

ENCORE CAPITAL GROUP INC

Form 10-Q

August 10, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

48-1090909

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

3111 Camino Del Rio North, Suite 103

92108

San Diego, California

(Address of principal executive offices)

(Zip code)

(877) 445 - 4581

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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| Class                          | Outstanding at July 30, 2015 |
|--------------------------------|------------------------------|
| Common Stock, \$0.01 par value | 25,237,121 shares            |

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## PART I – FINANCIAL INFORMATION

## Item 1—Condensed Consolidated Financial Statements (Unaudited)

## ENCORE CAPITAL GROUP, INC.

## Condensed Consolidated Statements of Financial Condition

(In Thousands, Except Par Value Amounts)

(Unaudited)

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Assets  |                  |                      |
| Cash and cash equivalents   | \$ 138,158       | \$ 124,163           |
| Investment in receivable portfolios, net  | 2,351,767        | 2,143,560            |
| Receivables secured by property tax liens, net  | 316,299          | 259,432              |
| Property and equipment, net   | 66,413           | 66,969               |
| Deferred court costs, net   | 71,724           | 60,412               |
| Other assets  | 199,689          | 197,666              |
| Goodwill  | 969,928          | 897,933              |
| Total assets  | \$4,113,978      | \$3,750,135          |
| Liabilities and equity  |                  |                      |
| Liabilities:  |                  |                      |
| Accounts payable and accrued liabilities  | \$ 214,621       | \$ 231,967           |
| Debt  | 3,134,187        | 2,773,554            |
| Other liabilities   | 83,877           | 79,675               |
| Total liabilities   | 3,432,685        | 3,085,196            |
| Commitments and contingencies   |                  |                      |
| Redeemable noncontrolling interest  | 27,924           | 28,885               |
| Redeemable equity component of convertible senior notes   | 7,625            | 9,073                |
| Equity:   |                  |                      |
| Convertible preferred stock, \$.01 par value, 5,000 shares authorized, no shares issued and outstanding   | —                | —                    |
| Common stock, \$.01 par value, 50,000 shares authorized, 25,237 shares and 25,794 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively | 252              | 258                  |
| Additional paid-in capital  | 101,288          | 125,310              |
| Accumulated earnings  | 555,436          | 498,354              |
| Accumulated other comprehensive loss  | (14,796          | ) (922               |
| Total Encore Capital Group, Inc. stockholders' equity   | 642,180          | 623,000              |
| Noncontrolling interest   | 3,564            | 3,981                |
| Total equity  | 645,744          | 626,981              |
| Total liabilities, redeemable equity and equity   | \$4,113,978      | \$3,750,135          |

The following table includes assets that can only be used to settle the liabilities of the Company's consolidated variable interest entities ("VIEs") and the creditors of the VIEs have no recourse to the Company. These assets and liabilities are included in the consolidated statements of financial condition above. See Note 11 "Variable Interest Entities" for additional information on the Company's VIEs.

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Assets   |                  |                      |
| Cash and cash equivalents                      | \$ 39,518        | \$ 44,996            |
| Investment in receivable portfolios, net       | 1,244,636        | 993,462              |
| Receivables secured by property tax liens, net | 96,212           | 108,535              |

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|   |           |           |
|---|-----------|-----------|
| Property and equipment, net   | 19,715    | 15,957    |
| Deferred court costs, net   | 29,016    | 17,317    |
| Other assets  | 46,062    | 80,264    |
| Goodwill  | 742,272   | 671,434   |
| Liabilities   |           |           |
| Accounts payable and accrued liabilities                              | \$119,187 | \$137,201 |
| Debt  | 1,823,897 | 1,556,956 |
| Other liabilities   | 18,367    | 8,724     |
| See accompanying notes to condensed consolidated financial statements |           |           |

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ENCORE CAPITAL GROUP, INC.  
Condensed Consolidated Statements of Income  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2015                           | 2014      | 2015                         | 2014      |
| Revenues  |                                |           |                              |           |
| Revenue from receivable portfolios, net                               | \$270,301                      | \$248,231 | \$534,411                    | \$485,799 |
| Other revenues  | 13,112                         | 14,149    | 27,522                       | 25,498    |
| Net interest income   | 6,943                          | 6,815     | 14,086                       | 11,639    |
| Total revenues  | 290,356                        | 269,195   | 576,019                      | 522,936   |
| Operating expenses  |                                |           |                              |           |
| Salaries and employee benefits  | 67,545                         | 64,355    | 135,293                      | 122,492   |
| Cost of legal collections   | 57,076                         | 50,029    | 112,074                      | 99,854    |
| Other operating expenses  | 23,015                         | 23,712    | 48,249                       | 50,135    |
| Collection agency commissions   | 8,466                          | 7,482     | 19,151                       | 15,758    |
| General and administrative expenses                                   | 39,166                         | 38,282    | 71,778                       | 74,976    |
| Depreciation and amortization   | 8,084                          | 6,829     | 16,434                       | 12,946    |
| Total operating expenses  | 203,352                        | 190,689   | 402,979                      | 376,161   |
| Income from operations  | 87,004                         | 78,506    | 173,040                      | 146,775   |
| Other (expense) income  |                                |           |                              |           |
| Interest expense  | (46,250 )                      | (43,218 ) | (88,553 )                    | (81,180 ) |
| Other income  | 395                            | 75        | 2,512                        | 340       |
| Total other expense   | (45,855 )                      | (43,143 ) | (86,041 )                    | (80,840 ) |
| Income before income taxes  | 41,149                         | 35,363    | 86,999                       | 65,935    |
| Provision for income taxes  | (15,964 )                      | (14,010 ) | (31,847 )                    | (25,752 ) |
| Net income  | 25,185                         | 21,353    | 55,152                       | 40,183    |
| Net loss attributable to noncontrolling interest                      | 2,472                          | 2,208     | 1,930                        | 6,558     |
| Net income attributable to Encore Capital Group, Inc. stockholders    | \$27,657                       | \$23,561  | \$57,082                     | \$46,741  |
| Earnings per share attributable to Encore Capital Group, Inc.:        |                                |           |                              |           |
| Basic   | \$1.07                         | \$0.91    | \$2.20                       | \$1.81    |
| Diluted   | \$1.03                         | \$0.86    | \$2.11                       | \$1.68    |
| Weighted average shares outstanding:                                  |                                |           |                              |           |
| Basic   | 25,885                         | 25,798    | 25,978                       | 25,774    |
| Diluted   | 26,919                         | 27,492    | 27,117                       | 27,790    |
| See accompanying notes to condensed consolidated financial statements |                                |           |                              |           |

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## ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Comprehensive Income  
(Unaudited, In Thousands)

|  | Three Months Ended |          | Six Months Ended |          |   |
|--|--------------------|----------|------------------|----------|---|
|  | June 30,           |          | June 30,         |          |   |
|  | 2015               | 2014     | 2015             | 2014     |   |
| Net income   | \$25,185           | \$21,353 | \$55,152         | \$40,183 |   |
| Other comprehensive (loss) gain, net of tax:                                 |                    |          |                  |          |   |
| Unrealized (loss) gain on derivative instruments                             | (164               | ) 706    | 349              | 2,229    |   |
| Unrealized gain (loss) on foreign currency translation                       | 8,426              | 3,299    | (14,223          | ) 3,513  |   |
| Other comprehensive gain (loss), net of tax                                  | 8,262              | 4,005    | (13,874          | ) 5,742  |   |
| Comprehensive income   | 33,447             | 25,358   | 41,278           | 45,925   |   |
| Comprehensive loss (gain) attributable to noncontrolling interest:           |                    |          |                  |          |   |
| Net loss   | 2,472              | 2,208    | 1,930            | 6,558    |   |
| Unrealized (gain) loss on foreign currency translation                       | (930               | ) (618   | ) 888            | (470     | ) |
| Comprehensive loss attributable to noncontrolling interests                  | 1,542              | 1,590    | 2,818            | 6,088    |   |
| Comprehensive income attributable to Encore Capital Group, Inc. stockholders | \$34,989           | \$26,948 | \$44,096         | \$52,013 |   |

See accompanying notes to condensed consolidated financial statements

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ENCORE CAPITAL GROUP, INC.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited, In Thousands)

|   | Six Months Ended |           |
|---|------------------|-----------|
|   | June 30,         | 2014      |
|   | 2015             | 2014      |
| Operating activities:   |                  |           |
| Net income  | \$55,152         | \$40,183  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |           |
| Depreciation and amortization   | 16,434           | 12,946    |
| Non-cash interest expense, net  | 18,436           | 13,974    |
| Stock-based compensation expense  | 12,103           | 9,551     |
| Deferred income taxes   | 765              | 9,616     |
| Excess tax benefit from stock-based payment arrangements                          | (1,479)          | (10,756)  |
| Reversal of allowances on receivable portfolios, net                              | (7,219)          | (6,652)   |
| Changes in operating assets and liabilities                                       |                  |           |
| Deferred court costs and other assets   | (21,819)         | (9,025)   |
| Prepaid income tax and income taxes payable                                       | (23,648)         | (9,038)   |
| Accounts payable, accrued liabilities and other liabilities                       | (1,313)          | 1,574     |
| Net cash provided by operating activities   | 47,412           | 52,373    |
| Investing activities:   |                  |           |
| Cash paid for acquisitions, net of cash acquired                                  | (237,873)        | (303,532) |
| Purchases of receivable portfolios, net of put-backs                              | (356,302)        | (475,121) |
| Collections applied to investment in receivable portfolios, net                   | 334,587          | 325,451   |
| Originations and purchases of receivables secured by tax liens                    | (139,820)        | (85,014)  |
| Collections applied to receivables secured by tax liens                           | 76,876           | 53,216    |
| Purchases of property and equipment   | (10,642)         | (8,943)   |
| Other, net  | 1,292            | —         |
| Net cash used in investing activities   | (331,882)        | (493,943) |
| Financing activities:   |                  |           |
| Payment of loan costs   | (6,574)          | (14,673)  |
| Proceeds from credit facilities   | 737,648          | 679,872   |
| Repayment of credit facilities  | (354,362)        | (732,857) |
| Proceeds from senior secured notes  | —                | 288,645   |
| Repayment of senior secured notes   | (7,500)          | (7,500)   |
| Proceeds from issuance of convertible senior notes                                | —                | 161,000   |
| Proceeds from issuance of securitized notes                                       | —                | 134,000   |
| Repayment of securitized notes  | (22,694)         | (8,793)   |
| Purchases of convertible hedge instruments  | —                | (33,576)  |
| Repurchase of common stock  | (33,185)         | (16,815)  |
| Taxes paid related to net share settlement of equity awards                       | (5,260)          | (18,375)  |
| Excess tax benefit from stock-based payment arrangements                          | 1,479            | 10,756    |
| Other, net  | (5,757)          | 1,382     |
| Net cash provided by financing activities   | 303,795          | 443,066   |
| Net increase in cash and cash equivalents   | 19,325           | 1,496     |
| Effect of exchange rate changes on cash and cash equivalents                      | (5,330)          | (4,302)   |
| Cash and cash equivalents, beginning of period                                    | 124,163          | 126,213   |
| Cash and cash equivalents, end of period  | \$138,158        | \$123,407 |



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Supplemental disclosures of cash flow information:

|   |          |          |
|---|----------|----------|
| Cash paid for interest  | \$50,833 | \$54,672 |
| Cash paid for income taxes, net                                       | 58,510   | 37,805   |
| Supplemental schedule of non-cash investing and financing activities: |          |          |
| Fixed assets acquired through capital lease                           | \$1,290  | \$3,766  |
| See accompanying notes to condensed consolidated financial statements |          |          |

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ENCORE CAPITAL GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1: Ownership, Description of Business, and Summary of Significant Accounting Policies

Encore Capital Group, Inc. (“Encore”), through its subsidiaries (collectively, the “Company”), is an international specialty finance company providing debt recovery solutions for consumers and property owners across a broad range of financial assets. The Company purchases portfolios of defaulted consumer receivables at deep discounts to face value and manages them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings. Encore, through certain subsidiaries, is a market leader in portfolio purchasing and recovery in the United States, including Puerto Rico. Encore’s subsidiary, Janus Holdings Luxembourg S.a.r.l. (“Janus Holdings”), through its indirectly held U.K.-based subsidiary Cabot Credit Management Limited and its subsidiaries (“Cabot”), is a market leader in debt management in the United Kingdom, historically specializing in portfolios consisting of higher balance, semi-performing accounts. Cabot’s acquisition of Marlin Financial Group Limited (“Marlin”) in February 2014, provides Cabot with substantial litigation-enhanced collection capabilities for non-performing accounts. Encore’s majority-owned subsidiary, Grove Holdings (“Grove”), is a U.K.-based leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or “IVAs”) in the United Kingdom and bank and non-bank receivables in Spain. Encore’s majority-owned subsidiary, Refinancia S.A. (“Refinancia”), through its subsidiaries, is a market leader in debt collection and management in Colombia and Peru. In addition, through Encore’s subsidiary, Propel Financial Services, LLC and its subsidiaries (collectively, “Propel”), the Company assists property owners who are delinquent on their property taxes by structuring affordable monthly payment plans and purchases delinquent tax liens directly from selected taxing authorities.

Portfolio Purchasing and Recovery

United States

The Company purchases receivable portfolios based on robust, account-level valuation methods and employs a suite of proprietary statistical and behavioral models across the full extent of its operations. These methods and models allow the Company to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with its methods or goals and precisely align the accounts it purchases with its operational channels to maximize future collections. As a result, the Company has been able to realize significant returns from the receivables it acquires. The Company maintains strong relationships with many of the largest financial service providers in the United States.

The Company uses insights discovered during its purchasing process to build account collection strategies. The Company’s proprietary consumer-level collectability analysis is the primary determinant of whether an account will be actively serviced post-purchase. The Company continuously refines this analysis to determine the most effective collection strategy to pursue for each account it owns. After the Company’s preliminary analysis, it seeks to collect on only a fraction of the accounts it purchases, through one or more of its collection channels. The channel identification process is analogous to a funneling system, where the Company first differentiates those consumers who it believes are not able to pay from those who are able to pay. Consumers who the Company believes are financially incapable of making any payments, facing extenuating circumstances or hardships (such as medical issues), serving in the military, or currently receiving social security as their only source of income are excluded from the next step of its collection process and are designated as inactive. The remaining pool of accounts in the funnel then receives further evaluation. At that point, the Company analyzes and determines a consumer’s perceived willingness to pay. Based on that analysis, the Company will pursue collections through letters and/or phone calls to its consumers. Despite its efforts to reach consumers and work out a settlement option, only a small number of consumers who are contacted choose to engage with the Company. Those who do are often offered deep discounts on their obligations, or are presented with payment plans that are better suited to meet their daily cash flow needs. The majority of contacted consumers, however, do not respond to the Company’s calls or letters, and therefore the Company must then make the difficult decision whether or not to pursue collections through legal means.

The Company continually monitors applicable changes to laws governing statutes of limitations and disclosures to consumers. The Company maintains policies, system controls, and processes designed to ensure that accounts past the applicable statute of limitations do not get placed into legal collections. Additionally, in written and verbal communications with consumers, the Company provides disclosures to the consumer that the account is past its applicable statute of limitations and, therefore, the Company will not pursue collections through legal means.

