acquired in 1999 and 2000, which increased the operating expenses per average active employee for 2000 by $38,000 and which approximates 31.6% of gross collections for 2000.

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(5) Reflects on a pro-forma basis the effects of this offering (see Capitalization Table).

(6) Reflects, on a pro-forma basis, the $26.2 million net increase in cash resulting from the effects of this offering.

(7) Reflects, on a pro-forma basis, the payment of $0.2 million in accrued and unpaid dividends, the $7.5 million repayment of of our Senior Notes (which includes accrued interest of $0.2 million), and the write off of the related $0.7 million debt discount resulting from the effects of this offering.

(8) Amounts are unaudited.

(9) NAV This information is not available.

(10) Percentage is calculated by taking the current period amount less the prior period amount and dividing the result by the prior period amount.

(11) Reflects the reclassification of a net charge of $180,000 related to the early extinguishment of debt that was previously presented as an extraordinary item, through a $295,000 charge to other income and a $115,000 reduction to income tax expense.

(12) Includes $2.0 million in receivables portfolios purchased as part of the West Capital acquisition.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our consolidated financial condition and results of operations should be read in connection with our consolidated financial statements and the notes to those statements included elsewhere in this prospectus. This discussion may contain forward-looking statements that involve risks and uncertainties. As a result of many factors such as those set forth under Risk Factors and elsewhere in this prospectus our actual results may differ materially from those anticipated in these forward-looking statements.

Business Overview

We are a systems-driven purchaser and manager of charged-off consumer receivables portfolios. We acquire these portfolios at deep discounts from their face values using our proprietary valuation process which is based on the 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.

We have been in the collection business for 50 years and started purchasing portfolios for our own account approximately 13 years ago. We purchase charged-off credit card receivables and, to a lesser extent, other consumer receivables, including auto loan deficiencies and general consumer loans. From our inception through June 30, 2003, we had invested over $240 million to acquire 6.7 million consumer accounts with a face value of approximately $11.2 billion.

Critical Accounting Policies

Investment in receivables portfolios; revenue recognition for receivables portfolios. We generally account for our investments in receivables portfolios on the accrual basis of accounting in accordance with the provisions of the AICPA s Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans. In those circumstances where our forecasted collections do not exceed our carrying values, we account for our investments in receivables portfolios on the cost recovery method.

Static pools are established with accounts having similar attributes, based on the specific seller and timing of acquisition. Once a static pool is established, the receivables are permanently assigned to the pool. The discount to face value (i.e., the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded because we expect to collect a relatively small percentage of each static pool s contractual receivable balance. As a result, receivables portfolios are recorded at cost at the time of acquisition.

We account for each static pool as a unit (similar to one loan) for the economic life of the pool for recognition of revenue from receivables portfolios, for collections applied to principal of receivables portfolios and for provision for loss or impairment. For our accrual basis receivables portfolios, revenue is recognized based on the effective interest rate determined for each pool applied to each pool s original cost basis, as increased for revenue earned and decreased for collections and impairments. The effective interest rate is the internal rate of return determined based on the timing and amounts of actual cash received and anticipated future cash flow projections for each pool. For our cost recovery portfolios, we do not recognize revenue until the net book value of the portfolio is recovered. After the net book value of a portfolio (whether accrual basis or cost recovery basis) has been fully recovered, all collections on that portfolio are recorded as revenue.

We monitor and evaluate actual and projected cash flows for each receivables portfolio on a quarterly basis. From mid-2000 through June 30, 2003, management has not increased the forecasted cash flows for any receivables portfolio in which actual cumulative collections have exceeded forecast. On the other hand, we reduce the total forecasted cash flows on receivables portfolios where in management s judgment, expected collections will be materially less than the remaining forecast. If the remaining forecasted cash flows are in excess of the remaining carrying value, the effective interest is reduced prospectively. If the remaining forecasted cash flows is less than the remaining carrying value, the receivables portfolio is impaired and all of the remaining collections are subsequently applied against book value. We recorded impairment charges of approximately $20.9 million and $1.0 million against the carrying value of portfolios in 2000 and 2002, respectively (see Note 4 to the 2002 consolidated financial statements). No provision for losses was recorded during the year ended December 31, 2001 or during the six-month period ended June 30, 2003.

