

ENCORE CAPITAL GROUP INC
Form DEF 14A
April 22, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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ENCORE CAPITAL GROUP, INC.

(Name of Registrant as Specified In Its Charter)

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

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ENCORE CAPITAL GROUP, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 5, 2014

To Our Stockholders:

We cordially invite you to attend the 2014 annual meeting of stockholders of Encore Capital Group, Inc. Our annual meeting will be held at the JW Marriott Essex House New York, 160 Central Park South, New York, NY 10019, on June 5, 2014, at 10:00 a.m. Eastern time. The annual meeting is being held for the following purposes:

1. To elect seven directors, each for a term of one year;
2. To approve, in a non-binding vote, the compensation of our named executive officers;
3. To recommend, in a non-binding vote, whether a resolution that a non-binding stockholder vote to approve the compensation of our named executive officers should occur every one, two or three years;
4. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014; and
5. To transact such other business that may properly come before the meeting.

As resolved by our Board of Directors, stockholders of record at the close of business on April 14, 2014 are entitled to notice of and to vote at the annual meeting or any postponement or adjournment thereof.

We have enclosed a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which includes our audited consolidated financial statements.

This proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, are available at <http://phx.corporate-ir.net/phoenix.zhtml?c=115920&p=irol-proxy>.

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

By Order of the Board of Directors,

Kenneth A. Vecchione

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Chief Executive Officer

April 22, 2014

San Diego, California

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ENCORE CAPITAL GROUP, INC.

3111 CAMINO DEL RIO NORTH, SUITE 1300

SAN DIEGO, CALIFORNIA 92108

(877) 445-4581

PROXY STATEMENT

This proxy statement relates to the 2014 annual meeting of stockholders of Encore Capital Group, Inc. (*Encore* or the *Company*), to be held at the JW Marriott Essex House New York, 160 Central Park South, New York, NY 10019, on June 5, 2014 at 10:00 a.m. Eastern time, or at such other time and place to which the annual meeting may be adjourned or postponed. The enclosed proxy is solicited by our Board of Directors (our *Board*), and is first being mailed to stockholders entitled to vote at the meeting on or about April 25, 2014.

QUESTIONS ABOUT THE MEETING

What is the purpose of the annual meeting?

At our annual meeting, stockholders will act upon the matters outlined in the accompanying notice of meeting, including (i) the election of seven directors, (ii) the approval, by non-binding vote, of the compensation of our named executive officers, (iii) the recommendation, by non-binding vote, of the frequency of the non-binding stockholder vote on the compensation of our named executive officers, and (iv) the ratification of the selection of BDO USA, LLP as our independent registered public accounting firm. Our management will report on *Encore*'s progress and respond to questions from stockholders. In addition, representatives of BDO USA, LLP will be given an opportunity to make a statement and to respond to questions regarding the audit of our consolidated financial statements.

Who is entitled to vote?

Only stockholders of record at the close of business on the record date, April 14, 2014, are entitled to receive notice of the annual meeting and to vote the shares that they held on that date at the meeting, or any postponement or adjournment of the meeting.

At the close of business on the record date, April 14, 2014, there were 25,681,471 outstanding shares of our common stock, each of which is entitled to cast one vote.

Who can attend the meeting?

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

What constitutes a quorum?

The presence at the meeting, in person or represented by proxy, of a majority of the outstanding shares entitled to vote on the record date will constitute a quorum, which will permit us to hold the annual meeting and conduct business. Proxies received but marked as abstentions, withheld votes and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting. Abstentions

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include shares present in person but not voting and shares represented by proxy but with respect to which the holder has abstained from voting. Broker non-votes occur when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power on that item and has not received instructions from the beneficial owner.

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How do I vote by proxy before the meeting?

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

By internet at www.voteproxy.com;

By telephone at 1-800-PROXIES (1-800-776-9437) if you are calling from the United States or Canada or at 1-718-921-8500 for international callers; or

By mail, if you received a printed copy of the proxy materials, by completing, signing, dating and returning the enclosed proxy card in the postage paid envelope provided.

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

May I vote my shares in person at the meeting?

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

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

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

By filing with the Corporate Secretary of Encore a notice of revocation;

By sending in another duly executed proxy bearing a later date; or

By attending the meeting and casting your vote in person.

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

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

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

Proposal 2 **FOR**, in a non-binding vote, the compensation of our named executive officers.

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Proposal 3 **FOR**, in a non-binding vote, the recommendation that a resolution that a non-binding stockholder vote to approve the compensation of our named executive officers should occur every year.

Proposal 4 **FOR** the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014.

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

What vote is required to approve each item?

Election of Directors. The seven nominees who receive the most votes will be elected to our Board. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of one or more directors will not be voted with respect to the director or directors indicated and will have no effect on the proposal to elect the directors other than that it will be counted for purposes of determining whether there is a quorum present at the annual meeting. Abstentions and broker non-votes will have the same effect. Notwithstanding the foregoing, we have adopted a Majority Voting Policy that is described on page 10 of this proxy statement.