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### Europe

Cabot: Through Cabot, portfolio receivables are purchased using a proprietary pricing model. This model allows Cabot to value portfolios with a high degree of accuracy and quantify portfolio performance in order to maximize future collections. As a result, Cabot has been able to realize significant returns from the assets it has acquired. Cabot maintains strong relationships with many of the largest financial service providers in the United Kingdom.

Cabot also uses insights discovered during its purchasing process to build account-level collection strategies. Cabot's proprietary consumer-level collectability analysis is a determinant of how an account will be serviced post-purchase. Cabot continuously refines this analysis to determine the most effective customer engagement strategy to pursue for each account it owns to ensure that customers are treated fairly and the most suitable engagement and collection strategy for each individual customer is deployed. In recent years, Cabot has concentrated on buying portfolios that are defined as semi-performing, in which over 50% of the accounts have received a payment in three of the last four months immediately prior to the portfolio purchase. Cabot establishes contact with consumers, in order to convey payment arrangements and gauge the willingness of these consumers to continue to pay. Consumers who Cabot believes are financially incapable of making any payments, those having negative disposable income, or those experiencing hardships, are managed outside of normal collection routines.

The remaining pool of accounts then receives further evaluation. Cabot analyzes and estimates a consumer's perceived willingness to pay. Based on that analysis, Cabot tries to engage with customers through letters and/or phone calls. Where contact is made and consumers indicate a willingness to pay, a patient approach of forbearance is applied using regulatory protocols within the United Kingdom to assess affordability and ensure that plans are fair and balanced and therefore, sustainable. Where consumers cannot be located or refuse to engage in a constructive dialogue, Cabot will pass these accounts through a litigation scorecard and rule set in order to assess suitability for legal action. Through Cabot's Marlin subsidiary, Cabot has a competitive advantage in the use of litigation-enhanced collections for non-paying accounts.

Grove: Grove, through its subsidiaries and affiliates, is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, IVAs) in the United Kingdom and bank and non-bank receivables in Spain. Grove purchases portfolio receivables using a proprietary pricing model. This model allows Grove to value portfolios with a high degree of accuracy and quantify portfolio performance in order to maximize future collections.

### Latin America

Refinancia is a market leader in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in Colombia, including providing financial solutions to individuals who have previously defaulted on their credit obligations, payment plan guarantee and factoring services through merchants and loan guarantee services to financial institutions.

Beginning in December 2014 the Company began investing in non-performing secured residential mortgages in Latin America.

### Tax Lien Business

Propel's principal activities are the acquisition and servicing of residential and commercial tax liens on real property. These liens take priority over most other liens. By funding tax liens, Propel provides state and local taxing authorities and governments with much needed tax revenue. To the extent permitted by local law, Propel works directly with property owners to structure affordable payment plans designed to allow them to keep their property while paying their property tax obligation over time. Propel maintains a foreclosure rate of less than one-half of one percent.

Propel's receivables secured by property tax liens include Texas tax liens, Nevada tax liens, and tax lien certificates in various other states (collectively, "Tax Liens"). With Texas and Nevada Tax Liens, Texas or Nevada property owners choose to have the taxing authority transfer their tax lien to Propel. Propel pays their tax lien obligation to the taxing authority and the property owner pays Propel over time at a lower interest rate than they would be assessed by the taxing authority. Propel's arrangements with Texas and Nevada property owners provide them with repayment plans that are both affordable and flexible when compared with other payment options. Propel also purchases Tax Liens in various other states directly from taxing authorities, securing rights to outstanding property tax payments, interest and

penalties. In most cases, such Tax Liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase.

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### Financial Statement Preparation and Presentation

The accompanying interim condensed consolidated financial statements have been prepared by Encore, without audit, in accordance with the instructions to the Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the “SEC”) and, therefore, do not include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (“GAAP”).

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the Company’s consolidated financial position, results of operations, and cash flows. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company’s financial statements and the accompanying notes. Actual results could materially differ from those estimates.

### Basis of Consolidation

The condensed consolidated financial statements have been prepared in conformity with GAAP, and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. The Company also consolidates VIEs, for which it is the primary beneficiary. The primary beneficiary has both (a) the power to direct the activities of the VIE that most significantly affect the entity’s economic performance, and (b) either the obligation to absorb losses or the right to receive benefits. Refer to Note 11, “Variable Interest Entities,” for further details. All intercompany transactions and balances have been eliminated in consolidation. On August 6, 2014, the Company acquired all of the outstanding equity interests of Atlantic Credit & Finance, Inc. (“Atlantic”) pursuant to a stock purchase agreement (the “Atlantic Acquisition”), on February 7, 2014, the Company, through its Cabot subsidiary completed its acquisition of Marlin (“the Marlin Acquisition”) and on June 1, 2015, Cabot completed the acquisition of Hillesden Securities Ltd (“dlc”). The condensed consolidated financial statements include the results of operations of subsidiaries from mergers and acquisitions, since the date of the respective acquisitions.

### Translation of Foreign Currencies

The financial statements of certain of the Company’s foreign subsidiaries are measured using their local currency as the functional currency. Assets and liabilities of foreign operations are translated into U.S. dollars using period-end exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates in effect during each period. The resulting translation adjustments are recorded as a component of other comprehensive income. Equity accounts are translated at historical rates, except for the change in retained earnings during the year which is the result of the income statement translation process. Intercompany transaction gains or losses at each period end arising from subsequent measurement of balances for which settlement is not planned or anticipated in the foreseeable future are included as translation adjustments and recorded within other comprehensive income or loss.

Transaction gains and losses are included in other income or expense.

### Reclassifications

Certain reclassifications have been made to the condensed consolidated financial statements to conform to the current year’s presentation.

The Company has reclassified a portion of the increase in other assets in the condensed consolidated statements of cash flows from operating activities to financing activities for all periods presented.

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The impact of the reclassification was as follows (in thousands):

|  | Six Months Ended<br>June 30, 2014 |
|--|-----------------------------------|
| Net cash flows provided by operating activities - as previously reported | \$37,597                          |
| Impact of reclassification   | \$14,776                          |
| Net cash flows provided by operating activities - as reclassified        | \$52,373                          |
| Net cash flows provided by financing activities - as previously reported | \$457,842                         |
| Impact of reclassification   | \$(14,776)                        |
| Net cash flows provided by financing activities - as reclassified        | \$443,066                         |

This reclassification had no impact on the net change in cash and cash equivalents or cash flows from investing activities for any period presented.

## Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-02, “Amendments to the Consolidation Analysis.” This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. This standard is not expected to have a significant impact to the Company’s financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs”. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective beginning January 1, 2016, with early adoption permitted, and shall be applied retrospectively. The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements and footnotes disclosures.

## Note 2: Earnings Per Share

Basic earnings per share is calculated by dividing net earnings attributable to Encore by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, restricted stock, and the dilutive effect of the convertible senior notes.

On April 24, 2014, the Company’s Board of Directors approved a \$50.0 million share repurchase program. The program does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at the Company’s discretion. In May 2014, the Company repurchased 400,000 shares of its common stock for approximately \$16.8 million. In May 2015, the Company repurchased 839,295 shares of common stock for approximately \$33.2 million, which represented the remaining amount allowed under the share repurchase program.

A reconciliation of shares used in calculating earnings per basic and diluted shares follows (in thousands):

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|--|--------------------------------|--------|------------------------------|--------|
|  | 2015                           | 2014   | 2015                         | 2014   |
| Weighted average common shares outstanding—basic | 25,885                         | 25,798 | 25,978                       | 25,774 |
| Dilutive effect of stock-based awards            | 196                            | 651    | 283                          | 800    |
| Dilutive effect of convertible senior notes      | 838                            | 1,043  | 856                          | 1,195  |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Dilutive effect of warrants                        | —      | —      | —      | 21     |
| Weighted average common shares outstanding—diluted | 26,919 | 27,492 | 27,117 | 27,790 |

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There were no anti-dilutive employee stock options outstanding during the three and six months ended June 30, 2015 or 2014.

The Company has the following convertible senior notes outstanding: \$115.0 million convertible senior notes due 2017 at a conversion price equivalent to approximately \$31.56 per share of the Company's common stock (the "2017 Convertible Notes"), \$172.5 million convertible senior notes due 2020 at a conversion price equivalent to approximately \$45.72 per share of the Company's common stock (the "2020 Convertible Notes"), and \$161.0 million convertible senior notes due 2021 at a conversion price equivalent to approximately \$59.39 per share of the Company's common stock (the "2021 Convertible Notes").

In the event of conversion, the 2017 Convertible Notes are convertible into cash up to the aggregate principal amount and permit the excess conversion premium to be settled in cash or shares of the Company's common stock. For the 2020 Convertible Notes and 2021 Convertible Notes, the Company has the option to pay cash, issue shares of common stock or any combination thereof for the aggregate amount due upon conversion. The Company's intent is to settle the principal amount of the 2020 and 2021 Convertible Notes in cash upon conversion. As a result, upon conversion of all the convertible senior notes, only the amounts payable in excess of the principal amounts are considered in diluted earnings per share under the treasury stock method. For the three and six months ended June 30, 2015 and 2014, diluted earnings per share included the effect of the common shares issuable upon conversion of the 2017 Convertible Notes, because the average stock price exceeded the conversion price of these notes. For the six months ended June 30, 2014, diluted earnings per share included the effect of the common shares issuable upon conversion of the 2020 Convertible Notes because the average stock price exceeded the conversion price of these notes. However, as described in Note 10, "Debt—Encore Convertible Notes," and further described below, the Company entered into certain hedge transactions that have the effect of increasing the effective conversion price of the 2017 Convertible Notes to \$60.00 and the 2020 Convertible Notes to \$61.55. On January 2, 2014, the 2017 Convertible Notes became convertible as certain conditions for conversion were met in the immediately preceding calendar quarter as defined in the applicable indenture. However, none of the 2017 Convertible Notes have been converted.

In connection with the issuance of the 2017 Convertible Notes, the Company entered into privately negotiated transactions with certain counterparties and sold warrants to purchase approximately 3.6 million shares of its common stock. The warrants had an exercise price of \$44.19. On December 16, 2013, the Company entered into amendments with the same counterparties to exchange the original warrants with new warrants with an exercise price of \$60.00. All other terms and settlement provisions remain unchanged. The warrant restrike transaction was completed on February 6, 2014. Diluted earnings per share included the effect of these warrants for the six months ended June 30, 2014. The effect of the warrants was anti-dilutive for the three months ended June 30, 2014 and for the three and six months ended June 30, 2015.

#### Note 3: Business Combinations dlc Acquisition

On June 1, 2015, Cabot acquired dlc, a U.K.-based acquirer and collector of non-performing unsecured consumer debt for approximately £181.6 million (approximately \$276.2 million) (the "dlc Acquisition"). The dlc Acquisition was financed with borrowings under Cabot's existing revolving credit facility and under Cabot's new senior secured bridge facility. Refer to Note 10, "Debt" for further details of Cabot's revolving credit facility and senior secured bridge facility. The dlc Acquisition was accounted for using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the acquisition. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the respective assets and liabilities. As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the allocation of the purchase price. The initial purchase price allocation presented below was based on the preliminary assessment of assets acquired and liabilities assumed, which is subject to change based on the final valuation study that is expected to be completed by the fourth quarter of 2015.

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The components of the preliminary purchase price allocation for the dlc Acquisition were as follows (in thousands):

|                                     |           |
|-------------------------------------|-----------|
| Purchase price:                     |           |
| Cash paid at acquisition            | \$268,391 |
| Deferred consideration              | 7,781     |
| Total purchase price                | \$276,172 |
| Allocation of purchase price:       |           |
| Cash                                | \$30,518  |
| Investment in receivable portfolios | 215,988   |
| Deferred court costs                | 760       |
| Property and equipment              | 1,327     |
| Other assets                        | 2,384     |
| Liabilities assumed                 | (44,335 ) |
| Identifiable intangible assets      | 6,075     |
| Goodwill                            | 63,455    |
| Total net assets acquired           | \$276,172 |

The goodwill recognized is primarily attributable to synergies that are expected to be achieved by combining dlc and Cabot's existing contingent collections operations. The Company is still finalizing its analysis of the effects of these synergies which, when finalized, will be incorporated into dlc and Cabot's estimated remaining collections. The entire goodwill of \$63.5 million related to the dlc Acquisition is not deductible for income tax purposes.

Total acquisition and integration costs related to the dlc Acquisition were approximately \$2.7 million for the three and six months ended June 30, 2015, and have been expensed in the accompanying condensed consolidated statements of income within general and administrative expenses. The amount of revenue and net income included in the Company's consolidated statement of income for the three and six months ended June 30, 2015 related to dlc was \$4.4 million and \$0.1 million, respectively.

Refer to Note 3, "Business Combinations" as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for a complete description of the Company's acquisition activities in 2014.

#### Note 4: Fair Value Measurements

The authoritative guidance for fair value measurements defines fair value as the price that would be received upon sale of an asset or the price paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the "exit price"). The guidance utilizes a fair value hierarchy that prioritizes the inputs used in valuation techniques to measure fair value into three broad levels. The following is a brief description of each level:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs, including inputs that reflect the reporting entity's own assumptions.

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## Financial Instruments Required To Be Carried At Fair Value

Financial assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

|                                     | Fair Value Measurements as of<br>June 30, 2015     |         |         |           |
|-------------------------------------|--|---------|---------|-----------|
|                                     | Level 1  | Level 2 | Level 3 | Total     |
| Assets                              |  |         |         |           |
| Foreign currency exchange contracts | \$—  | \$896   | \$—     | \$896     |
| Liabilities                         |  |         |         |           |
| Foreign currency exchange contracts | —  | (576    | ) —     | (576      |
| Temporary Equity                    |  |         |         |           |
| Redeemable noncontrolling interests | —  | —       | (27,924 | ) (27,924 |
|                                     | Fair Value Measurements as of<br>December 31, 2014 |         |         |           |
|                                     | Level 1  | Level 2 | Level 3 | Total     |
| Assets                              |  |         |         |           |
| Foreign currency exchange contracts | \$—  | \$768   | \$—     | \$768     |
| Liabilities                         |  |         |         |           |
| Foreign currency exchange contracts | —  | (1,037  | ) —     | (1,037    |
| Temporary Equity                    |  |         |         |           |
| Redeemable noncontrolling interests | —  | —       | (28,885 | ) (28,885 |
| Derivative Contracts:               |  |         |         |           |

The Company uses derivative instruments to minimize its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company's derivative instruments primarily include interest rate swap agreements, interest rate cap contracts, and foreign currency exchange contracts. Fair values of these derivative instruments are estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves, foreign currency exchange rates, and forward and spot prices for currencies.

## Redeemable Noncontrolling Interests:

Some minority shareholders in certain subsidiaries of the Company have the right, at certain times, to require the Company to acquire their ownership interest in those entities at fair value, while others have the right to force a sale of the subsidiary if the Company chooses not to purchase their interests at fair value. The noncontrolling interests subject to these arrangements are included in temporary equity as redeemable noncontrolling interests, and are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to additional paid-in capital. Future reductions in the carrying amounts are subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not affect the calculation of earnings per share.