On purchases made since mid-2000, our collections, in the aggregate, have exceeded our expectations. As a result, we are in the process of developing a model to estimate the impact of our new collection strategies on the forecasted remaining cash flows of our receivables portfolios. This model will consider all the known data about our accounts, including, among other things, our collection experience, changes in external customer factors in addition to all data known when we acquired the accounts. It is our expectation that the results of this model will be implemented during the fourth quarter of 2003 or first quarter of 2004; however, prior to implementation, substantial validation procedures will be required. Accordingly, the implementation of this model may take more time. The resulting increases or decreases of forecasted cash flows as a result of applying this model, if any, will have a corresponding increase or decrease to our effective interest rates and revenues.

Contingent Interest. Under the terms of our Secured Financing Facility, once we repay the lender for the notes for each purchased portfolio and we collect sufficient amounts to recoup our initial cash investment in each purchased portfolio, we share in residual collections from the receivables portfolios, net of our servicing fees (Contingent Interest) with the lender. We make estimates with respect to the timing and amount of collections of future cash flows from these receivables portfolios. Based on these estimates, we record a portion of our estimated future profit sharing obligation as Contingent Interest Expense. During the years ended December 31, 2001 and December 31, 2002 and the six-month period ended June 30, 2003, we recorded $2.4 million, $13.0 million and $7.0 million, respectively, in Contingent Interest Expense relating to the remaining cash flow sharing agreement. Our accrued profit sharing arrangement related to the Contingent Interest was $2.4 million, $11.2 million and $11.1 million, as of December 31, 2001, December 31, 2002, and June 30, 2003, respectively (see Note 7 to the 2002 consolidated financial statements and Note 8 to our unaudited interim 2003 condensed consolidated financial statements).

Deferred Court Costs. We contract with an association of attorneys (the Network) that acts as a clearinghouse to place accounts for collection with attorneys in most of the 50 states. We generally refer charged-off accounts to the Network 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 agreement with the Network, we advance certain out-of-pocket court costs (Deferred Court Costs). We capitalize these costs in our consolidated financial statements and provide a reserve for those costs that we believe will be ultimately uncollectible. We determine the reserve based on our analysis of court costs that we have advanced, recovered, and anticipate recovering. Deferred Court Costs, net of the valuation reserves, were $1.2 million as of December 31, 2001, $1.2 million as of December 31, 2002; and $1.2 million as of June 30, 2003.

Income Taxes. We use the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Deferred income taxes are recognized based on the differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce net deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

SFAS No. 109 requires a valuation allowance against deferred tax assets if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of December 31, 2001, we continued to believe that substantial uncertainty existed with respect to the future utilization of net operating losses and other deferred tax assets; therefore, we provided a valuation allowance relating to such items arising in 2001. For the year ended December 31, 2001, the net deferred tax assets were zero after the application of the valuation allowance. For the year ended December 31,

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2002, we determined that the utilization of net operating losses and other deferred tax assets were more likely than not, and therefore removed all but $0.2 million of the valuation allowance. The change in the valuation allowance resulted in the recognition of a current net tax benefit in the amount of $6.8 million in the fourth quarter of 2002 (see Note 8 to the 2002 consolidated financial statements).

We utilize estimates in the calculation of our current federal and state income tax liabilities. In our industry, such estimates are subject to substantial interpretation. To the extent federal and state taxing authorities successfully challenge our estimates, we may be required to accelerate the recognition of our revenues or decelerate the recognition of certain of our expenses for income tax reporting purposes. As a result, we may be required to pay income taxes in periods earlier than we currently expect. Revisions to the estimates would not generally result in a material change in the income tax expense we record in our consolidated financial statements. Instead, it would increase or decrease the amount of taxes we currently are required to pay, which would result in a corresponding increase or decrease in the net deferred asset we have reflected in our consolidated statement of financial condition.

Results Of Operations

Six Months Ended June 30, 2003 Compared to June 30, 2002

The following table summarizes our collections, revenues, operating expenses, and income before taxes *(in thousands):*

	For the Six Months Ended June 30,			
	2003	2002	Change	Percentage Change
Gross collections	$93,733	$69,620	$24,113	34.6%
Revenues	$56,514	$38,325	18,189	47.5
as a percentage of gross collections	60.3%	55.0%		
Operating expenses	$35,684	$29,181	6,503	22.3
as a percentage of gross collections	38.1%	41.9%		
Income before taxes	$19,163(1)	$ 1,289	17,874	1,386.7
as a percentage of gross collections	20.4%	1.9%		

(1) Includes the net gain of $7.2 million associated with a litigation settlement.