Non-Binding Vote to Approve the Compensation of the Company's Named Executive Officers. Abstentions and broker non-votes with respect to this proposal will not be counted as a vote cast and, therefore, will have no effect on this non-binding vote.

Non-Binding Vote to Recommend the Frequency of A Non-Binding Stockholder Vote to Approve the Compensation of the Company's Named Executive Officers. You may vote in favor of holding future non-binding votes on the compensation of the Company's named executive officers every year, every two years or every three years, or you may choose to abstain. Abstentions and broker non-votes with respect to this proposal will not be counted as a vote cast and, therefore, will have no effect on this non-binding vote.

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

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

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

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

Who pays for the cost of this proxy solicitation?

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

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

If you and one or more of our other stockholders share the same address, it is possible that only one annual report and proxy statement was delivered to your address. This is known as householding. Any registered

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

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The Board met 10 times during 2013 and otherwise acted by unanimous written consent. Each director nominee who served on the Board in 2013 attended at least 75% of the total number of meetings held by the Board. Each director nominee who served on the Board in 2013 attended all meetings of committees on which such director served during the period he was a director in 2013.

Standing Committees

Throughout 2013, the Board maintained standing Audit, Compensation and Nominating Committees. In March 2014, the Nominating Committee approved revisions to its written charter to expand the committee's role to explicitly include corporate governance oversight. The Board has adopted the revised charter, resulting in a standing Nominating and Corporate Governance Committee. The current members of our Board and the composition of the Board's standing committees are reflected in the table below. George Lund and H Ronald Weissman will not stand for re-election at the 2014 annual meeting.

Name	Audit	Compensation	Nominating and Corporate Governance
George Lund			
Willem Mesdag			X (Chair)
Laura Newman Olle	X		
Francis E. Quinlan	X (Chair)		X
Norman R. Sorensen		X (Chair)	X
Richard J. Srednicki		X	
J. Christopher Teets	X	X	
Kenneth A. Vecchione			
H Ronald Weissman	X	X	

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

Audit Committee. We have a standing Audit Committee that is responsible for assisting the Board in oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. The Audit Committee met six times during 2013 and otherwise acted by unanimous written consent.

In performing its duties, the Audit Committee:

appoints and reviews the performance of our independent registered public accounting firm;

approves audit and non-audit fees;

reviews and evaluates our financial statements, accounting principles and system of internal controls regarding finance, accounting, legal compliance and ethical behavior;

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supports the Board by primarily overseeing those risks that may directly or indirectly affect the Company's financial statements, including the areas of financial reporting, internal controls and compliance with public reporting requirements;

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reviews and approves related person transactions; and

considers other appropriate matters regarding our financial affairs.

Compensation Committee. The Compensation Committee is responsible for discharging the responsibilities of the Board with respect to the compensation of our executive officers, administering all of our equity-based plans and periodically reviewing compensation and equity-based plans, with authority to adopt such plans. The Compensation Committee met nine times during 2013 and otherwise acted by unanimous written consent.

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

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

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

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

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

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

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

The CEO is not present when the Compensation Committee reviews and establishes the compensation, benefits and perquisites of the CEO. Although the CEO generally makes recommendations to the Compensation Committee with respect to executive compensation decisions, including base salaries, cash incentive bonuses and equity-based awards, the Compensation Committee has in the past determined compensation, benefits or perquisites that were different from those recommended by the CEO.

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

Outside Consultants. The Compensation Committee has the specific authority to hire outside advisors and consultants in its discretion at our expense. Beginning in 2011, the Compensation Committee engaged the law

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firm of Vedder Price, P.C. (Vedder Price) to provide comprehensive legal and executive compensation consulting advice. A more detailed description of Vedder Price's activities for the Compensation Committee is provided in the Compensation Discussion and Analysis section of this proxy statement.

Nominating and Corporate Governance Committee. As described above, in March 2014, the Nominating Committee approved revisions to its written charter to expand the committee's role to explicitly include corporate governance oversight. The Board has adopted the revised charter, resulting in a standing Nominating and Corporate Governance Committee. The function of the Nominating and Corporate Governance Committee is to consider and recommend qualified candidates for election as directors of the Company, to make recommendations to the Board regarding the size and composition of the Board and to develop and recommend to the Board matters related to corporate governance. The Nominating Committee met twice in 2013. The Nominating Committee did not otherwise act by unanimous written consent during 2013.

Among other things the Nominating and Corporate Governance Committee has the authority and responsibility under its charter to:

make recommendations to the Board concerning the size and composition of the Board;

identify, screen and evaluate proposed candidates for the Board;

to the extent deemed appropriate, retain third party search firms or other advisors to identify and evaluate director nominee candidates;

annually review the Board committee structure and recommend to the Board for its approval directors to serve as members of each committee;

recommend to the Board a process to review the effectiveness of the Board and its members, and to oversee that review process;

develop and recommend to the Board a succession plan for the CEO role, and periodically to review that succession plan; and

make recommendations to the Board regarding governance matters, including, but not limited to, the Company's certificate of incorporation, bylaws, and the charters of the Board's other committees.