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The components of the change in the redeemable noncontrolling interests for the periods ended June 30, 2015 and December 31, 2014 are presented in the following table (in thousands):

|  | Amount   |   |
|--|----------|---|
| Balance at December 31, 2013   | \$26,564 |   |
| Initial redeemable noncontrolling interest related to business combinations                | 4,997    |   |
| Net loss attributable to redeemable noncontrolling interests                               | (4,513   | ) |
| Adjustment of the redeemable noncontrolling interests to fair value                        | 5,730    |   |
| Effect of foreign currency translation attributable to redeemable noncontrolling interests | (3,893   | ) |
| Balance at December 31, 2014   | 28,885   |   |
| Net loss attributable to redeemable noncontrolling interests                               | (1,514   | ) |
| Adjustment of the redeemable noncontrolling interests to fair value                        | 1,205    |   |
| Effect of foreign currency translation attributable to redeemable noncontrolling interests | (652     | ) |
| Balance at June 30, 2015   | \$27,924 |   |

**Financial Instruments Not Required To Be Carried At Fair Value****Investment in Receivable Portfolios:**

The Company records its investment in receivable portfolios at cost, which represents a significant discount from the contractual receivable balances due. The Company computes the fair value of its investment in receivable portfolios by discounting the estimated future cash flows generated by its proprietary forecasting models. The key inputs include the estimated future gross cash flow, average cost to collect, and discount rate. In accordance with authoritative guidance related to fair value measurements, the Company estimates the average cost to collect and discount rates based on its estimate of what a market participant might use in valuing these portfolios. The determination of such inputs requires significant judgment, including assessing the assumed market participant's cost structure, its determination of whether to include fixed costs in its valuation, its collection strategies, and determining the appropriate weighted average cost of capital. The Company evaluates the use of these key inputs on an ongoing basis and refines the data as it continues to obtain better information from market participants in the debt recovery and purchasing business.

In the Company's current analysis, the estimated blended market participant cost to collect and discount rate is approximately 50.3% and 12.0%, respectively, for United States portfolios, and approximately 30.0% and 12.5%, respectively, for Europe portfolios. Using this method, the fair value of investment in receivable portfolios approximates the carrying value as of June 30, 2015 and December 31, 2014. A 100 basis point fluctuation in the cost to collect and discount rate used would result in an increase or decrease in the fair value of United States and Europe portfolios by approximately \$40.0 million and \$59.5 million, respectively, as of June 30, 2015. This fair value calculation does not represent, and should not be construed to represent, the underlying value of the Company or the amount which could be realized if its investment in receivable portfolios were sold. The carrying value of the investment in receivable portfolios was \$2.4 billion and \$2.1 billion as of June 30, 2015 and December 31, 2014, respectively.

**Deferred Court Costs:**

The Company capitalizes deferred court costs and provides a reserve for those costs that it believes will ultimately be uncollectible. The carrying value of net deferred court costs approximates fair value.

**Receivables Secured By Property Tax Liens:**

The fair value of receivables secured by property tax liens is estimated by discounting the future cash flows of the portfolio using a discount rate equivalent to the current rate at which similar portfolios would be originated. For tax liens purchased directly from taxing authorities, the fair value is estimated by discounting the expected future cash flows of the portfolio using a discount rate equivalent to the interest rate expected when acquiring these tax liens. The carrying value of receivables secured by property tax liens approximates fair value. Additionally, the carrying value of the related interest receivable also approximates fair value.

**Debt:**

Encore's senior secured notes and borrowings under its revolving credit and term loan facilities are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximate fair value.



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Encore's convertible senior notes are carried at historical cost, adjusted for the debt discount. The carrying value of the convertible senior notes was \$448.5 million less debt discount of \$46.6 million as of June 30, 2015, and \$448.5 million less debt discount of \$51.2 million as of December 31, 2014, respectively. The fair value estimate for these convertible senior notes, which incorporates quoted market prices, was approximately \$501.3 million and \$507.4 million as of June 30, 2015 and December 31, 2014, respectively.

Propel's borrowings under its revolving credit facilities, term loan facility, and securitized notes are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximate fair value. The carrying value of the Cabot and Marlin senior secured notes was \$1.1 billion, including debt premium of \$62.4 million and \$1.1 billion, including a debt premium of \$67.3 million, as of June 30, 2015 and December 31, 2014, respectively. The fair value estimate for these senior notes, incorporates quoted market prices, and approximated the carrying value as of June 30, 2015 and December 31, 2014, respectively.

Cabot's borrowings under its senior revolving credit facility and senior secured bridge loan facility, entered into in June 2015 in connection with the dlc Acquisition, are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximates fair value.

The Company's preferred equity certificates are legal obligations to the noncontrolling shareholders at its Janus Holdings and Cabot Holdings subsidiaries. They are carried at the face amount, plus any accrued interest. The Company determined, at the time of the acquisition of a controlling interest in Cabot (the "Cabot Acquisition") and at June 30, 2015, that the carrying value of these preferred equity certificates approximates fair value.

#### Note 5: Derivatives and Hedging Instruments

The Company may periodically enter into derivative financial instruments to manage risks related to interest rates and foreign currency. Most of the Company's derivative financial instruments qualify for hedge accounting treatment under the authoritative guidance for derivatives and hedging. The Company's Cabot subsidiary has entered into several interest rate cap contracts to manage its risk related to interest rate fluctuations. As of June 30, 2015, Cabot had only one outstanding interest rate cap contract with a notional amount of £100.0 million. The Company does not apply hedge accounting on interest rate cap contracts. The impact of the interest rate cap contracts to the Company's consolidated financial statements for the three and six months ended June 30, 2015 and 2014, was immaterial.

#### Foreign Currency Exchange Contracts

The Company has operations in foreign countries, which exposes the Company to foreign currency exchange rate fluctuations due to transactions denominated in foreign currencies. To mitigate this risk, the Company enters into derivative financial instruments, principally Indian rupee forward contracts, which are designated as cash flow hedges, to mitigate fluctuations in the cash payments of future forecasted transactions. The Company adjusts the level and use of derivatives as soon as practicable after learning that an exposure has changed and reviews all exposures and derivative positions on an ongoing basis.

Gains and losses on cash flow hedges are recorded in other comprehensive income ("OCI") until the hedged transaction is recorded in the consolidated financial statements. Once the underlying transaction is recorded in the consolidated financial statements, the Company reclassifies the OCI on the derivative into earnings. If all or a portion of the forecasted transaction is cancelled, this would render all or a portion of the cash flow hedge ineffective and the Company would reclassify the ineffective portion of the hedge into earnings. The Company generally does not experience ineffectiveness of the hedge relationship and the accompanying consolidated financial statements do not include any such gains or losses.

As of June 30, 2015, the total notional amount of the forward contracts to buy Indian rupees in exchange for U.S. dollars was \$45.8 million. All of these outstanding contracts qualified for hedge accounting treatment. The Company estimates that approximately \$0.6 million of net derivative gain included in OCI will be reclassified into earnings within the next 12 months. No gains or losses were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the six months ended June 30, 2015 and 2014.

The Company does not enter into derivative instruments for trading or speculative purposes.

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The following table summarizes the fair value of derivative instruments as recorded in the Company's condensed consolidated statements of financial condition (in thousands):

|  | June 30, 2015          |            | December 31, 2014      |            |
|--|------------------------|------------|------------------------|------------|
|  | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments: |                        |            |                        |            |
| Foreign currency exchange contracts            | Other liabilities      | \$(576)    | Other liabilities      | \$(1,037)  |
| Foreign currency exchange contracts            | Other assets           | 896        | Other assets           | 768        |

The following table summarizes the effects of derivatives in cash flow hedging relationships on the Company's condensed consolidated statements of income for the three and six months ended June 30, 2015 and 2014 (in thousands):

|                                     | Gain or (Loss) Recognized in OCI-Effective Portion |         | Location of Gain or (Loss) Reclassified from OCI into Income - Effective Portion | Gain or (Loss) Reclassified from OCI into Income - Effective Portion |         | Location of Gain or (Loss) Recognized - Ineffective Portion and Excluded from Effectiveness Testing | Amount of Gain or (Loss) Recognized - Ineffective Portion and Excluded from Effectiveness Testing |      |
|-------------------------------------|--|---------|--|--|---------|---|---|------|
|                                     | Three Months Ended June 30, 2015                   | 2014    |  | Three Months Ended June 30, 2015                                     | 2014    |   | Three Months Ended June 30, 2015  | 2014 |
| Foreign currency exchange contracts | \$(395)  | \$760   | Salaries and employee benefits   | \$(164)  | \$(219) | Other (expense) income  | \$—   | \$—  |
| Foreign currency exchange contracts | (70)   | 134     | General and administrative expenses  | (31)   | (40)    | Other (expense) income  | —   | —    |
| Foreign currency exchange contracts | \$77   | \$2,645 | Salaries and employee benefits   | \$(315)  | \$(575) | Other (expense) income  | \$—   | \$—  |
| Foreign currency exchange contracts | 150  | 321     | General and administrative expenses  | (47)   | (97)    | Other (expense) income  | —   | —    |

Note 6: Investment in Receivable Portfolios, Net

In accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality, discrete receivable portfolio purchases during the same fiscal quarter are aggregated into pools based on common risk characteristics. Common risk characteristics include risk ratings (e.g. FICO or similar scores), financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. The Company's static pools are typically grouped into credit card and telecom, purchased consumer bankruptcy, and mortgage portfolios. We further group these static pools by geographic region or location. Once a static pool is established, the portfolios are permanently assigned to the pool. The discount (i.e., the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded because the Company expects to collect a relatively small percentage of each static pool's contractual receivable



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balance. As a result, receivable portfolios are recorded at cost at the time of acquisition. The purchase cost of the portfolios includes certain fees paid to third parties incurred in connection with the direct acquisition of the receivable portfolios.

In compliance with the authoritative guidance, the Company accounts for its investments in receivable portfolios using either the interest method or the cost recovery method. The interest method applies an internal rate of return (“IRR”) to the cost basis of the pool, which remains unchanged throughout the life of the pool, unless there is an increase in subsequent expected cash flows. Subsequent increases in expected cash flows are recognized prospectively through an upward adjustment of the pool’s IRR over its remaining life. Subsequent decreases in expected cash flows do not change the IRR, but are recognized as an allowance to the cost basis of the pool, and are reflected in the consolidated statements of comprehensive income as a reduction in revenue, with a corresponding valuation allowance, offsetting the investment in receivable portfolios in the consolidated statements of financial condition. The Company utilizes its proprietary forecasting models to continuously evaluate the economic life of each pool. During the quarter ended September 30, 2014, the Company revised the forecasting methodology it uses to value and calculate IRRs on its portfolios in the United States by extending the collection forecasts from 84 or 96 months to 120 months. This change was made as a result of the Company experiencing collections beyond 84 or 96 months and an increased confidence in its ability to forecast future cash collections to 120 months. Extending the collection forecast did not result in a material increase to any quarterly pool group’s IRR or revenue for the quarter. The Company has historically included collections to 120 months in its estimated remaining collection disclosures and when evaluating the economic returns of its portfolio purchases.

The Company accounts for each static pool as a unit for the economic life of the pool (similar to one loan) for recognition of revenue from receivable portfolios, for collections applied to the cost basis of receivable portfolios, and for provision for loss or allowance. Revenue from receivable portfolios is accrued based on each pool’s IRR applied to each pool’s adjusted cost basis. The cost basis of each pool is increased by revenue earned and portfolio allowance reversals and decreased by gross collections and portfolio allowances.

If the amount and timing of future cash collections on a pool of receivables are not reasonably estimable, the Company accounts for such portfolios on the cost recovery method as Cost Recovery Portfolios. The accounts in these portfolios have different risk characteristics than those included in other portfolios acquired during the same quarter, or the necessary information was not available to estimate future cash flows and, accordingly, they were not aggregated with other portfolios. Under the cost recovery method of accounting, no revenue is recognized until the purchase price of a Cost Recovery Portfolio has been fully recovered.

Accretable yield represents the amount of revenue the Company expects to generate over the remaining life of its existing investment in receivable portfolios based on estimated future cash flows. Total accretable yield is the difference between future estimated collections and the current carrying value of a portfolio. All estimated cash flows on portfolios where the cost basis has been fully recovered are classified as zero basis cash flows.

The following table summarizes the Company’s accretable yield and an estimate of zero basis future cash flows at the beginning and end of the period presented (in thousands):

|  | Accretable<br>Yield | Estimate of<br>Zero Basis<br>Cash Flows | Total       |
|--|---------------------|---|-------------|
| December 31, 2014                              | \$2,993,321         | \$66,392                                | \$3,059,713 |
| Revenue recognized, net <sup>(1)</sup>         | (248,539            | ) (15,571                               | ) (264,110  |
| Net additions on existing portfolios           | 120,729             | 39,607                                  | 160,336     |
| Additions for current purchases                | 85,692              | —                                       | 85,692      |
| Balance at March 31, 2015                      | 2,951,203           | 90,428                                  | 3,041,631   |
| Revenue recognized, net <sup>(1)</sup>         | (243,425            | ) (26,876                               | ) (270,301  |
| Net additions on existing portfolios           | 91,294              | 74,586                                  | 165,880     |
| Additions for current purchases <sup>(2)</sup> | 395,032             | —                                       | 395,032     |
| Balance at June 30, 2015                       | \$3,194,104         | \$138,138                               | \$3,332,242 |



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|  | Accretable<br>Yield | Estimate of<br>Zero Basis<br>Cash Flows | Total       |
|--|---------------------|---|-------------|
| Balance at December 31, 2013                   | \$2,391,471         | \$8,465                                 | \$2,399,936 |
| Revenue recognized, net <sup>(1)</sup>         | (231,057            | ) (6,511                                | ) (237,568  |
| Net additions on existing portfolios           | 92,325              | 8,555                                   | 100,880     |
| Additions for current purchases <sup>(3)</sup> | 591,205             | —                                       | 591,205     |
| Balance at March 31, 2014                      | 2,843,944           | 10,509                                  | 2,854,453   |
| Revenue recognized, net <sup>(1)</sup>         | (241,523            | ) (6,708                                | ) (248,231  |
| Net additions on existing portfolios           | 80,582              | 6,135                                   | 86,717      |
| Additions for current purchases                | 218,047             | —                                       | 218,047     |
| Balance at June 30, 2014                       | \$2,901,050         | \$9,936                                 | \$2,910,986 |

(1) Revenue recognized on Zero Basis Portfolios includes portfolio allowance reversals.

(2) Includes \$216.0 million of portfolios acquired in connection with the dlc Acquisition.

(3) Includes \$208.5 million of portfolios acquired in connection with the Marlin Acquisition.

During the three months ended June 30, 2015, the Company purchased receivable portfolios with a face value of \$5.5 billion for \$418.8 million, or a purchase cost of 7.6% of face value. Purchases of charged-off credit card portfolios during the three months ended June 30, 2015, include \$216.0 million of portfolios acquired in connection with the dlc Acquisition. The estimated future collections at acquisition for all portfolios purchased during the quarter amounted to \$806.5 million. During the three months ended June 30, 2014, the Company purchased receivable portfolios with a face value of \$3.1 billion for \$225.8 million, or a purchase cost of 7.3% of face value. The estimated future collections at acquisition for all portfolios purchased during the quarter amounted to \$381.3 million.

During the six months ended June 30, 2015, the Company purchased receivable portfolios with a face value of \$6.6 billion for \$543.9 million, or a purchase cost of 8.2% of face value. Purchases of charged-off credit card portfolios during the six months ended June 30, 2015, include \$216.0 million of portfolios acquired in connection with the dlc Acquisition. The estimated future collections at acquisition for all portfolios purchased during the period amounted to \$1.0 billion. During the six months ended June 30, 2014, the Company purchased receivable portfolios with a face value of \$7.4 billion for \$693.3 million, or a purchase cost of 9.4% of face value. Purchases of charged-off credit card portfolios during the six months ended June 30, 2014, include \$208.5 million of portfolios acquired in connection with the Marlin Acquisition. The estimated future collections at acquisition for all portfolios purchased during the period amounted to \$1.4 billion.