Collections. Gross collections for the six months ended June 30, 2003 were $93.7 million compared to gross collections of $69.6 million for the six months ended June 30, 2002, an increase of $24.1 million, or 34.6%. The increased collections are primarily derived from new portfolios purchased since December 2000 utilizing our Secured Financing Facility. Gross collections related to portfolios utilizing our Secured Financing Facility were $75.9 million for the six months ended June 30, 2003, compared to gross collections of $43.0 million for the six months ended June 30, 2002, an increase of $32.9 million, or 76.5%.

Revenues. Total revenues for the six months ended June 30, 2003 were $56.5 million compared to total revenues of $38.3 million for the six months ended June 30, 2002, an increase of $18.2 million, or 47.5%. The increase in total revenues is primarily the result of a $24.1 million or a 34.6% increase in gross collections from $69.6 million for the six months ended June 30, 2002 to $93.7 million for the six months ended June 30, 2003. The increase is primarily from revenue from receivables portfolios, which increased $22.0 million, or 66.3%, to $55.2 million from $33.2 million for the six months ended June 30, 2003 and 2002, respectively. Revenue from the retained interest in securitized receivables declined by $3.0 million, from $3.2 million for the six months ended June 30, 2002 to $0.2 million for the six months ended June 30, 2003. This reflects declines in cash collections in the underlying portfolios. As a result we lowered our expected yield on the retained interest from approximately 44.4% to 7.2% per annum. The increase was further offset by a decrease in servicing fees of $0.8 million, a 44.4% decrease, from $1.8 million for the six months ended June 30, 2002 to $1.0 million for the six months ended June 30, 2003.

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The $22.0 million increase in revenue from receivables portfolios for the six months ended June 30, 2003 compared to the same period in the prior year is primarily attributable to new portfolios purchased during the third and fourth quarters of 2002, as well as the first quarter of 2003. During the six months ended December 31, 2002, we purchased new portfolios with a face value in excess of $1.6 billion at a cost of $38.9 million, which represented 2.47% of face value. During the three months ended March 31, 2003, we purchased additional portfolios with a face value of $0.6 billion at a cost of $18.8 million, or 3.19% of face value. These purchased portfolios provided $21.2 million of revenue during the six months ended June 30, 2003.

We service a pool of charged-off consumer accounts on behalf of an unrelated third party. Servicing fees received under this arrangement were $1.0 million and $1.8 million for the six months ended June 30, 2003 and 2002, respectively. In February 2003, we returned all exhausted receivables to the owner. We have, however, retained the servicing rights for those receivables in active work queues and those placed with our attorney network. As a result of this action, we anticipate that the stream of service fee income related to these receivables will continue to decrease.

The following tables summarize the changes in the balance of the investment in receivables portfolios and the proportion of revenue recognized as a percentage of collections during the following periods *(in thousands):*

	For the Six Months Ended June 30, 2003			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 63,253	$ 915	$	$ 64,168
Purchases of receivables portfolios	45,073			45,073
Transfers of portfolios	(1,458)	1,458		
Collections	(79,338)	(1,239)	(5,815)	(86,392)
Portion of litigation settlement proceeds applied to carrying value	(692)			(692)
Adjustments	(498)	(2)	(4)	(504)
Revenue recognized	49,438		5,819	55,257
Balance, end of period	$ 75,778	$ 1,132	$	$ 76,910
Revenue as a percentage of collections	62.3%	0.0%	100.0%	64.0%

	For the Six Months Ended June 30, 2002			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 45,671	$ 1,330	$	$ 47,001
Purchases of receivables portfolios	23,622			23,622
Transfers of portfolios	(929)	929		
Collections	(51,870)	(493)	(2,267)	(54,630)
Adjustments	(258)	(131)		(389)
Revenue recognized	30,965		2,267	33,232
Balance, end of period	$ 47,201	$ 1,635	$	$ 48,836
Revenue as a percentage of collections	59.7%	0.0%	100.0%	60.8%

The annualized weighted average effective interest rate for receivables portfolios on the accretion method was 155.2% for the six months ended June 30, 2003, compared to 142.3% for the six months ended June 30, 2002. The increase in the effective interest rate is primarily due to the increasing

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proportion of our investment in receivables portfolios purchased since mid-2000 that have a higher effective rate than those portfolios purchased prior to mid-2000. The annualized effective interest rate is the accrual rate utilized in recognizing revenue on our accrual basis portfolios. This rate represents the monthly internal rate of return, which has been annualized utilizing the simple interest method. The monthly internal rate of return is determined based on the timing and amounts of actual cash received and the anticipated future cash flow projections for each pool.