Prior to each annual meeting of stockholders, the Nominating and Corporate Governance Committee identifies nominees to serve on the Board by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination. The Nominating and Corporate Governance Committee or the Board decides whether or not to nominate a member for re-election based on considerations, including, but not limited to, the value of continuity of service by existing members of the Board and the desired size and composition of the Board. The Nominating and Corporate Governance Committee may from time to time identify new nominees for the Board based on the desired skills and experience of a new nominee in light of the criteria described below. Current members of the Nominating and Corporate Governance Committee, the Board and management are polled for suggestions as to individuals meeting the desired criteria. Third party search firms or other advisors may also be retained to identify qualified individuals. In 2013, the Nominating and Corporate Governance Committee engaged Crist/Kolder Associates to assist it with its efforts to identify new candidates to serve on our Board. The search process culminated in the nomination and appointment of Ms. Olle and Mr. Srednicki to our Board in February 2014.

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

the appropriate size of the Board;

a candidate's knowledge, skills and experience, including experience in business, finance, strategic vision, accounting or administration, in light of prevailing business conditions, the needs of the Company and the knowledge, skills and experience already possessed by other members of the Board;

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whether a candidate is independent, as defined by NASDAQ Listing Rules and other applicable rules, and whether circumstances exist that may create the appearance of a conflict of interest;

a candidate's familiarity with accounting rules and practices applicable to our business;

a candidate's character, integrity and reputation for working constructively with others;

whether a candidate has sufficient time available to devote to the duties of a director of the Company;

the desire to assemble a Board that is strong in its collective knowledge and has a diversity of skills, viewpoints and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge and corporate governance;

the importance of maintaining productive working relationships among the Board members and between the Board and management for the benefit of all stockholders; and

recognition of both the considerable benefit of continuity and the fresh perspective provided by the periodic introduction of new members and retirement of current members.

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

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

Other Corporate Governance Matters

Director Independence. The Board has determined that all members of the Board other than Mr. Vecchione and George Lund (who will not stand for re-election at the 2014 annual meeting) are independent directors within the meaning of NASDAQ listing standards. During its independence review, the Board considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries, affiliates and significant stockholders. The Board also examined transactions and relationships between directors or their affiliates and members of the Company's senior management or their affiliates. The Board has determined that each member of the Board's Audit, Compensation and Nominating and Corporate Governance Committees is independent (or similarly designated) based on the Board's application of the standards of NASDAQ, the Securities and Exchange Commission (the SEC) or the Internal Revenue Service (the IRS), as appropriate for such committee membership.

Audit Committee Financial Expert. The Board has determined that each of the members of the Audit Committee who will stand for re-election at the 2014 annual meeting (Ms. Olle, Mr. Quinlan and Mr. Teets) qualifies as an audit committee financial expert, as defined in SEC regulations, and also possesses the financial sophistication and requisite experience as required under NASDAQ Listing Rules.

Board Leadership Structure. The Board evaluates its leadership structure on an ongoing basis according to what the Board considers to be best for the Company at any given point in time. Currently, we separate the roles

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of non-executive Chairman and CEO. The Board believes that having a separate non-executive Chairman and CEO provides an effective leadership model for the Company at this time and provides the benefit of the distinct abilities and experience of both the non-executive Chairman and CEO.

Our non-executive Chairman, Willem Mesdag, provides overall leadership to the Board in its oversight function. Our CEO, Kenneth A. Vecchione, is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company. We believe the separation of offices ensures the independence of the Board and allows Mr. Mesdag to focus on managing Board matters and Mr. Vecchione to focus on managing our business. Having the CEO serve on our Board ensures that the Board contains the individual most familiar with the Company's business and industry and promotes open communication between management and our directors. The CEO provides advice and recommendations to the full Board for the Board's consideration. The Board's role in the risk oversight process has no effect on its leadership structure.

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

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

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

Communications with Directors. We have not adopted a formal process for stockholder communications with the Board. Given our size, the Board does not deem it necessary to formally adopt a written policy regarding stockholder communications. Stockholders, however, can contact the Board or an individual director by writing to: Board of Directors, Encore Capital Group, Inc., 3111 Camino Del Rio North, Suite 1300, San Diego, CA

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92108, Attention: Corporate Secretary. Absent unusual circumstances or as contemplated by committee charters, communications received in writing are distributed to members of the Board as appropriate depending on the facts and circumstances outlined in the communication received.

Outside Advisors. The Compensation Committee has engaged Vedder Price to assist it in carrying out ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures with respect to purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. We implemented ASU No. 2010-06 effective January 1, 2010, and have enhanced our disclosures to comply with ASU No. 2010-06.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with our condensed consolidated financial statements (including the Notes thereto) included in Item 1, Part I of this report.