All collections realized after the net book value of a portfolio has been fully recovered (“Zero Basis Portfolios”) are recorded as revenue (“Zero Basis Revenue”). During the three months ended June 30, 2015 and 2014, Zero Basis Revenue was approximately \$26.9 million and \$6.7 million, respectively. During the six months ended June 30, 2015 and 2014, Zero Basis Revenue was approximately \$42.4 million and \$13.2 million, respectively.

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The following tables summarize the changes in the balance of the investment in receivable portfolios during the following periods (in thousands, except percentages):

|   | Three Months Ended June 30, 2015 |                             |                          |             |
|---|----------------------------------|-----------------------------|--------------------------|-------------|
|   | Accrual Basis<br>Portfolios      | Cost Recovery<br>Portfolios | Zero Basis<br>Portfolios | Total       |
| Balance, beginning of period                          | \$2,029,335                      | \$9,072                     | \$—                      | \$2,038,407 |
| Purchases of receivable portfolios <sup>(1)</sup>     | 418,780                          | —                           | —                        | 418,780     |
| Gross collections <sup>(2)</sup>                      | (409,339 )                       | (1,253 )                    | (26,732 )                | (437,324 )  |
| Put-backs and recalls <sup>(3)</sup>                  | (1,458 )                         | (1 )                        | (164 )                   | (1,623 )    |
| Foreign currency adjustments                          | 63,121                           | 85                          | 20                       | 63,226      |
| Revenue recognized                                    | 242,618                          | —                           | 23,323                   | 265,941     |
| Portfolio allowance reversals, net                    | 807                              | —                           | 3,553                    | 4,360       |
| Balance, end of period                                | \$2,343,864                      | \$7,903                     | \$—                      | \$2,351,767 |
| Revenue as a percentage of collections <sup>(4)</sup> | 59.3                             | % 0.0                       | % 87.2                   | % 60.8      |

|   | Three Months Ended June 30, 2014 |                             |                          |             |
|---|----------------------------------|-----------------------------|--------------------------|-------------|
|   | Accrual Basis<br>Portfolios      | Cost Recovery<br>Portfolios | Zero Basis<br>Portfolios | Total       |
| Balance, beginning of period                          | \$1,900,177                      | \$3,853                     | \$—                      | \$1,904,030 |
| Purchases of receivable portfolios <sup>(5)</sup>     | 225,762                          | —                           | —                        | 225,762     |
| Transfer of portfolios                                | (7,163 )                         | 7,163                       | —                        | —           |
| Gross collections <sup>(2)</sup>                      | (400,983 )                       | (1,589 )                    | (6,708 )                 | (409,280 )  |
| Put-backs and recalls <sup>(3)</sup>                  | (5,588 )                         | (254 )                      | —                        | (5,842 )    |
| Foreign currency adjustments                          | 24,765                           | 319                         | —                        | 25,084      |
| Revenue recognized                                    | 241,407                          | —                           | 3,402                    | 244,809     |
| Portfolio allowance reversals, net                    | 116                              | —                           | 3,306                    | 3,422       |
| Balance, end of period                                | \$1,978,493                      | \$9,492                     | \$—                      | \$1,987,985 |
| Revenue as a percentage of collections <sup>(4)</sup> | 60.2                             | % 0.0                       | % 50.7                   | % 59.8      |

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|   | Six Months Ended June 30, 2015 |                             |                          |             |
|---|--------------------------------|-----------------------------|--------------------------|-------------|
|   | Accrual Basis<br>Portfolios    | Cost Recovery<br>Portfolios | Zero Basis<br>Portfolios | Total       |
| Balance, beginning of period                          | \$2,131,084                    | \$12,476                    | \$—                      | \$2,143,560 |
| Purchases of receivable portfolios <sup>(1)</sup>     | 543,934                        | —                           | —                        | 543,934     |
| Gross collections <sup>(2)</sup>                      | (816,895 )                     | (3,225 )                    | (42,275 )                | (862,395 )  |
| Put-backs and Recalls <sup>(3)</sup>                  | (3,975 )                       | (19 )                       | (192 )                   | (4,186 )    |
| Foreign currency adjustments                          | (2,248 )                       | (1,329 )                    | 20                       | (3,557 )    |
| Revenue recognized                                    | 491,157                        | —                           | 36,035                   | 527,192     |
| Portfolio allowance reversals, net                    | 807                            | —                           | 6,412                    | 7,219       |
| Balance, end of period                                | \$2,343,864                    | \$7,903                     | \$—                      | \$2,351,767 |
| Revenue as a percentage of collections <sup>(4)</sup> | 60.1                           | % 0.0                       | % 85.2                   | % 61.1      |

|   | Six Months Ended June 30, 2014 |                             |                          |             |
|---|--------------------------------|-----------------------------|--------------------------|-------------|
|   | Accrual Basis<br>Portfolios    | Cost Recovery<br>Portfolios | Zero Basis<br>Portfolios | Total       |
| Balance, beginning of period                          | \$1,585,587                    | \$4,662                     | \$—                      | \$1,590,249 |
| Purchases of receivable portfolios <sup>(5)</sup>     | 693,327                        | —                           | —                        | 693,327     |
| Transfer of portfolios                                | (7,163 )                       | 7,163                       | —                        | —           |
| Gross collections <sup>(2)</sup>                      | (790,486 )                     | (2,249 )                    | (13,219 )                | (805,954 )  |
| Put-backs and Recalls <sup>(3)</sup>                  | (8,823 )                       | (403 )                      | —                        | (9,226 )    |
| Foreign currency adjustments                          | 33,471                         | 319                         | —                        | 33,790      |
| Revenue recognized                                    | 472,154                        | —                           | 6,993                    | 479,147     |
| Portfolio allowance reversals, net                    | 426                            | —                           | 6,226                    | 6,652       |
| Balance, end of period                                | \$1,978,493                    | \$9,492                     | \$—                      | \$1,987,985 |
| Revenue as a percentage of collections <sup>(4)</sup> | 59.7                           | % 0.0                       | % 52.9                   | % 59.5      |

(1) Includes \$216.0 million acquired in connection with the dlc Acquisition in June 2015.

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

Put-backs represent accounts that are returned to the seller in accordance with the respective purchase agreement (3) (“Put-Backs”). Recalls represent accounts that are recalled by the seller in accordance with the respective purchase agreement (“Recalls”).

(4) Revenue as a percentage of collections excludes the effects of net portfolio allowances or net portfolio allowance reversals.

(5) Includes \$208.5 million acquired in connection with the Marlin Acquisition in February 2014.

The following table summarizes the change in the valuation allowance for investment in receivable portfolios during the periods presented (in thousands):

|                                | Valuation Allowance            |          |                              |          |
|--------------------------------|--------------------------------|----------|------------------------------|----------|
|                                | Three Months Ended<br>June 30, |          | Six Months Ended June<br>30, |          |
|                                | 2015                           | 2014     | 2015                         | 2014     |
| Balance at beginning of period | \$72,814                       | \$89,850 | \$75,673                     | \$93,080 |
| Reversal of prior allowances   | (4,360 )                       | (3,422 ) | (7,219 )                     | (6,652 ) |
| Balance at end of period       | \$68,454                       | \$86,428 | \$68,454                     | \$86,428 |

#### Note 7: Deferred Court Costs, Net

The Company pursues legal collections using a network of attorneys that specialize in collection matters and through its internal legal channel. The Company generally pursues collections through legal means only when it believes a consumer has sufficient assets to repay their indebtedness but has, to date, been unwilling to pay. In order to pursue legal collections the Company is required to pay certain upfront costs to the applicable courts which are recoverable

from the consumer (“Deferred Court Costs”).

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The Company capitalizes Deferred Court Costs in its consolidated financial statements and provides a reserve for those costs that it believes will ultimately be uncollectible. The Company determines the reserve based on its analysis of court costs that have been advanced and those that have been recovered. The Company writes off any Deferred Court Cost not recovered within five years of placement. Collections received from debtors are first applied against related court costs with the balance applied to the debtors' account balance.

Deferred Court Costs for the five-year deferral period consist of the following as of the dates presented (in thousands):

|                       | June 30,<br>2015 | December 31,<br>2014 |
|-----------------------|------------------|----------------------|
| Court costs advanced  | \$595,895        | \$546,271            |
| Court costs recovered | (225,216)        | (206,287)            |
| Court costs reserve   | (298,955)        | (279,572)            |
|                       | \$71,724         | \$60,412             |

A roll forward of the Company's court cost reserve is as follows (in thousands):

|  | Court Cost Reserve |             |                  |             |
|--|--------------------|-------------|------------------|-------------|
|  | Three Months Ended |             | Six Months Ended |             |
|  | June 30,<br>2015   | 2014        | June 30,<br>2015 | 2014        |
| Balance at beginning of period         | \$(290,383)        | \$(227,067) | \$(279,572)      | \$(210,889) |
| Provision for court costs              | (18,318)           | (16,733)    | (37,497)         | (32,911)    |
| Net down of reserve after 60 months    | 10,469             | —           | 18,394           | —           |
| Effect of foreign currency translation | (723)              | (32)        | (280)            | (32)        |
| Balance at end of period               | \$(298,955)        | \$(243,832) | \$(298,955)      | \$(243,832) |

#### Note 8: Receivables Secured by Property Tax Liens, Net

Propel's receivables are secured by property tax liens. Repayment of the property tax liens is generally dependent on the property owner but can also come through payments from other lien holders or, in less than one half of one percent of cases, from foreclosure on the properties. Propel records receivables secured by property tax liens at their outstanding principal balances, adjusted for, if any, charge-offs, allowance for losses, deferred fees or costs, and unamortized premiums or discounts. Interest income is reported on the interest method and includes amortization of net deferred fees and costs over the term of the agreements. Propel accrues interest on all past due receivables secured by tax liens as the receivables are collateralized by tax liens that are in a priority position over most other liens on the properties. If there is doubt about the ultimate collection of the accrued interest on a specific account, it would be placed on non-accrual basis and, at that time, all accrued interest would be reversed. No receivables secured by property tax liens have been placed on a non-accrual basis. The typical redemption period for receivables secured by property tax liens is less than 84 months.

On May 6, 2014, Propel, through its subsidiaries, completed the securitization of a pool of approximately \$141.5 million in receivables secured by property tax liens on real property located in the State of Texas. In connection with the securitization, investors purchased approximately \$134.0 million in aggregate principal amount of 1.44% notes collateralized by these property tax liens. The special purpose entity that is used for the securitization is consolidated by the Company as a VIE. The receivables recognized as a result of consolidating this VIE do not represent assets that can be used to satisfy claims against the Company's general assets.

At June 30, 2015, the Company had approximately \$316.3 million in receivables secured by property tax liens, of which \$96.2 million was carried at the VIE.

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## Note 9: Other Assets

Other assets consist of the following (in thousands):

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Debt issuance costs, net of amortization | \$38,834         | \$38,504             |
| Identifiable intangible assets, net      | 24,330           | 21,564               |
| Prepaid expenses                         | 22,905           | 21,427               |
| Prepaid income taxes                     | 18,321           | —                    |
| Interest receivable                      | 16,206           | 12,187               |
| Service fee receivables                  | 11,161           | 7,864                |
| Deferred tax assets                      | 10,047           | 33,716               |
| Other financial receivables              | 9,119            | 7,467                |
| Receivable from seller                   | 6,987            | 7,357                |
| Security deposits                        | 5,686            | 3,617                |
| Recoverable legal fees                   | 2,991            | 2,905                |
| Funds held in escrow                     | —                | 16,889               |
| Other                                    | 33,102           | 24,169               |
|  | \$199,689        | \$197,666            |

## Note 10: Debt

The Company is in compliance with all covenants under its financing arrangements. The components of the Company's consolidated debt and capital lease obligations were as follows (in thousands):

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Encore revolving credit facility       | \$524,000        | \$505,000            |
| Encore term loan facility              | 142,102          | 146,023              |
| Encore senior secured notes            | 36,250           | 43,750               |
| Encore convertible notes               | 448,500          | 448,500              |
| Less: Debt discount                    | (46,615)         | (51,202)             |
| Propel facilities                      | 171,550          | 84,229               |
| Propel securitized notes               | 81,553           | 104,247              |
| Cabot senior secured notes             | 1,085,301        | 1,076,952            |
| Add: Debt premium                      | 62,406           | 67,259               |
| Cabot senior revolving credit facility | 230,657          | 86,368               |
| Cabot senior secured bridge facility   | 141,561          | —                    |
| Preferred equity certificates          | 222,419          | 208,312              |
| Capital lease obligations              | 11,991           | 15,331               |
| Other                                  | 22,512           | 38,785               |
|  | \$3,134,187      | \$2,773,554          |

## Encore Revolving Credit Facility and Term Loan Facility

On July 9, 2015, Encore amended its revolving credit facility and term loan facility (the "Credit Facility") pursuant to Amendment No. 2 to the Second Amended and Restated Credit Agreement (as amended, the "Restated Credit Agreement"). The Restated Credit Agreement includes a revolving credit facility tranche of \$692.6 million, a term loan facility tranche of \$153.8 million, and an accordion feature that allows the Company to increase the revolving credit facility by an additional \$250.0 million. Including the accordion feature, the maximum amount that can be borrowed under the Credit Facility is



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\$1.1 billion. The Restated Credit Agreement expires in February 2019, except with respect to two subbranches of the term loan facility of \$60.0 million and \$6.3 million, maturing in February 2017 and November 2017, respectively. Provisions of the Restated Credit Agreement include, but are not limited to:

A revolving loan of \$692.6 million, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted London Interbank Offered Rate ("LIBOR"), plus a spread that ranges from 250 to 300 basis points depending on the Company's cash flow leverage ratio; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points depending on the Company's cash flow leverage ratio. "Alternate base rate," as defined in the agreement, means the highest of (i) the per annum rate which the administrative agent publicly announces from time to time as its prime lending rate, (ii) the federal funds effective rate from time to time, plus 0.5% per annum or (iii) reserved adjusted LIBOR determined on a daily basis for a one month interest period, plus 1.0% per annum;

An \$87.5 million five-year term loan, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the Company's cash flow leverage ratio; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes \$4.4 million in 2015, \$6.6 million in 2016, \$8.8 million in 2017, and \$8.8 million in 2018 with the remaining principal due at the end of the term;

A \$60.0 million term loan maturing on February 28, 2017, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 200 to 250 basis points, depending on the Company's cash flow leverage ratio; or (2) alternate base rate, plus a spread that ranges from 100 to 150 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes \$3.0 million in 2015, and \$4.5 million in 2016 with the remaining principal due at the end of the term;

- A \$6.3 million term loan maturing on November 3, 2017, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the Company's cash flow leverage ratio; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes \$0.5 million in 2015, \$0.6 million in 2016 and \$0.5 million in 2017 with the remaining principal due at the end of the term;

A borrowing base equal to (1) the lesser of (i) 30%—35% (depending on the Company's trailing 12-month cost per dollar collected) of all eligible non-bankruptcy estimated remaining collections, currently 33%, plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy, and (ii) the product of the net book value of all receivable portfolios acquired on or after January 1, 2005 multiplied by 95%, minus (2) the sum of the aggregate principal amount outstanding of Encore's Senior Secured Notes (as defined below) plus the aggregate principal amount outstanding under the term loans;

- a maximum cash flow leverage ratio permitted of 2.50:1.00;

- a maximum cash flow secured leverage ratio of 2.00:1.00;

- The allowance of additional unsecured or subordinated indebtedness not to exceed \$1.1 billion;

- Restrictions and covenants, which limit the payment of dividends and the incurrence of additional indebtedness and liens, among other limitations;

- Repurchases of up to \$150.0 million of Encore's common stock after July 9, 2015, subject to compliance with certain covenants and available borrowing capacity;

- A change of control definition, which excludes acquisitions of stock by Red Mountain Capital Partners LLC, JCF FPK LLP and their respective affiliates of up to 50% of the outstanding shares of Encore's voting stock;

- Events of default which, upon occurrence, may permit the lenders to terminate the facility and declare all amounts outstanding to be immediately due and payable;

- A pre-approved acquisition limit of \$225.0 million per fiscal year;

- A basket to allow for investments not to exceed the greater of (1) 200% of the consolidated net worth of the Company and its restricted subsidiaries and (2) an unlimited amount such that after giving effect to the making of any investment, the cash flow leverage ratio is less than 1.25:1.00; and

- Collateralization by all assets of the Company, other than the assets of certain Propel entities, certain foreign subsidiaries and all unrestricted subsidiaries as defined in the Restated Credit Agreement.