The following table summarizes the changes in the balance of the retained interest and the proportion of revenue recognized as a percentage of collections during the following periods *(in thousands):*

	For the Six Months Ended June 30,	
	2003	**2002**
Balance, beginning of period	$ 8,256	$ 17,926
Collections	(4,314)	(9,155)
Amortization of unrealized gain	(358)	(904)
Revenue recognized	214	3,218
Balance, end of period	$ 3,798	$ 11,085
Revenue as a percentage of collections	5.0%	35.2%

The annualized effective interest rate for the retained interest was 7.2% for the six months ended June 30, 2003, compared to 44.4% for the six months ended June 30, 2002. During the first quarter of 2003, we lowered our expected yield on the retained interest based on our estimated net cash flows derived from both historical and projected collections. The decrease in our effective interest rate was the result of a reduction in our expected future collections. The lower expectations were the result of the increasing age of the portfolios and the recent decline in collection performance.

Operating Expenses. Total operating expenses were $35.7 million for the six months ended June 30, 2003, compared to $29.2 million for the six months ended June 30, 2002, an increase of $6.5 million or 22.3%. This increase is primarily volume-related, driven by a 34.6% increase in gross collections.

The largest component of total operating expenses is salaries (including bonuses) and employee benefits which increased by $1.9 million or 11.2% to $19.1 million for the six months ended June 30, 2003 from $17.2 million for the six months ended June 30, 2002. The increase in salaries and benefits is the result of an increase in the number of our employees as well as an increase in bonuses due to higher gross collections. We had 691 active employees as of June 30, 2003, and 546 active employees as of June 30, 2002, an increase of 145 employees, or 26.6%. The average number of active employees was 649 and 563 for the six months ended June 30, 2003 and 2002, respectively. Total salaries and benefits as a percentage of collections for the six-month periods ended June 30, 2003 and 2002 were 20.4% and 24.7%, respectively. We believe our success is directly related to our ability to attract and retain skilled employees. The retention rate of experienced collectors (experienced collectors employed at the beginning of the year who remained employed through the end of the period) was 86% and 93% for the six month periods ended June 30, 2003 and 2002, respectively, while the retention rate of inexperienced collectors (inexperienced collectors in our training program employed at the beginning of the year, plus all new hires during the period, who remained employed through the end of the period) was 75% and 72% for the six month periods ended June 30, 2003 and 2002, respectively. Our high collector retention rates along with our innovative alternative collection strategies have resulted in an increase of 16.7% in average monthly gross collections of $24,082 and $20,645 per average active employee during the six months ended June 30, 2003 and 2002, respectively. Our average monthly gross collections were $15.6 million and $11.6 million during the six months ended June 30, 2003 and 2002, respectively.

Other operating expenses increased approximately $1.7 million, or 49.7%, to $5.0 million for the six months ended June 30, 2003 from $3.3 million for the six months ended June 30, 2002. The increase was

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primarily a result of a $1.5 million increase in direct mail campaign costs during the six months ended June 30, 2003.

Cost of legal collections increased 68.2% to $7.5 million for the six months ended June 30, 2003 from $4.5 million for the six months ended June 30, 2002. The $7.5 million in cost of legal collections amounted to 40.3% of gross collections through this channel for the six months ended June 30, 2003. That compares to the cost of legal collections of $4.5 million for the six months ended June 30, 2002, which were 34.7% of gross collections through this channel. This expense reflects costs associated with the business channel dedicated to collecting on accounts that have been determined to be collectible, but which require tactics other than telephone solicitation. The cost of legal collections as a percentage of collections in this channel has increased as a result of a higher provision for uncollectible court costs incurred. The higher provision is based on our analysis of court costs that we have advanced, recovered, and anticipate recovering. The reserve represents those costs that we believe will be ultimately uncollectible.

General and administrative expenses were consistent at $3.0 million for both periods. We maintained consistent general and administrative expenses despite the increase in gross collections and revenues as discussed above.

Depreciation expense also remained consistent at $1.0 million and $1.2 million for the six months ended June 30, 2003 and 2002, respectively.

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

	For the Six Months Ended June 30,			
	2003	**2002**	**Change**	**Percentage Change**
Stated interest on debt obligations	$ 1,448	$ 1,992	$ (544)	(27.3)%
Amortization of loan fees and other loan costs	459	1,030	(571	