Business Overview

We are a Delaware Corporation formed in 1986 to acquire a petrochemicals manufacturing facility located in Texas City, Texas, or our Texas City facility, that was previously owned by Monsanto Company. We are a producer of select petrochemicals used to manufacture a wide array of consumer goods and industrial products. Until 2011, our primary products included acetic acid and plasticizers. All of our plasticizers were historically produced for BASF Corporation, or BASF, pursuant to the terms of our Third Amended and Restated Plasticizers Production Agreement, or our Plasticizers Production Agreement. However, on November 11, 2009, BASF elected to terminate our Plasticizers Production Agreement effective as of December 31, 2010. As our plasticizers facility is currently idle, acetic acid is currently our only primary product.

Our Texas City facility is strategically located on Galveston Bay and benefits from a deep-water dock capable of handling ships with up to a 40-foot draft, as well as four barge docks and direct access to the Union Pacific and Burlington Northern Santa Fe railways with in-motion rail scales on site. Our Texas City facility also has truck loading racks, weigh scales, stainless and carbon steel storage tanks, 160 acres of available land zoned for heavy industrial use, 30 acres of additional land zoned for light industrial use and a supportive political environment for growth. Prior to the sale of 150 tons of perpetual nitrogen oxide, or NOx, allowances under the Texas Commission on Environmental Quality, or TCEQ, Mass Emissions Cap and Trade Program which apply to the eight county Houston-Galveston-Brazoria, Texas nonattainment area for \$12.8 million, we had 240 excess tons available to be sold or used for development projects. We presently have 90 excess tons which could be sold or used for development projects. We are in the heart of one of the largest petrochemical complexes on the Gulf Coast and, as a result, have on-site access to a number of raw material pipelines, as well as close proximity to a number of large refinery complexes. Given our under-utilized infrastructure and our management, operational and engineering expertise, as well as our ample unoccupied land, we believe that there are significant opportunities for further development of our Texas City facility. We are currently pursuing numerous initiatives to attract new manufacturing, distribution or storage related businesses. Specifically, we are seeking long-term contractual business arrangements or partnerships that will provide us with an ability to realize the value of our under-utilized assets through profit sharing, operating fees or other revenue generating arrangements. For development projects that may have significant capital expenditure requirements, we are considering joint ventures or other arrangements where we would contribute certain of our assets, management and operational expertise to minimize our share of the capital costs. In any case, we expect any new facility constructed at our Texas City facility to lower the amount of overall fixed costs allocated to our operating unit and provide us with additional profit. In the third quarter of 2010, we entered into a contract involving the terminaling of methanol as a part of our strategy which we expect to begin producing revenues in the third quarter of 2011, although we do not expect this transaction to have a material affect on our business, financial results or cash flows. Similarly, in the first quarter of 2011, we entered into a contract involving the terminaling of crude oil as a part of our strategy. In accordance with the contract terms, we received a payment of \$0.5 million in April related to the lease and easement rights granted to the third party. We expect to begin generating operating revenues in the first quarter of 2012, although we do not expect this transaction to have a material affect on our business, financial results or cash flows.

The acetic acid we produce is used primarily to manufacture vinyl acetate monomer which is used in a variety of products related to construction materials and automotive parts, such as adhesives, surface coatings, polyester fibers and films, and to manufacture purified terephthalic acid, which is used to produce plastic bottle resins. Pursuant to our 2008 Amended and Restated Acetic Acid Production Agreement, or our Acetic Acid Production Agreement, that extends through 2031, BP Amoco Chemical Company, or BP Chemicals, takes title and risk of loss to our acetic acid production at the time the acetic acid is produced. We entered into the initial version of our Acetic Acid Production Agreement with BP Chemicals in 1986, which has since been amended several times. We are BP Chemicals' sole source of acetic acid production in the Americas. BP Chemicals markets all of the acetic acid that we produce and pays us, among other amounts, a portion of the profits derived from its sales of the acetic acid we produce. In addition,

BP Chemicals reimburses us for 100% of our fixed and variable costs of production, other than specified

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indirect costs. We also jointly invest with BP Chemicals in capital expenditures related to our acetic acid facility in the same percentage as the portion of the profits we receive from BP Chemicals.

Our rated annual production capacity for acetic acid is among the highest in North America. In mid-2009, we and BP Chemicals implemented an incremental expansion of our acetic acid plant to 1.3 billion pounds of annual capacity, which represents approximately 20% of total North American capacity, making our acetic acid facility the second largest acetic acid production facility in North America. Our acetic acid facility utilizes BP Chemicals' proprietary

Cativa methanol carbonylation technology, which we believe offers several advantages over competing production methods, including lower energy requirements and lower fixed and variable costs. Acetic acid production has two major raw material requirements, methanol and carbon monoxide. BP Chemicals, a producer of methanol, supplies 100% of our methanol requirements related to our production of acetic acid. All of our requirements for carbon monoxide are supplied by Praxair Hydrogen Supply, Inc., or Praxair, from a partial oxidation unit constructed by Praxair on land leased from us at our Texas City facility.