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At June 30, 2015, the outstanding balance under the Restated Credit Agreement was \$666.1 million. The weighted average interest rate was 2.40% and 2.89% for the three months ended June 30, 2015 and 2014, respectively, and 2.37% and 2.90% for the six months ended June 30, 2015 and 2014, respectively.

**Encore Senior Secured Notes**

In 2010 and 2011 Encore entered into an aggregate of \$75.0 million in senior secured notes with certain affiliates of Prudential Capital Group (the “Senior Secured Notes”). \$25.0 million of the Senior Secured Notes bear an annual interest rate of 7.375%, mature in 2018 and require quarterly principal payments of \$1.25 million. Prior to May 2013, these notes required quarterly payments of interest only. The remaining \$50.0 million of Senior Secured Notes bear an annual interest rate of 7.75%, mature in 2017 and require quarterly principal payments of \$2.5 million. Prior to December 2012 these notes required quarterly interest only payments. As of June 30, 2015, \$36.3 million was outstanding under these obligations.

The Senior Secured Notes are guaranteed in full by certain of Encore’s subsidiaries. Similar to, and pari passu with, Encore’s credit facility, the Senior Secured Notes are also collateralized by all of the assets of the Company other than the assets of the unrestricted subsidiaries as defined in the Restated Credit Agreement. The Senior Secured Notes may be accelerated and become automatically and immediately due and payable upon certain events of default, including certain events related to insolvency, bankruptcy, or liquidation. Additionally, the Senior Secured Notes may be accelerated at the election of the holder or holders of a majority in principal amount of the Senior Secured Notes upon certain events of default by Encore, including the breach of affirmative covenants regarding guarantors, collateral, most favored lender treatment, minimum revolving credit facility commitment or the breach of any negative covenant. If Encore prepays the Senior Secured Notes at any time for any reason, payment will be at the higher of par or the present value of the remaining scheduled payments of principal and interest on the portion being prepaid. The discount rate used to determine the present value is 50 basis points over the then current Treasury Rate corresponding to the remaining average life of the senior secured notes. The covenants are substantially similar to those in the Restated Credit Agreement. Prudential Capital Group and the administrative agent for the lenders of the Restated Credit Agreement have an intercreditor agreement related to their pro rata rights to the collateral, actionable default, powers and duties and remedies, among other topics. The terms of the Senior Secured Notes were amended in connection with the Restated Credit Agreement in order to properly align certain provisions between the two agreements.

**Encore Convertible Notes**

In November and December 2012, Encore sold \$115.0 million aggregate principal amount of 3.0% 2017 Convertible Notes that mature on November 27, 2017 in private placement transactions. In June and July 2013, Encore sold \$172.5 million aggregate principal amount of 3.0% 2020 Convertible Notes that mature on July 1, 2020 in private placement transactions. In March 2014, Encore sold \$161.0 million aggregate principal amount of 2.875% 2021 Convertible Notes that mature on March 15, 2021 in private placement transactions. The interest on these unsecured convertible senior notes (collectively, the “Convertible Notes”), is payable semi-annually.

Prior to the close of business on the business day immediately preceding their respective conversion date (listed below), holders may convert their Convertible Notes under certain circumstances set forth in the applicable Convertible Notes indentures. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert their Convertible Notes at any time. Certain key terms related to the convertible features for each of the Convertible Notes as of June 30, 2015 are listed below.

|   | 2017 Convertible<br>Notes | 2020 Convertible<br>Notes | 2021 Convertible<br>Notes |
|---|---------------------------|---------------------------|---------------------------|
| Initial conversion price                              | \$31.56                   | \$45.72                   | \$59.39                   |
| Closing stock price at date of issuance               | \$25.66                   | \$33.35                   | \$47.51                   |
| Closing stock price date                              | November 27,<br>2012      | June 24, 2013             | March 5, 2014             |
| Conversion rate (shares per \$1,000 principal amount) | 31.6832                   | 21.8718                   | 16.8386                   |

|                                |              |                 |                    |
|--------------------------------|--------------|-----------------|--------------------|
| Conversion date <sup>(1)</sup> | May 27, 2017 | January 1, 2020 | September 15, 2020 |
|--------------------------------|--------------|-----------------|--------------------|

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(1) 2017 Convertible Notes became convertible on January 2, 2014, as certain early conversion events were satisfied. Refer to “Conversion and Earnings Per Share Impact” section below for further details.

In the event of conversion, the 2017 Convertible Notes are convertible into cash up to the aggregate principal amount of the notes. The excess conversion premium may be settled in cash or shares of the Company’s common stock at the discretion of the Company. In the event of conversion, holders of the Company’s 2020 and 2021 Convertible Notes will receive cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election. The Company’s current intent is to settle conversions through combination settlement (i.e., convertible into cash up to

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the aggregate principal amount, and shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, for the remainder). As a result, and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when, during any quarter, the average share price of the Company's common stock exceeds the initial conversion prices listed in the above table.

Authoritative guidance related to debt with conversion and other options requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash, must separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively.

The debt and equity components, the issuance costs related to the equity component, the stated interest rate, and the effective interest rate for each of the Convertible Notes are listed below (in thousands, except percentages):

|                         | 2017 Convertible<br>Notes | 2020 Convertible<br>Notes | 2021 Convertible<br>Notes |   |
|-------------------------|---------------------------|---------------------------|---------------------------|---|
| Debt component          | \$100,298                 | \$140,271                 | \$143,604                 |   |
| Equity component        | \$14,702                  | \$32,229                  | \$17,396                  |   |
| Equity issuance cost    | \$788                     | \$1,113                   | \$575                     |   |
| Stated interest rate    | 3.000                     | % 3.000                   | % 2.875                   | % |
| Effective interest rate | 6.000                     | % 6.350                   | % 4.700                   | % |

The balances of the liability and equity components of all of the Convertible Notes outstanding were as follows (in thousands):

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Liability component—principal amount    | \$448,500        | \$448,500            |
| Unamortized debt discount               | (46,615          | ) (51,202            |
| Liability component—net carrying amount | \$401,885        | \$397,298            |
| Equity component                        | \$56,684         | \$55,236             |

The debt discount is being amortized into interest expense over the remaining life of the convertible notes using the effective interest rates. Interest expense related to the convertible notes was as follows (in thousands):

|  | Three Months Ended |         | Six Months Ended |         |
|--|--------------------|---------|------------------|---------|
|  | June 30,<br>2015   | 2014    | June 30,<br>2015 | 2014    |
| Interest expense—stated coupon rate            | \$3,308            | \$3,308 | \$6,600          | \$5,764 |
| Interest expense—amortization of debt discount | 2,310              | 2,181   | 4,588            | 3,936   |
| Total interest expense—convertible notes       | \$5,618            | \$5,489 | \$11,188         | \$9,700 |

Convertible Notes Hedge Transactions

In order to reduce the risk related to the potential dilution and/or the potential cash payments the Company is required to make in the event that the market price of the Company's common stock becomes greater than the conversion price of the Convertible Notes, the Company maintains a hedge program that increases the effective conversion price for each of the Convertible Notes. All of the hedge instruments related to the Convertible Notes have been determined to be indexed to the Company's own stock and meet the criteria for equity classification. In accordance with authoritative guidance, the Company recorded the cost of the hedge instruments as a reduction in additional paid-in capital, and will not recognize subsequent changes in fair value of these financial instruments in its consolidated financial statements. The initial hedge instruments the Company entered into in connection with its issuance of the 2017 Convertible Notes had an effective conversion price of \$44.19. On December 16, 2013, the Company entered into amendments to the hedge instruments to further increase the effective conversion price from \$44.19 to \$60.00. All other terms and settlement provisions



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of the hedge instruments remained unchanged. The transaction was completed in February 2014. The Company paid approximately \$27.9 million in total consideration for amending the hedge instruments. The Company recorded the payment as a reduction of equity in the consolidated statements of financial condition. The costs for the amendments in 2013 and 2014 were approximately \$2.7 million and \$25.2 million, respectively.

The details of the hedge program for each of the Convertible Notes are listed below (in thousands, except conversion price):

|                                  | 2017 Convertible<br>Notes | 2020 Convertible<br>Notes | 2021 Convertible<br>Notes |
|----------------------------------|---------------------------|---------------------------|---------------------------|
| Cost of the hedge transaction(s) | \$50,595                  | \$18,113                  | \$19,545                  |
| Initial conversion price         | \$31.56                   | \$45.72                   | \$59.39                   |
| Effective conversion price       | \$60.00                   | \$61.55                   | \$83.14                   |

**Conversion and Earnings Per Share Impact**

During the quarter ending December 31, 2013, the closing price of the Company's common stock exceeded 130% of the conversion price of the 2017 Convertible Notes for more than 20 trading days during a 30 consecutive trading day period, thereby satisfying one of the early conversion events. As a result, the 2017 Convertible Notes became convertible on demand effective January 2, 2014, and the holders were notified that they could elect to submit their 2017 Convertible Notes for conversion. The carrying value of the 2017 Convertible Notes continues to be reported as debt as the Company intends to draw on the Credit Facility or use cash on hand to settle the principal amount of any such conversions in cash. No gain or loss was recognized when the debt became convertible. The estimated fair value of the 2017 Convertible Notes was approximately \$163.6 million as of June 30, 2015. In addition, upon becoming convertible, a portion of the equity component that was recorded at the time of the issuance of the 2017 Convertible Notes was considered redeemable and that portion of the equity was reclassified to temporary equity in the Company's condensed consolidated statements of financial condition. Such amount was determined based on the cash consideration to be paid upon conversion and the carrying amount of the debt. Upon conversion, the holders of the 2017 Convertible Notes will be paid in cash for the principal amount and issued shares or a combination of cash and shares for the remaining value of the 2017 Convertible Notes. As a result, the Company reclassified \$7.6 million of the equity component to temporary equity as of June 30, 2015. If a conversion event takes place, this temporary equity balance will be recalculated based on the difference between the 2017 Convertible Notes principal and the debt carrying value. If the 2017 Convertible Notes are settled, an amount equal to the fair value of the liability component, immediately prior to the settlement, will be deducted from the fair value of the total settlement consideration transferred and allocated to the liability component. Any difference between the amount allocated to the liability and the net carrying amount of the 2017 Convertible Notes (including any unamortized debt issue costs and discount) will be recognized in earnings as a gain or loss on debt extinguishment. Any remaining consideration is allocated to the reacquisition of the equity component and will be recognized as a reduction in stockholders' equity.

None of the 2017 Convertible Notes were converted during the three and six months ended June 30, 2015 and 2014. In accordance with authoritative guidance related to derivatives and hedging and earnings per share calculation, only the conversion spread of the Convertible Notes is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds the respective conversion price of each of the Convertible Notes. The average share price of the Company's common stock for the three and six months ended June 30, 2015 and 2014, exceeded the initial conversion price of the 2017 Convertible Notes. The dilutive effect from the 2017 Convertible Notes was approximately 0.8 million and 1.0 million for the three months ended June 30, 2015 and 2014, respectively, and 0.9 million and 1.2 million shares for the six months ended June 30, 2015 and 2014, respectively. See Note 2, "Earnings Per Share" for additional information.

**Propel Facilities****Propel Facility I**

On May 8, 2015, Propel amended its syndicated loan facility (as amended, the "Propel Facility I"). The Propel Facility I is an \$80.0 million facility, with a \$20.0 million uncommitted accordion feature, used to originate or purchase tax lien assets related to properties in Texas and Arizona.

The Propel Facility I expires in May 2018 and includes the following key provisions:

Interest at Propel's option, at either: (1) LIBOR, plus a spread that ranges from 270 to 320 basis points, depending on Propel's cash flow leverage ratio; or (2) the greater of (a) the rate publicly announced from time to time by Texas



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Capital Bank, National Association, as its prime rate, (b) the sum of the federal funds rate for such day plus 50 basis points, or (c) one month LIBOR plus 100 basis points;

• A borrowing base of 90% of the face value of the tax lien assets;

• Interest payable monthly; principal and interest due at maturity;

• Restrictions and covenants, which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens; and

• Events of default which, upon occurrence, may permit the lenders to terminate the Propel Facility I and declare all amounts outstanding to be immediately due and payable.

The Propel Facility I is primarily collateralized by the Tax Liens in Texas and requires Propel to maintain various financial covenants, including a minimum interest coverage ratio and a maximum cash flow leverage ratio.

At June 30, 2015, the outstanding balance on the Propel Facility I was \$63.0 million. The weighted average interest rate was 3.60% and 3.49% for the three months ended June 30, 2015 and 2014, respectively, and 3.45% and 3.37% for the six months ended June 30, 2015 and 2014, respectively.

Propel Facility II

On May 15, 2013, the Company, through affiliates of Propel, entered into a \$100.0 million revolving credit facility (as amended, the "Propel Facility II"). The Propel Facility II is used to purchase tax liens from taxing authorities in various states and expires on May 10, 2019. On April 3, 2015, the Propel Facility II was amended to, among other things, modify the interest rate and permit additional tax lien assets to be included in the borrowing base. The Propel Facility II includes the following key provisions:

• Propel can draw up to \$150.0 million through May 15, 2017;

• The committed amount can be drawn on a revolving basis until May 15, 2017 (unless terminated earlier in accordance with the terms of the facility). During the following two years, until the May 10, 2019 expiration date, no additional draws are permitted, and all proceeds from the tax liens are used to repay any amounts outstanding under the facility. So long as no events of default have occurred, Propel may extend the expiration date for additional one year periods.

• Prior to the expiration of the facility, interest at a per annum floating rate equal to LIBOR plus 2.25%;

• Following the expiration of the facility, or upon the occurrence of an event of default, interest at 400 basis points plus the greater of (i) a per annum floating rate equal to LIBOR plus 2.25%, or (ii) Prime Rate, which is defined in the agreement as the rate most recently announced by the lender at its branch in San Francisco, California, from time to time as its prime commercial rate for United States dollar-denominated loans made in the United States;

• Proceeds from the tax liens are applied to pay interest, principal and other obligations incurred in connection with the Propel Facility II on a monthly basis as defined in the agreement;

• Special purpose entity covenants designed to protect the bankruptcy-remoteness of the borrowers and additional restrictions and covenants, which limit, among other things, the payment of certain dividends, the occurrence of additional indebtedness and liens and use of the collections proceeds from the certain Tax Liens; and

• Events of default which, upon occurrence, may permit the lender to terminate the Propel Facility II and declare all amounts outstanding to be immediately due and payable.