Previously, our plasticizers business was comprised of two separate products: phthalate esters and phthalic anhydride, or PA, together commonly referred to as plasticizers. The types of plasticizers we produced are used to make flexible plastics, such as shower curtains, floor coverings, automotive parts and construction materials. Since our formation in 1986, we produced plasticizers exclusively for BASF pursuant to our Plasticizers Production Agreement, which was amended several times. Under our Plasticizers Production Agreement, BASF provided us with most of the required raw materials, marketed the plasticizers that we produced, made certain fixed quarterly payments to us and reimbursed us monthly for our actual production costs and capital expenditures related to our plasticizers facility.

On November 11, 2009, BASF elected to terminate our Plasticizers Production Agreement, effective as of December 31, 2010. We were not subject to any early termination penalties in connection with BASF's termination of our Plasticizers Production Agreement, although the termination of our Plasticizers Production Agreement did result in our refunding to BASF, in January 2011, a \$1.0 million deposit BASF previously made to ensure prompt payment of amounts due under our Plasticizers Production Agreement. BASF, on the other hand, was required to pay us an early termination fee of \$9.8 million, which we received on December 30, 2010. Under our Plasticizers Production Agreement, we were required to make payments to BASF for the undepreciated portion of past capital expenditures paid by BASF if we did not elect on or before March 31, 2011 to permanently close our plasticizers production unit. This undepreciated capital amount was determined as of the end of the original term of our Plasticizers Production Agreement, was based on a straight line, 8-year life and was estimated to be approximately \$2.6 million, with approximately \$1.0 million, \$0.7 million, \$0.6 million and \$0.3 million potentially to be paid in 2011, 2012, 2013 and 2014, respectively. However, on April 4, 2011, we entered into an agreement with BASF under which we paid BASF \$0.8 million in exchange for the right to make this election on or before July 10, 2011 in order to provide us with more time to determine our future plans for our plasticizers business. Under this arrangement, if we provide written notice to BASF of our election to permanently close our plasticizers production unit on or before July 10, 2011, the undepreciated capital expenditures paid by BASF for all capital projects will be deemed to be zero, and we will not be required to make any payments to BASF for undepreciated capital. However, in the event that we do not elect on or before July 10, 2011 to permanently close our plasticizers production unit, we will be required to pay BASF \$2.6 million, exclusive of the \$0.8 million paid to BASF in April 2011, for all of the undepreciated capital on the earlier of December 31, 2011, and the date that is 30 days after we restart our plasticizers production unit.

We are still in the process of exploring and evaluating our commercial options with respect to continuing our plasticizers business and cannot currently predict the ultimate outcome or the success of continuing our plasticizers business. As our plasticizers facility is currently idle, we have begun implementing our plans for restructuring our operating costs to reflect the reduction in our operations. On January 7, 2011, as a result of the idled state of our plasticizers facility, together with additional reductions resulting from a sustainable cost management study, we announced and subsequently implemented a reduction of our salaried work force by 22 people and our hourly work force by 16 people and recognized \$1.3 million of severance costs. Additionally, as a result of the workforce reduction, we recorded a curtailment gain of \$0.4 million for our benefit plans. We have incurred approximately \$0.4 million in shutdown and decontamination costs during the first quarter of 2011 and expect to incur approximately

\$0.2 million during the third quarter of 2011. The costs and timing for dismantling our plasticizers facility are

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unknown at this time but we do not expect these costs to be significant. The loss of our Plasticizers Production Agreement has had and will likely continue to have an adverse effect on our financial condition, results of operations and cash flows. However, due to our expected operating cash flow from our acetic acid business, our prospects for future business development projects for the site and our current cash balance, we do not believe that these effects will impact our ability to continue as a going concern. For a further description of our agreement with BASF, see *Plasticizers-BASF* under *Contracts* and *Risk Factors* in our Annual Report.

Recent Developments

On March 14, 2011, we sold 150 tons of our perpetual NOx allowances for \$12.8 million. These NOx allowances are under the TCEQ Mass Emissions Cap and Trade Program and apply to the eight county Houston-Galveston-Brazoria, Texas nonattainment area. As a result of the sale of 150 tons of our perpetual NOx allowances, we now have approximately 90 excess tons of perpetual NOx allowances that are available for sale or to be used in our development projects.

On March 24, 2011 we entered into a contract involving the terminaling of crude oil at our Texas City facility. The agreement involves the use of three of our storage tanks and one of our barge docks. In accordance with the contract terms, in April 2011 we received a payment of \$0.5 million for the lease and easement rights granted to the third party, which will be recognized as income in the second quarter of 2011. We expect to begin generating operating revenues in the first quarter of 2012.