The Propel Facility II is collateralized by the Tax Liens acquired under the Propel Facility II. At June 30, 2015, the outstanding balance on the Propel Facility II was \$103.8 million. The weighted average interest rate was 2.50% and 3.53% for the three months ended June 30, 2015 and 2014, respectively, and 2.78% and 3.60% the six months ended June 30, 2015 and 2014, respectively.

Propel Term Loan Facility

On May 2, 2014, the Company, through affiliates of Propel, entered into a \$31.9 million term loan facility (the "Propel Term Loan Facility"). The Propel Term Loan Facility was entered into to fund the acquisition of a portfolio of tax liens and other assets in a transaction valued at approximately \$43.0 million. The Propel Term Loan Facility has a fixed 5.5% interest rate and matures in October 2016.

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At June 30, 2015, the outstanding balance on the Propel Term Loan Facility was \$4.7 million. In July 2015, Propel paid off the outstanding balance on the term loan.

Propel Securitized Notes

On May 6, 2014, Propel, through its affiliates, completed the securitization of a pool of approximately \$141.5 million in payment agreements and contracts relating to unpaid real property taxes, assessments, and other charges secured by liens on real property located in the State of Texas (the “Securitized Texas Tax Liens”). In connection with the securitization, investors purchased, in a private placement, approximately \$134.0 million in aggregate principal amount of 1.44% notes collateralized by the Securitized Texas Tax Liens (the “Propel Securitized Notes”), due May 15, 2029. The payment agreements and contracts will continue to be serviced by Propel.

The Propel Securitized Notes are payable solely from the collateral and represent non-recourse obligations of the consolidated securitization entity PFS Tax Lien Trust 2014-1, a Delaware statutory trust and an affiliate of Propel. Interest accrues monthly at the rate of 1.44% per annum. Principal and interest on the Propel Securitized Notes are payable on the 15<sup>th</sup> day of each calendar month. Propel used the net proceeds to pay down borrowings under the Propel Facility I, pay certain expenses incurred in connection with the issuance of the Propel Securitized Notes and fund certain reserves.

At June 30, 2015, the outstanding balance on the Propel Securitized Notes was \$81.6 million and the balance of the collateral was \$96.2 million.

Cabot Senior Secured Notes

On September 20, 2012, Cabot Financial (Luxembourg) S.A. (“Cabot Financial”), an indirect subsidiary of Janus Holdings, issued £265.0 million (approximately \$438.4 million) in aggregate principal amount of 10.375% Senior Secured Notes due 2019 (the “Cabot 2019 Notes”). Interest on the Cabot 2019 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year.

On August 2, 2013, Cabot Financial issued £100 million (approximately \$151.7 million) in aggregate principal amount of 8.375% Senior Secured Notes due 2020 (the “Cabot 2020 Notes”). Interest on the Cabot 2020 Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year.

Of the proceeds from the issuance of the Cabot 2020 Notes, approximately £75.0 million (approximately \$113.8 million) was used to repay all amounts outstanding under the senior credit facilities of Cabot Financial (UK) Limited (“Cabot Financial UK”), an indirect subsidiary of Janus Holdings, and £25.0 million (approximately \$37.9 million) was used to partially repay a portion of the J Bridge preferred equity certificates (the “J Bridge PECs”) to an affiliate of J.C. Flowers & Co. LLC (“J.C. Flowers”), discussed in further detail below.

On March 27, 2014, Cabot Financial issued £175.0 million (approximately \$291.8 million) in aggregate principal amount of 6.500% Senior Secured Notes due 2021 (the “Cabot 2021 Notes” and, together with the Cabot 2019 Notes and the Cabot 2020 Notes, the “Cabot Notes”). Interest on the Cabot 2021 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year, beginning on October 1, 2014. The total debt issuance cost associated with the Cabot 2021 Notes was approximately \$7.5 million.

Approximately £105.0 million (approximately \$174.8 million) of the proceeds from the issuance of the Cabot 2021 Notes was used to repay all amounts outstanding under senior secured bridge facilities that Cabot Financial UK entered into in connection with the Marlin Acquisition.

The Cabot Notes are fully and unconditionally guaranteed on a senior secured basis by certain indirect subsidiaries of the Company. The Cabot Notes are secured by a first ranking security interest in all the outstanding shares of Cabot Financial and certain guarantors and substantially all the assets of Cabot Financial and certain guarantors. The guarantees provided in respect of the Cabot Notes are pari passu with each such guarantee given in respect of the Marlin Bonds and the Cabot Credit Facility described below.

On July 25, 2013, Marlin Intermediate Holdings plc, a subsidiary of Marlin, issued £150.0 million (approximately \$246.5 million) in aggregate principal amount of 10.5% Senior Secured Notes due 2020 (the “Marlin Bonds”). Interest on the Marlin Bonds is payable semi-annually, in arrears, on February 1 and August 1 of each year. Cabot assumed the Marlin Bonds as a result of the Marlin Acquisition. The carrying value of the Marlin Bonds was adjusted to approximately \$284.2 million to reflect the fair value of the Marlin Bonds at the time of acquisition.



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The Marlin Bonds are fully and unconditionally guaranteed on a senior secured basis by certain indirect subsidiaries of the Company. The guarantees provided in respect of the Marlin Bonds are pari passu with each such guarantee given in respect of the Cabot Notes and the Cabot Credit Facility.

Interest expense related to the Cabot Notes and Marlin Bonds was as follows (in thousands):

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | June 30,           |          | June 30,         |          |
|   | 2015               | 2014     | 2015             | 2014     |
| Interest expense—stated coupon rate                 | \$24,150           | \$26,605 | \$48,001         | \$45,860 |
| Interest income—accretion of debt premium           | (2,660 )           | (2,573 ) | (5,207 )         | (4,805 ) |
| Total interest expense—Cabot Notes and Marlin Bonds | \$21,490           | \$24,032 | \$42,794         | \$41,055 |

At June 30, 2015, the outstanding balance on the Cabot Notes and Marlin Bonds was \$1.1 billion.

#### Cabot Senior Revolving Credit Facility

On September 20, 2012, Cabot Financial UK entered into an agreement for a senior committed revolving credit facility of £50.0 million (approximately \$82.7 million) (the “Cabot Credit Agreement”). This agreement was amended and restated on June 28, 2013 to increase the size of the revolving credit facility to £85.0 million (approximately \$140.6 million) and again on February 5, 2015 to increase the size of the revolving credit facility to £195.0 million (approximately \$298.1 million) (the “Cabot Credit Facility”). The Cabot Credit Facility also includes an uncommitted accordion provision which will allow the facility to be increased by an additional £55.0 million, subject to obtaining the requisite commitments and compliance with the terms of Cabot Financial UK’s other indebtedness, among other conditions precedent. Loan fees associated with the amendment to the Cabot Credit Facility were approximately £2.7 million (approximately \$4.1 million) and capitalized as debt issuance costs.

The Cabot Credit Facility has a five-year term expiring in September 2017, and includes the following key provisions:

- Interest at LIBOR (or EURIBOR for any loan drawn in euro) plus 3.5%;
- A restrictive covenant that limits the loan to value ratio to 0.75;
- A restrictive covenant that limits the super senior loan (i.e. the Cabot Credit Facility and any super priority hedging liabilities) to value ratio to 0.25;
- Additional restrictions and covenants which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens; and
- Events of default which, upon occurrence, may permit the lenders to terminate the Cabot Credit Facility and declare all amounts outstanding to be immediately due and payable.

The Cabot Credit Facility is unconditionally guaranteed by certain indirect subsidiaries of the Company. The Cabot Credit Facility is secured by first ranking security interests in all the outstanding shares of Cabot Financial UK and certain guarantors and substantially all the assets of Cabot Financial UK and certain guarantors. Pursuant to the terms of intercreditor agreements entered into with respect to the relative positions of the Cabot Notes, the Marlin Bonds and the Cabot Credit Facility, any liabilities in respect of obligations under the Cabot Credit Facility that are secured by assets that also secure the Cabot Notes and the Marlin Bonds will receive priority with respect to any proceeds received upon any enforcement action over any such assets.

At June 30, 2015, the outstanding borrowings under the Cabot Credit Facility were approximately \$230.7 million. The weighted average interest rate was 3.79% and 4.32% for the three months ended June 30, 2015 and 2014, respectively, and 3.85% and 4.28% for the six months ended June 30, 2015 and 2014, respectively.

#### Cabot 2015 Senior Secured Bridge Facility

The dlc Acquisition was financed with borrowings under the existing Cabot Credit Facility and under a new senior secured bridge facility entered into on June 1, 2015 (the “2015 Senior Secured Bridge Facility”).

The 2015 Senior Secured Bridge Facility provides an aggregate principal amount of up to £90.0 million. The purpose of the 2015 Senior Secured Bridge Facility was to provide funding for the financing, in full or in part, of the purchase price of the

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dlc Acquisition and the payment of costs, fees and expenses in connection with the dlc Acquisition, and was fully drawn as of the closing of the dlc Acquisition. The 2015 Senior Secured Bridge Facility has an initial term of one year and can be extended for an additional year if it is not repaid during the first year of issuance.

Prior to the initial maturity date, the rate of interest payable under the 2015 Senior Secured Bridge Facility was the aggregate, per annum, of (i) LIBOR (set to a minimum of 1%), plus (ii) an initial spread of 6.00% per annum (such spread stepping up by 50 basis points for each three-month period that the 2015 Senior Secured Bridge Facility remains outstanding), not to exceed total caps set forth in the senior secured bridge facility agreement.

Loan fees associated with the 2015 Senior Secured Bridge Facility were approximately \$1.4 million. These fees were recognized as interest expense in the Company's condensed consolidated financial statements for the three and six months ended June 30, 2015.

At June 30, 2015, the outstanding balance on the 2015 Senior Secured Bridge Facility was \$141.6 million.

Preferred Equity Certificates

On July 1, 2013, the Company, through its wholly owned subsidiary Encore Europe Holdings, S.a.r.l. ("Encore Europe"), completed the Cabot Acquisition by acquiring 50.1% of the equity interest in Janus Holdings. Encore Europe purchased from J.C. Flowers: (i) E Bridge preferred equity certificates issued by Janus Holdings, with a face value of £10,218,574 (approximately \$15.5 million) (and any accrued interest thereof) (the "E Bridge PECs"), (ii) E preferred equity certificates issued by Janus Holdings with a face value of £96,729,661 (approximately \$147.1 million) (and any accrued interest thereof) (the "E PECs"), (iii) 3,498,563 E shares of Janus Holdings (the "E Shares"), and (iv) 100 A shares of Cabot Holdings S.a.r.l. ("Cabot Holdings"), the direct subsidiary of Janus Holdings, for an aggregate purchase price of approximately £115.1 million (approximately \$175.0 million). The E Bridge PECs, E PECs, and E Shares represent 50.1% of all of the issued and outstanding equity and debt securities of Janus Holdings. The remaining 49.9% of Janus Holdings' equity and debt securities are owned by J.C. Flowers and include: (a) J Bridge PECs with a face value of £10,177,781 (approximately \$15.5 million), (b) J preferred equity certificates with a face value of £96,343,515 (approximately \$146.5 million) (the "J PECs"), (c) 3,484,597 J shares of Janus Holdings (the "J Shares"), and (d) 100 A shares of Cabot Holdings.

All of the PECs accrue interest at 12% per annum. Since PECs are legal form debt, the J Bridge PECs, J PECs and any accrued interests thereof are classified as liabilities and are included in debt in the Company's accompanying condensed consolidated statements of financial condition. In addition, certain other minority owners hold PECs at the Cabot Holdings level (the "Management PECs"). These PECs are also included in debt in the Company's accompanying condensed consolidated statements of financial condition. The E Bridge PECs and E PECs held by the Company, and their related interest eliminate in consolidation and therefore are not included in debt in the Company's condensed consolidated statements of financial condition. The J Bridge PECs, J PECs, and the Management PECs do not require the payment of cash interest expense as they have characteristics similar to equity with a preferred return. The ultimate payment of the accumulated interest would be satisfied only in connection with the disposition of the noncontrolling interests of J.C. Flowers and management.

On June 20, 2014, Encore Europe converted all of its E Bridge PECs into E Shares and E PECs, and J.C. Flowers converted all of its J Bridge PECs into J Shares and J PECs, respectively, in proportion to the number of E Shares and E PECs, or J Shares and J PECs, as applicable, outstanding on the closing date of the Cabot Acquisition.

As of June 30, 2015, the outstanding balance of the PECs and their accrued interest was approximately \$222.4 million.

Capital Lease Obligations

The Company has capital lease obligations primarily for computer equipment. As of June 30, 2015, the Company's combined obligations for these equipment leases were approximately \$12.0 million. These lease obligations require monthly, quarterly or annual payments through 2020 and have implicit interest rates that range from zero to approximately 11.0%.

Note 11: Variable Interest Entities

A VIE is defined as a legal entity whose equity owners do not have sufficient equity at risk, or, as a group, the holders of the equity investment at risk lack any of the following three characteristics: decision-making rights, the obligation to absorb losses, or the right to receive the expected residual returns of the entity. The primary beneficiary is identified

as the variable interest holder that has both the power to direct the activities of the VIE that most significantly affect the entity's economic performance and the obligation to absorb expected losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

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The Company's VIEs include its subsidiary Janus Holdings and its special purpose entity used for the Propel securitization.

Janus Holdings is the immediate parent company of Cabot. The Company has determined that Janus Holdings is a VIE and the Company is the primary beneficiary of the VIE. The key activities that affect Cabot's economic performance include, but are not limited to, operational budgets and purchasing decisions. Through its control of the board of directors of Janus Holdings, the Company controls the key operating activities at Cabot.

Propel used a special purpose entity to issue asset-backed securities to investors. The Company has determined that it is a VIE and Propel is the primary beneficiary of the VIE. Propel has the power to direct the activities of the VIE because it has the ability to exercise discretion in the servicing of the financial assets and to add assets to revolving structures.

Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against the Company's general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.

#### Note 12: Income Taxes

During the three months ended June 30, 2015 and 2014, the Company recorded income tax provisions of \$16.0 million and \$14.0 million, respectively. During the six months ended June 30, 2015, and 2014, the Company recorded income tax provisions of \$31.8 million and \$25.8 million, respectively.