Results of Operations

The following table sets forth key information about our financial results:

	Three months ended March 31,	
	2011	2010
	(Dollars in Thousands)	
Revenues	\$ 25,951	\$26,682
Cost of goods sold	22,822	23,522
Gross profit	3,129	3,160
Selling, general and administrative expenses	3,047	2,894
Impairment of long-lived assets		290
Interest and debt related expenses	3,126	3,607
Interest income	(92)	(49)
Other income	(12,802)	(76)
Income tax expense (benefit)	519	(1,227)
Income (loss) from continuing operations	9,331	(2,279)
Income from discontinued operations, net of tax expense of zero and \$1,756, respectively	2,330	3,262

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010*Revenues and gross profit*

Our revenues from continuing operations decreased by \$0.7 million, or 3%, in the first quarter of 2011 compared to the first quarter of 2010. This decrease was due to a \$1.9 million decrease in cost reimbursements under our Acetic Acid Production Agreement, primarily due to lower natural gas prices in the first quarter of 2011 compared to the first quarter of 2010. This decrease was partially offset by a \$0.4 million increase in revenue resulting from higher contribution margins for our acetic acid operations in the first quarter of 2011 compared to the first quarter of 2010 and the sale of our ammonia inventory for \$0.8 million in the first quarter of 2011.

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Our gross profit from continuing operations decreased less than \$0.1 million, or less than 1%, in the first quarter of 2011 compared to the first quarter of 2010. This decrease in gross profit was primarily due to \$1.3 million of expense in the first quarter of 2011 related to our methanol terminaling project, partially offset by a \$0.6 million increase in gross profit from our ammonia terminaling operations resulting from the gain on sale of our ammonia inventory to Ascend of \$0.5 million, and a \$0.4 million increase in revenue due to higher contribution margins from our acetic acid operations.

Impairment of long-lived assets

We did not recognize any impairments during the first quarter of 2011. The impairment we recorded in the first quarter of 2010 consisted of a \$0.3 million impairment charge to reduce the carrying value of one of our turbo generator units, which we have classified as a spare, to its net realizable value.

Interest and debt related expenses

Our interest and debt related expenses decreased by \$0.5 million, or 13%, in the first quarter of 2011 compared to the first quarter of 2010. This decrease was primarily due to interest savings of \$0.2 million arising out of our purchase of \$45.6 million in aggregate principal amount of our 10-1/4% Senior Secured Notes due 2015, or our Secured Notes, over the period November 2009 through March 2011. In addition, we wrote off \$0.2 million of debt issue costs associated with the termination of our Revolving Credit Agreement, or our revolving credit facility, with The CIT Group/Business Credit, Inc., as administrative agent and a lender, and certain other lenders, as of January 2010, the effective termination date of our revolving credit facility.

Other income

Other income increased by \$12.7 million, or greater than 100%, in the first quarter of 2011 compared to the first quarter of 2010. This increase was primarily due to the sale of 150 tons of our perpetual NOx allowances for \$12.8 million, offset by broker's fees of \$0.4 million, and \$1.3 million of increased insurance proceeds, both in the first quarter of 2011. This increase was partially offset by a \$1.0 million loss on debt extinguishment in the first quarter of 2011.

Income tax expense (benefit)

During the first quarter of 2011, we recorded a net tax expense of \$0.5 million compared to a net tax benefit for the first quarter of 2010 of \$1.2 million for income taxes from continuing operations. For the first quarter of 2010, the tax benefit from continuing operations was generated by utilizing income in discontinued operations to recognize a portion of the benefit from losses generated in continuing operations. For the three-month periods ended March 31, 2011 and March 31, 2010, our continuing operations effective tax rate was 5.3% and 35%, respectively.

Income from discontinued operations, net of tax

Income from our discontinued operations, net of tax, decreased \$0.9 million, or 29%, in the first quarter of 2011 compared to the first quarter of 2010. This decrease was primarily due to the closure of our plasticizers business on December 31, 2010, which had been in operation during the first quarter of 2010 and contributed \$2.0 million of gross profit to discontinued operations partially offset by \$1.8 million of related tax expense, compared to the incurrence of approximately \$0.4 million in decontamination costs and \$0.5 million of severance in the first quarter of 2011, resulting in a \$0.8 million loss during the first quarter of 2011.

Liquidity and Capital Resources*General*

Our working capital was \$99.8 million as of March 31, 2011, a decrease of \$7.9 million from our working capital of \$107.7 million as of December 31, 2010. This decrease was primarily due to the purchase of \$15.0 million in aggregate principal amount of our Secured Notes for \$15.6 million, a \$0.8 million decrease in prepaid

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insurance due to expense recognition, a \$3.0 million increase in accrued interest, capital expenditures of \$2.3 million, \$1.3 million in severance payments, a \$1.4 million reclassification from long-term pension liability to short-term pension liability, \$1.3 million in cost related to our methanol project, a \$1.3 million reclassification from long-term incentive plan liability to current portion of long-term incentive plan liability, a \$0.5 million accrual for variable compensation, a \$0.5 million accrual for state income tax, \$0.3 million in net benefit payments and a property tax accrual of \$0.3 million. Partially offsetting this decrease was an increase in cash for a \$1.1 million insurance reimbursement and the sale of 150 tons of our perpetual NOx allowances for \$12.8 million, offset by broker's fees of \$0.4 million and a \$6.6 million accrual for profit sharing revenue.