The effective tax rates for the respective periods are shown below:

|                                      | Three Months Ended |          | Six Months Ended |          |          |          |
|--------------------------------------|--------------------|----------|------------------|----------|----------|----------|
|                                      | June 30,           |          | June 30,         |          | June 30, |          |
|                                      | 2015               | 2014     | 2015             | 2014     | 2015     | 2014     |
| Federal provision                    | 35.0               | % 35.0   | % 35.0           | % 35.0   | % 35.0   | % 35.0   |
| State provision                      | 6.9                | % 5.8    | % 6.9            | % 5.8    | % 6.9    | % 5.8    |
| State benefit                        | (2.4)              | )% (2.0) | )% (2.4)         | )% (2.0) | )% (2.4) | )% (2.0) |
| International benefit <sup>(1)</sup> | (4.5)              | )% (1.9) | )% (5.3)         | )% (3.4) | )% (4.5) | )% (3.4) |
| Permanent items <sup>(2)</sup>       | 3.2                | % 3.5    | % 2.1            | % 3.7    | % 3.2    | % 3.7    |
| Other <sup>(3)</sup>                 | 0.6                | % (0.8)  | )% 0.3           | % 0.0    | % 0.6    | % 0.0    |
| Effective rate                       | 38.8               | % 39.6   | % 36.6           | % 39.1   | % 38.8   | % 39.1   |

(1) Relates primarily to lower tax rates on income attributable to international operations.

(2) Represents a provision for nondeductible items.

(3) Includes the effect of discrete items and reserves taken for a certain tax position adopted by the Company.

The Company's subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2018 and a 50% tax holiday for the subsequent four years. The impact of the tax holiday in Costa Rica for the three and six months ended June 30, 2015 was immaterial.

The Company had gross unrecognized tax benefits, inclusive of penalties and interest, of \$48.0 million and \$44.4 million at June 30, 2015 and December 31, 2014, respectively. The total gross unrecognized tax benefits that, if recognized, would result in a net tax benefit of \$16.4 million and \$12.7 million as of June 30, 2015 and December 31, 2014, respectively. The increase in the gross unrecognized tax benefits was due to an unrecognized tax benefit of \$3.7 million associated with certain business combinations. The uncertain tax benefit is included in "Other liabilities" in the Company's condensed consolidated statements of financial condition.

During the three and six months ended June 30, 2015, the Company did not provide for United States income taxes or foreign withholding taxes on the quarterly undistributed earnings from operations of its subsidiaries operating outside of the United States. Undistributed pre-tax income of these subsidiaries during the three and six months ended June 30, 2015, was approximately \$2.7 million and \$8.6 million, respectively.





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Note 13: Commitments and Contingencies

Litigation and Regulatory

The Company is involved in disputes, legal actions, regulatory investigations, inquiries, and other actions from time to time in the ordinary course of business. The Company, along with others in its industry, is routinely subject to legal actions based on the Fair Debt Collection Practices Act (“FDCPA”), comparable state statutes, the Telephone Consumer Protection Act (“TCPA”), state and federal unfair competition statutes, and common law causes of action. The violations of law investigated or alleged in these actions often include claims that the Company lacks specified licenses to conduct its business, attempts to collect debts on which the statute of limitations has run, has made inaccurate or unsupported assertions of fact in support of its collection actions and/or has acted improperly in connection with its efforts to contact consumers. Such litigation and regulatory actions could involve potential compensatory or punitive damage claims, fines, sanctions, injunctive relief, or changes in business practices. Many continue on for some length of time and involve substantial investigation, litigation, negotiation, and other expense and effort before a result is achieved, and during the process the Company often cannot determine the substance or timing of any eventual outcome.

The Consumer Finance Protection Bureau (“CFPB”) is currently examining the collection practices of participants in the consumer debt buying industry. The Company is currently engaged in discussions with the staff of the CFPB regarding practices and controls relating to its engagement with consumers. In these discussions, the staff has taken certain positions with respect to the interpretation of existing legal requirements and the retroactive application of potential requirements from future rulemaking. The Company agrees with the staff on some items under discussion, and disagrees with the staff on others. As the Company seeks to resolve those areas of disagreement, it intends to vigorously defend its interpretation of the law and, consequently, may ultimately reach a negotiated settlement or become engaged in litigation. If the parties reach a negotiated agreement, it is reasonably possible that the Company could agree to pay penalties or restitution and could recognize pre-tax charges of in excess of \$35 million and could agree to additional terms that may materially impact its future operations, collections or financial results. If the Company becomes involved in litigation, it is unable to estimate a possible range of loss, if any. These discussions and other supervisory or regulatory actions that may be taken by the CFPB in the future may have an adverse impact on the Company’s business, financial condition and operating results.

On November 2, 2010 and December 17, 2010, two national class actions entitled *Robinson v. Midland Funding LLC* and *Tovar v. Midland Credit Management*, respectively, were filed in the United States District Court for the Southern District of California. The complaints allege that certain of the Company’s subsidiaries violated the TCPA by calling consumers’ cellular phones without their prior express consent. The complaints seek monetary damages under the TCPA, injunctive relief, and other relief, including attorney fees. On May 10, 2011 and May 11, 2011 two class actions entitled *Scardina v. Midland Credit Management, Inc.*, *Midland Funding LLC* and *Encore Capital Group, Inc.* and *Martin v. Midland Funding, LLC*, respectively, were filed in the United States District Court for the Northern District of Illinois. The complaints allege on behalf of a putative class of Illinois consumers that certain of the Company’s subsidiaries violated the TCPA by calling consumers’ cellular phones without their prior express consent. The complaints seek monetary damages under the TCPA, injunctive relief, and other relief, including attorney fees. On July 28, 2011, the Company filed a motion to transfer the *Scardina* and *Martin* cases to the United States District Court for the Southern District of California to be consolidated with the *Tovar* and *Robinson* cases. On October 11, 2011, the United States Judicial Panel on Multidistrict Litigation granted the Company’s motion to transfer. All four of these cases, along with a number of additional cases brought against the Company that allege violations of the TCPA, are now pending in the United States District Court for the Southern District of California in a multi-district litigation titled *In re Midland Credit Management Inc. Telephone Consumer Protection Act Litigation*. The lead plaintiffs filed an amended consolidated complaint on July 11, 2012. The Company has vigorously denied the claims asserted against it in these matters, but has agreed to a proposed class settlement to avoid the burden and expense of continued litigation. The proposed class settlement is intended to resolve all cases involved in multi-district litigation, and all claims against the Company for alleged violations of the TCPA that occurred before August 31, 2014, other than those of persons who exclude themselves from class settlement. The settlement agreement, which is subject to court approval, would require the Company to contribute \$2.0 million to a settlement fund, to be disbursed among eligible

class members, and to set aside \$13.0 million in debt forgiveness to be allocated among eligible class members. In addition, the settlement agreement provides that the Company will pay plaintiffs' attorney fees in an amount to be determined by the court, and not to exceed \$2.4 million, and for the costs associated with administering the class relief.

Except as described above, at June 30, 2015, there have been no material developments in any of the legal proceedings disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

In certain legal proceedings, the Company may have recourse to insurance or third party contractual indemnities to cover all or portions of its litigation expenses, judgments, or settlements. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably

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estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. The Company continuously assesses the potential liability related to its pending litigation and regulatory matters and revises its estimates when additional information becomes available. As of June 30, 2015, the Company has no material reserves for legal matters. Additionally, based on the current status of litigation and regulatory matters, either the estimate of exposure is immaterial to the Company's financial statements or an estimate cannot yet be determined. The Company's legal costs are recorded to expense as incurred.

**Purchase Commitments**

In the normal course of business, the Company enters into forward flow purchase agreements and other purchase commitment agreements. As of June 30, 2015, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately \$2.0 billion for a purchase price of approximately \$277.4 million. The Company has no purchase commitments extending past one year.

**Note 14: Segment Information**

The Company conducts business through several operating segments that meet the aggregation criteria under the authoritative guidance related to segment reporting. The Company has determined that it has two reportable segments: portfolio purchasing and recovery and tax lien business. The Company's management relies on internal management reporting processes that provide segment revenue, segment operating income, and segment asset information in order to make financial decisions and allocate resources. The operating results from the Company's tax lien business segment are immaterial to the Company's total consolidated operating results. However, total assets from the tax lien business segment are significant as compared to the Company's total consolidated assets. As a result, in accordance with authoritative guidance on segment reporting, the Company's tax lien business segment is determined to be a reportable segment.

Segment operating income includes income from operations before depreciation, amortization of intangible assets, and stock-based compensation expense. The following table provides a reconciliation of revenue and segment operating income by reportable segment to consolidated results and was derived from the segments' internal financial information as used for corporate management purposes (in thousands):

|                                   | Three Months Ended |           | Six Months Ended |           |
|-----------------------------------|--------------------|-----------|------------------|-----------|
|                                   | June 30,           |           | June 30,         |           |
|                                   | 2015               | 2014      | 2015             | 2014      |
| Revenues:                         |                    |           |                  |           |
| Portfolio purchasing and recovery | \$282,661          | \$262,087 | \$560,444        | \$510,676 |
| Tax lien business                 | 7,695              | 7,108     | 15,575           | 12,260    |
|                                   | \$290,356          | \$269,195 | \$576,019        | \$522,936 |
| Operating income:                 |                    |           |                  |           |
| Portfolio purchasing and recovery | \$98,376           | \$87,718  | \$195,305        | \$165,286 |
| Tax lien business                 | 2,910              | 2,332     | 6,272            | 3,986     |
|                                   | 101,286            | 90,050    | 201,577          | 169,272   |
| Depreciation and amortization     | (8,084 )           | (6,829 )  | (16,434 )        | (12,946 ) |
| Stock-based compensation          | (6,198 )           | (4,715 )  | (12,103 )        | (9,551 )  |
| Other expense                     | (45,855 )          | (43,143 ) | (86,041 )        | (80,840 ) |
| Income before income taxes        | \$41,149           | \$35,363  | \$86,999         | \$65,935  |

Additionally, assets are allocated to operating segments for management review. As of June 30, 2015, total segment assets were \$3.7 billion and \$435.5 million for the portfolio purchasing and recovery segment and tax lien business segment, respectively.

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The following presents information about geographic areas in which the Company operates (in thousands):

|                           | Three Months Ended |           | Six Months Ended |           |
|---------------------------|--------------------|-----------|------------------|-----------|
|                           | June 30,<br>2015   | 2014      | June 30,<br>2015 | 2014      |
| Revenues <sup>(1)</sup> : |                    |           |                  |           |
| Domestic                  | \$193,001          | \$189,012 | \$384,622        | \$374,553 |
| International             | 97,355             | 80,183    | 191,397          | 148,383   |
|                           | \$290,356          | \$269,195 | \$576,019        | \$522,936 |

(1) Revenues are attributed to countries based on location of customer.

Note 15: Goodwill and Identifiable Intangible Assets

In accordance with authoritative guidance, goodwill is tested at the reporting unit level annually for impairment and in interim periods if certain events occur that indicate the fair value of a reporting unit may be below its carrying value.

Goodwill was allocable to reporting units included in the Company's reportable segments, as follows (in thousands):

|  | Portfolio<br>Purchasing and<br>Recovery | Tax Lien<br>Business | Total     |
|--|---|----------------------|-----------|
| Balance, December 31, 2014             | \$848,656                               | \$49,277             | \$897,933 |
| Goodwill acquired                      | 63,455                                  | —                    | 63,455    |
| Goodwill adjustment <sup>(1)</sup>     | 2,410                                   | —                    | 2,410     |
| Effect of foreign currency translation | 6,130                                   | —                    | 6,130     |
| Balance, June 30, 2015                 | \$920,651                               | \$49,277             | \$969,928 |

(1) During the first quarter of 2015, the Company completed the valuation study related to its acquisition of Atlantic in August 2014. Based on the valuation study, the Company has determined that there were additional tax related obligations assumed at the time of acquisition of approximately \$2.4 million. As a result, the goodwill balance was increased by \$2.4 million.

The Company's acquired intangible assets are summarized as follows (in thousands):

|   | As of June 30, 2015         |                             |                           | As of December 31, 2014     |                             |                           |
|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships                    | \$5,053                     | \$(1,001)                   | \$4,052                   | \$5,437                     | \$(743)                     | \$4,694                   |
| Developed technologies                    | 11,424                      | (3,168)                     | 8,256                     | 8,353                       | (2,194)                     | 6,159                     |
| Trade name and other                      | 13,148                      | (3,088)                     | 10,060                    | 10,458                      | (1,709)                     | 8,749                     |
| Other intangibles—<br>indefinite<br>lived | 1,962                       | —                           | 1,962                     | 1,962                       | —                           | 1,962                     |
| Total intangible assets                   | \$31,587                    | \$(7,257)                   | \$24,330                  | \$26,210                    | \$(4,646)                   | \$21,564                  |

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## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains “forward-looking statements” relating to Encore Capital Group, Inc. (“Encore”) and its subsidiaries (which we may collectively refer to as the “Company,” “we,” “our,” or “us”) within the meaning of the securities laws. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “intend,” “plan,” “will,” “may,” 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. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we caution that these expectations or predictions may not prove to be correct or we may not achieve the financial results, savings, or other benefits anticipated in the forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties, some of which may be beyond our control or cannot be predicted or quantified, that could cause actual results to differ materially from those suggested by the forward-looking statements. Many factors, including but not limited to those set forth in our Annual Report on Form 10-K under “Part I, Item 1A. Risk Factors,” could cause our actual results, performance, achievements, or industry results to be very different from the results, performance, achievements or industry results expressed or implied by these forward-looking statements. Our business, financial condition, or results of operations could also be materially and adversely affected by other factors besides those listed. Forward-looking statements speak only as of the date the statements were made. We do not undertake any obligation to update or revise any forward-looking statements to reflect new information or future events, or for any other reason, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized. In addition, it is generally our policy 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.

## Our Business and Operating Segments

We are an international specialty finance company providing debt recovery solutions for consumers and property owners across a broad range of financial assets. We purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings. Through certain subsidiaries, we are a market leader in portfolio purchasing and recovery in the United States, including Puerto Rico. Our subsidiary, Janus Holdings Luxembourg S.a.r.l. (“Janus Holdings”), through its indirectly held U.K.-based subsidiary Cabot Credit Management Limited and its subsidiaries (“Cabot”), is a market leader in debt management in the United Kingdom, historically specializing in portfolios consisting of higher balance, semi-performing accounts (i.e., debt portfolios in which over 50% of the accounts have received a payment in three of the last four months immediately prior to the portfolio purchase). Cabot’s acquisition of Marlin Financial Group Limited (“Marlin”) in February 2014, provides Cabot with substantial litigation-enhanced collection capabilities for non-performing accounts. Our majority-owned subsidiary, Grove Holdings (“Grove”), is a U.K.-based leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or “IVAs”) in the United Kingdom and bank and non-bank receivables in Spain. Our majority-owned subsidiary, Refinancia S.A. (“Refinancia”), is a market leader in debt collection and management in Colombia and Peru. In addition, through our subsidiary, Propel Financial Services, LLC and its subsidiaries (collectively, “Propel”), we assist property owners who are delinquent on their property taxes by structuring affordable monthly payment plans and purchase delinquent tax liens directly from selected taxing authorities.

We conduct business through two reportable segments: portfolio purchasing and recovery, and tax lien business. The operating results from our tax lien business segment are immaterial to our total consolidated operating results. However, the total segment assets are significant as compared to our total consolidated assets. As a result, in accordance with authoritative guidance on segment reporting, our tax lien business segment is determined to be a reportable segment.

Our long-term growth strategy involves continuing to invest in our core portfolio purchasing and recovery and tax lien businesses, expanding into new geographies, and leveraging our core competencies to explore expansion into adjacent asset classes.

**Government Regulation**

As discussed in more detail under “Part I - Item1 - Business” in our Annual Report on Form 10-K, our U.S. debt purchasing business and collection activities are subject to federal, state and municipal statutes, rules, regulations and ordinances that establish specific guidelines and procedures that debt purchasers and collectors must follow when collecting consumer accounts, including among others, specific guidelines and procedures for communicating with consumers and

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prohibitions on unfair, deceptive or abusive debt collection practices. These rules, regulations, guidelines and procedures are modified from time to time by the relevant authorities charged with their administration which could affect the way we conduct our business.