Our liquidity was \$106.1 million as of March 31, 2011, a decrease of \$24.2 million from our liquidity of \$130.3 million as of December 31, 2010. This decrease was primarily due to the \$6.1 million pension contribution we made in the first quarter of 2011, capital expenditures of \$2.3 million, and our purchase of \$15.0 million in aggregate principal amount of our Secured Notes in 2010 for \$15.6 million. We periodically review the balance of our cash on hand in light of our strategic objectives and the restrictions on the use of cash contained in the indenture for our Secured Notes. As opportunities arise, we intend to utilize our cash as circumstances warrant, possibly in material amounts, to fund all or a portion of the purchase price of mergers or acquisitions, engage in project development work, make contributions to our defined benefit plans or purchase our outstanding Secured Notes on the open market, in privately negotiated transactions, or otherwise.

On November 11, 2009, BASF elected to terminate our Plasticizers Production Agreement, effective as of December 31, 2010. Revenues and gross profit generated from our plasticizers operations in the first quarter of 2010 were \$6.4 million and \$2.0 million, respectively. The termination of our Plasticizers Production Agreement has had and will likely continue to have an adverse effect on our liquidity. However, we believe that our expected operating cash flow from our acetic acid business and our current cash balance will provide adequate liquidity for the foreseeable future.

We invest our excess cash in various investments. Our cash is invested in money market funds and certificates of deposit. However, we may invest cash in other high quality, highly liquid cash equivalents from time to time.

Debt

On March 29, 2007, we completed a private offering of \$150.0 million aggregate principal amount of Secured Notes pursuant to a Purchase Agreement among us, Sterling Chemicals Energy, Inc., or Sterling Energy, one of our former wholly-owned subsidiaries, and Jefferies & Company, Inc. and CIBC World Markets Corp., as initial purchasers. In connection with that offering, we entered into an indenture dated March 29, 2007 among us, Sterling Energy, as guarantor, and U.S. Bank National Association, as trustee and collateral agent. On May 6, 2008, Sterling Energy was merged with and into us. Upon consummation of the merger, Sterling Energy no longer had independent existence and, consequently, our Secured Notes are no longer guaranteed by Sterling Energy.

Our indenture contains affirmative and negative covenants and customary events of default, including payment defaults, breaches of covenants and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, other than an event of default triggered upon certain bankruptcy events, the trustee under our indenture or the holders of at least 25% in principal amount of our outstanding Secured Notes may declare our Secured Notes to be due and payable immediately. Upon an event of default, the trustee may also take actions to foreclose on the collateral securing our outstanding Secured Notes. Our indenture does not require us to maintain any financial ratios or satisfy any financial maintenance tests. We are currently in compliance with all of the covenants contained in our indenture.

Interest is due on our outstanding Secured Notes on April 1 and October 1 of each year. Our outstanding Secured Notes, which mature on April 1, 2015, are senior secured obligations and rank equally in right of payment with all of our existing and future senior indebtedness. Subject to specified permitted liens, our outstanding Secured Notes are secured (i) on a first priority basis by all of our fixed assets and certain related assets, including, without limitation, all of our property, plant and equipment and (ii) on a second priority basis by our other assets, including, without limitation, accounts receivable, inventory, capital stock of our domestic restricted subsidiaries, intellectual property, deposit accounts and investment property.

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In the first quarter of 2010, we purchased \$2.0 million in aggregate principal amount of our Secured Notes, at a discount of \$0.1 million, for \$1.9 million in cash in the open market. The discount of \$0.1 million and the \$0.1 million in expense we recognized from writing off a pro rata portion of the related debt issue costs of our Secured Notes resulted in a gain of less than \$0.1 million on the purchase of our Secured Notes. In the first quarter of 2011, we purchased \$15.0 million in aggregate principal amount of our Secured Notes at a premium of \$0.6 million, for \$15.6 million in cash in the open market. The \$0.6 million premium plus the \$0.4 million in expense we recognized from writing off a pro rata portion of the related debt issue costs of our Secured Notes resulted in a loss of \$1.0 million on the purchase of our Secured Notes.

On December 19, 2002, we entered into our revolving credit facility. Under our revolving credit facility, we and Sterling Energy were co-borrowers and were jointly and severally liable for any indebtedness thereunder. On December 10, 2009, we elected to terminate our revolving credit facility effective January 24, 2010, due to our substantial cash reserves and low working capital needs. There were no penalties or termination fees payable by us in connection with the early termination of our revolving credit facility. The remaining associated debt issue costs of \$0.2 million were written off as of the effective termination date.

On January 31, 2010, we entered into a \$5.0 million Revolving Line of Credit for letters of credit, or our LC Facility, with JPMorgan Chase Bank, N.A., or Chase, for the issuance of commercial and standby letters of credit. Our LC Facility initially had a one year term. Under our LC Facility, we pay Chase a fee of 1% per annum of the face amount of each outstanding letter of credit and an issuance fee of \$500 for each letter of credit. Since its inception, our LC Facility has been and continues to be secured by \$5.0 million in cash under an Assignment of Deposit Account Agreement between us and Chase. On September 20, 2010, we amended our LC facility to extend the initial term to April 30, 2011, and concurrently therewith entered into a Security Agreement and a Pledge Agreement with Chase, pursuant to which we granted Chase first priority liens on all of our accounts receivable, inventory and other specified assets to secure our obligations under our LC Facility. Effective April 30, 2011, we extended the term of our LC facility to April 30, 2012. As of March 31, 2011, there were \$3.3 million in standby letters of credit issued under our LC facility.

We continuously evaluate various transactions to enhance stakeholder value as opportunities arise. As part of our strategic goals, we are seeking to consummate strategic transactions, including, but not limited to, acquisitions of assets or businesses and the formation of joint ventures or other business combinations and other strategic alternatives. Although we do not currently have any commitments with respect to any strategic transactions, we may enter into such commitments in the future, which could, among other things, result in a material expansion of our existing operations or result in our entering into new lines of business. In addition, a strategic transaction could, among other things, result in the expenditure of a material amount of our funds or the issuance by us of a material amount of debt or equity securities. There can be no assurance that we will pursue any particular transaction or that any such transaction will be successful. See *Business Strategy* under *Business* in our Annual Report.

Cash Flow

Net cash used in operations was \$6.7 million during the first three months of 2011, a greater than 100% increase from the \$0.1 million in net cash used in operations during the first three months of 2010. This increase in net cash used in operations was primarily due to a \$6.1 million pension contribution made in the first quarter of 2011. Net cash provided by investing activities was \$7.1 million during the first three months of 2011, a greater than 100% increase from the \$0.6 million net cash used in investing activities during the first three months of 2010. This increase in net cash provided by investing activities was primarily due to the redemption of a short-term investment of \$9.0 million in the first quarter of 2011 partially offset by higher capital expenditures of \$1.7 million in the first quarter of 2011 primarily for our methanol terminaling project. Net cash used in financing activities was \$15.6 million during the first three months of 2011 and \$1.9 million during the first three months of 2010. This increase in net cash flow used in financing activities was primarily due to our purchase of \$15.0 million in aggregate principal amount of our Secured Notes for \$15.6 million in the first quarter of 2011 compared to our purchase of \$2.0 million in aggregate principal amount of our Secured Notes for \$1.9 million in the first quarter of 2010.

Critical Accounting Policies, Use of Estimates and Assumptions

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The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related notes. Actual results could differ from those estimates. On an ongoing basis, we review our estimates, including those related to the allowance for doubtful accounts, recoverability of long-lived assets, deferred tax asset valuation allowance, litigation, environmental liabilities, pension and post-retirement benefits, preferred stock dividends and various other operating allowances and accruals, based on currently available information. Changes in facts and circumstances may alter such estimates and affect our results of operations and financial position in future periods. There have been no material changes or developments in our evaluation of the accounting estimates or the underlying assumptions or methodologies that we believe to be critical accounting policies disclosed in our Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) designed to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2011. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2011.

We believe that our financial statements contained in this Form 10-Q accurately present our financial condition, results of operations and cash flows in all material respects.

Changes in Internal Controls over Financial Reporting. There have been no changes in our internal controls over financial reporting for the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II.
OTHER INFORMATION

Item 1. Legal Proceedings

The information under "Legal Proceedings" in Note 4 to the condensed consolidated financial statements included in Item 1 of Part I of this report is hereby incorporated by reference.

Item 6. Exhibits

Exhibits not incorporated by reference to a prior filing and filed or furnished herewith are designated by an asterisk (*). All exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

Exhibit Number	Description of Exhibit
10.1	Amended and Restated \$5,000,000 Revolving Line of Credit for letters of credit from JPMorgan Chase Bank, N.A. to Sterling Chemicals, Inc.
15.1	Letter of Grant Thornton LLP regarding unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.

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Exhibit Number	Description of Exhibit
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32.1	Section 1350 Certification of the Chief Executive Officer.
32.2	Section 1350 Certification of the Principal Financial Officer.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STERLING CHEMICALS, INC.
(Registrant)

Date: May 13, 2011

By /s/ JOHN V. GENOVA
John V. Genova
President and Chief Executive Officer

Date: May 13, 2011

By /s/ DAVID J. COLLINS
David J. Collins
*Senior Vice President and Chief
Financial Officer (Principal Financial
Officer)*

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EXHIBIT INDEX

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*31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
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*32.2	Section 1350 Certification of the Principal Financial Officer.
*	Filed or furnished herewith