For example, the Consumer Finance Protection Bureau (“CFPB”) may adopt new regulations that may affect our industry and our business. Additionally, the CFPB has supervisory, examination and enforcement authority over our business and is currently examining the collection practices of participants in the consumer debt buying industry. We are currently engaged in discussions with the staff of the CFPB regarding practices and controls relating to our engagement with consumers that could result in a negotiated settlement or litigation. As a result of these discussions or other supervisory or regulatory actions taken by the CFPB, it is reasonably possible that we could agree to pay penalties or restitution and could recognize pre-tax charges of in excess of \$35 million and could agree to additional terms that may materially impact our future operations, collections or financial results.

In addition, in response to petitions filed by third parties, in July 2015, the Federal Communications Commission (“FCC”) released a declaratory ruling interpreting the Telephone Consumer Protection Act (“TCPA”), which could impact the way consumers may be contacted on their cellular phones and could impact our operations and financial results. Also, the CFPB has recently taken action against certain payment processors accused of facilitating fraudulent collections activity. As a result, certain payment processors may believe there is an elevated risk and stop processing payments for the debt collection industry.

### Portfolio Purchasing and Recovery

#### United States

Our portfolio purchasing and recovery segment purchases receivables based on robust, account-level valuation methods and employs proprietary statistical and behavioral models across our U.S. operations. These methods and models allow us to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with our methods or goals and align the accounts we purchase with our business channels to maximize future collections. As a result, we have been able to realize significant returns from the receivables we acquire. We maintain strong relationships with many of the largest financial service providers in the United States.

While seasonality does not have a material impact on our portfolio purchasing and recovery segment, collections are generally strongest in our first calendar quarter, slower in the second and third calendar quarters, and slowest in the fourth calendar quarter. Relatively higher collections in the first quarter could result in a lower cost-to-collect ratio compared to the other quarters, as our fixed costs are relatively constant and applied against a larger collection base. The seasonal impact on our business may also be influenced by our purchasing levels, the types of portfolios we purchase, and our operating strategies.

Collection seasonality with respect to our portfolio purchasing and recovery segment can also affect revenue as a percentage of collections, also referred to as our revenue recognition rate. Generally, revenue for each pool group declines steadily over time, whereas collections can fluctuate from quarter to quarter based on seasonality, as described above. In quarters with lower collections (e.g., the fourth calendar quarter), the revenue recognition rate can be higher than in quarters with higher collections (e.g., the first calendar quarter).

In addition, seasonality could have an impact on the relative level of quarterly earnings. In quarters with stronger collections, total costs are higher as a result of the additional efforts required to generate those collections. Since revenue for each pool group declines steadily over time, in quarters with higher collections and higher costs (e.g., the first calendar quarter), all else being equal, earnings could be lower than in quarters with lower collections and lower costs (e.g., the fourth calendar quarter). Additionally, in quarters where a greater percentage of collections come from our legal and agency outsourcing channels, cost to collect will be higher than if there were more collections from our internal collection sites.

On August 6, 2014, we acquired all of the outstanding equity interests of Atlantic Credit & Finance, Inc. (“Atlantic”) pursuant to a stock purchase agreement (the “Atlantic Acquisition”). Atlantic acquires and liquidates fresh consumer finance receivables originated and charged off by U.S. financial institutions.

#### Europe

Cabot: Through Cabot, we purchase primarily semi-performing receivable portfolios using a proprietary pricing model that utilizes account-level statistical and behavioral data. This model allows Cabot to value portfolios

accurately and quantify portfolio performance in order to maximize future collections. As a result, Cabot has been able to realize significant returns from the assets it has acquired. Cabot maintains strong relationships with many of the largest financial service providers in the United Kingdom.



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While seasonality does not have a material impact on Cabot's operations, collections are generally strongest in the second and third calendar quarters and slower in the first and fourth quarters, largely driven by the impact of the December holiday season and the New Year holiday, and the related impact on its customers' ability to repay their balances. This drives a higher level of plan defaults over this period, which are typically repaired across the first quarter of the following year. The August vacation season in the United Kingdom also has an unfavorable effect on the level of collections, but this is traditionally compensated for by higher collections in July and September.

On February 7, 2014, Cabot acquired Marlin (the "Marlin Acquisition"), a leading acquirer of non-performing consumer debt in the United Kingdom. Marlin is differentiated by its proven competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables. Marlin's litigation capabilities have benefited and will continue to benefit Cabot's existing portfolio of non-performing accounts. Similarly, we have experienced synergies by applying Cabot's collection models to Marlin's portfolio since the acquisition. On June 1, 2015, Cabot acquired Hillesden Securities Ltd ("dlc"), a U.K.-based acquirer and collector of non-performing unsecured consumer debt (the "dlc Acquisition").

Grove: On April 1, 2014, we completed the acquisition of a controlling equity ownership interest in Grove. Grove, through its subsidiaries and affiliates, is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, IVAs) in the United Kingdom and bank and non-bank receivables in Spain. Grove purchases portfolio receivables using a proprietary pricing model. This model allows Grove to value portfolios with a high degree of accuracy and quantify portfolio performance in order to maximize future collections. Latin America

In December 2013, we acquired a majority ownership interest in Refinancia, a market leader in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including providing financial solutions to individuals who have previously defaulted on their credit obligations, payment plan guarantee and factoring services to merchants, and loan guarantee services to financial institutions.

Beginning in December 2014 we began investing in non-performing secured residential mortgages in Latin America. Tax Lien Business

Our tax lien business segment focuses on the property tax financing industry. Propel acquires and services residential and commercial tax liens on real property. These liens take priority over most other liens. To the extent permitted by local law, Propel works directly with property owners to structure affordable payment plans designed to allow them to keep their property while paying their property tax obligation over time. In such cases, Propel pays their tax lien obligation to the taxing authority and the property owner pays Propel at a lower interest rate or over a longer period of time than the taxing authority would ordinarily permit. Propel also purchases tax liens in various states directly from taxing authorities, securing rights to outstanding property tax payments, interest and penalties. In most cases, such tax liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase. In May 2014, Propel acquired a portfolio of tax liens and other assets in a transaction valued at approximately \$43.0 million. The transaction strengthened Propel's established servicing platform and expanded Propel's operations to 22 states.

Revenue from our tax lien business segment comprised 3% of total consolidated revenues for each of the three and six months ended June 30, 2015 and 3% and 2% of total consolidated revenues for the three and six months ended June 30, 2014, respectively. Operating income from our tax lien business segment comprised 3% of our total consolidated operating income for each of the three and six months ended June 30, 2015 and 3% and 2% of our total consolidated operating income for the three and six months ended June 30, 2014, respectively.

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## Purchases and Collections

## Portfolio Pricing, Supply and Demand

## United States Markets

Prices for portfolios offered for sale directly from credit issuers continued to remain elevated during the second quarter of 2015, especially for fresh portfolios. Fresh portfolios are portfolios that are generally transacted within six months of the consumer's account being charged-off by the financial institution. We believe this elevated pricing is due to a reduction in the supply of charged-off accounts and continued demand in the marketplace. We believe that the reduction in supply is partially due to shifts in underwriting standards by financial institutions, which have resulted in lower volumes of charged-off accounts. We believe that this reduction in supply is also the result of certain financial institutions temporarily halting their sales of charged-off accounts. Although we have seen moderation in certain instances, we expect pricing will remain at elevated levels for some period of time.

We believe that smaller competitors continue to face difficulties in the portfolio purchasing market because of the high cost to operate due to regulatory pressure and because issuers are being more selective with buyers in the marketplace, resulting in consolidation within the portfolio purchasing and recovery industry. We believe this favors larger participants in this market, such as Encore, because the larger market participants are better able to adapt to these pressures. Furthermore, as smaller competitors limit their participation in or exit the market, it may provide additional opportunities for Encore to purchase portfolios from competitors or to acquire competitors directly.

## European Markets

The United Kingdom market has grown significantly in recent years driven by a consolidation of sellers and a material backlog of portfolio coming to market from credit issuers who are selling an increasing proportion of their non-performing loans. We anticipate modest growth in supply in 2015. Prices for portfolios offered for sale directly from credit issuers remain at levels higher than historical averages. We expect that as a result of an increase in available funding to industry participants, and lower return requirements for certain debt purchasers, pricing will remain elevated. However, we also believe that as Cabot's business increases in scale, and with anticipated improvements in liquidation and improved efficiencies in collections, Cabot's margins will remain competitive. Additionally, the acquisition of Marlin resulted in a new liquidation channel for the Company through litigation, which is enabling Cabot to collect from consumers who have the ability to pay, but have so far been unwilling to do so. This further complements Cabot's strength in collecting on semi-performing debt, where consumers have a greater willingness to pay.

## Purchases by Type and Geographic Location

During the three and six months ended June 30, 2015 and 2014, we purchased only charged-off credit card portfolios. The following table summarizes the geographic locations of consumer receivable portfolios we purchased during the periods presented (in thousands):

|                       | Three Months Ended |           | Six Months Ended |           |
|-----------------------|--------------------|-----------|------------------|-----------|
|                       | June 30,           |           | June 30,         |           |
|                       | 2015               | 2014      | 2015             | 2014      |
| United States         | \$127,654          | \$162,412 | \$226,641        | \$267,240 |
| Europe <sup>(1)</sup> | 290,441            | 59,061    | 312,073          | 410,380   |
| Latin America         | 685                | 4,289     | 5,220            | 15,707    |
|                       | \$418,780          | \$225,762 | \$543,934        | \$693,327 |

Purchases of consumer portfolio receivables in Europe for the three and six months ended June 30, 2015 include \$1.1 million and \$2.7 million, respectively, for IVAs. Purchases of consumer portfolio receivables in Europe for (1) the three months ended June 30, 2015 include \$216.0 million acquired in connection with the dlc Acquisition.

Purchases of consumer portfolio receivables in Europe for the six months ended June 30, 2014 include \$208.5 million acquired in connection with the Marlin Acquisition.

During the three months ended June 30, 2015, we invested \$418.8 million to acquire portfolios of charged-off credit card portfolios, with face values aggregating \$5.5 billion, for an average purchase price of 7.6% of face value.

Purchases of charged-off credit card portfolios include \$216.0 million of receivables acquired in connection with the

dlc Acquisition. This is a \$193.0 million increase in the amount invested, compared with the \$225.8 million invested during the three months ended June 30, 2014, to acquire portfolios of charged-off credit card with face values aggregating \$3.1 billion, for an average purchase price of 7.3% of face value.

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During the six months ended June 30, 2015, we invested \$543.9 million to acquire portfolios of charged-off credit card portfolios, with face values aggregating \$6.6 billion, for an average purchase price of 8.2% of face value. Purchases of charged-off credit card portfolios include \$216.0 million of receivables acquired in connection with the dlc Acquisition. This is a \$149.4 million decrease in the amount invested, compared with the \$693.3 million invested during the six months ended June 30, 2014, to acquire portfolios of charged-off credit card with face values aggregating \$7.4 billion, for an average purchase price of 9.4% of face value. Purchases of charged-off credit card portfolios during the six months ended June 30, 2014 include \$208.5 million of portfolios acquired in the Marlin Acquisition.

The average purchase price, as a percentage of face value, varies from period to period depending on, among other things, the quality of the accounts purchased and the length of time from charge-off to the time we purchase the portfolios.

**Collections by Channel**

We currently utilize various business channels for the collection of our receivables. The following table summarizes the total collections by collection channel and geographic areas (in thousands):

|                                    | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                    | 2015                           | 2014       | 2015                         | 2014       |
| United States:                     |                                |            |                              |            |
| Legal collections                  | \$ 167,747                     | \$ 155,503 | \$ 326,706                   | \$ 306,532 |
| Collection sites                   | 125,153                        | 130,788    | 261,082                      | 267,313    |
| Collection agencies <sup>(1)</sup> | 17,952                         | 19,512     | 36,053                       | 41,413     |
| Subtotal                           | 310,852                        | 305,803    | 623,841                      | 615,258    |
| Europe:                            |                                |            |                              |            |
| Collection sites                   | 64,259                         | 54,716     | 110,657                      | 100,577    |
| Collection agencies                | 33,448                         | 29,473     | 73,572                       | 57,395     |
| Legal collections                  | 20,833                         | 12,484     | 38,936                       | 20,082     |
| Subtotal                           | 118,540                        | 96,673     | 223,165                      | 178,054    |
| Latin America:                     |                                |            |                              |            |
| Collection sites                   | 7,932                          | 6,804      | 15,389                       | 12,642     |
| Total collections                  | \$437,324                      | \$409,280  | \$862,395                    | \$805,954  |

Collections through our collection agency channel in the United States include accounts subject to bankruptcy filings collected by others. Additionally, collection agency collections often include accounts purchased from a competitor where we maintain the collection agency servicing until the accounts can be recalled and placed in our collection channels.

Gross collections increased \$28.0 million, or 6.9%, to \$437.3 million during the three months ended June 30, 2015, from \$409.3 million during the three months ended June 30, 2014. The increase in gross collections during the three months ended June 30, 2015 as compared to the gross collections during the three months ended June 30, 2014, were primarily due to collections on portfolios acquired through our increased merger and acquisition activities.

Gross collections increased \$56.4 million, or 7.0%, to \$862.4 million during the six months ended June 30, 2015, from \$806.0 million during the six months ended June 30, 2014. The increase in gross collections during the six months ended June 30, 2015 as compared to the gross collections during the six months ended June 30, 2014, were primarily due to collections on portfolios acquired through our increased merger and acquisition activities.

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## Results of Operations

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

|  | Three Months Ended June 30, |        |      |           |        |   |
|--|-----------------------------|--------|------|-----------|--------|---|
|  | 2015                        |        | 2014 |           |        |   |
| Revenues   |                             |        |      |           |        |   |
| Revenue from receivable portfolios, net          | \$270,301                   | 93.1   | %    | \$248,231 | 92.2   | % |
| Other revenues                                   | 13,112                      | 4.5    | %    | 14,149    | 5.3    | % |
| Net interest income                              | 6,943                       | 2.4    | %    | 6,815     | 2.5    | % |
| Total revenues                                   | 290,356                     | 100.0  | %    | 269,195   | 100.0  | % |
| Operating expenses                               |                             |        |      |           |        |   |
| Salaries and employee benefits                   | 67,545                      | 23.3   | %    | 64,355    | 23.9   | % |
| Cost of legal collections                        | 57,076                      | 19.7   | %    | 50,029    | 18.6   | % |
| Other operating expenses                         | 23,015                      | 7.9    | %    | 23,712    | 8.8    | % |
| Collection agency commissions                    | 8,466                       | 2.9    | %    | 7,482     | 2.8    | % |
| General and administrative expenses              | 39,166                      | 13.5   | %    | 38,282    | 14.2   | % |
| Depreciation and amortization                    | 8,084                       | 2.7    | %    | 6,829     | 2.5    | % |
| Total operating expenses                         | 203,352                     | 70.0   | %    | 190,689   | 70.8   | % |
| Income from operations                           | 87,004                      | 30.0   | %    | 78,506    | 29.2   | % |
| Other (expense) income                           |                             |        |      |           |        |   |
| Interest expense                                 | (46,250)                    | (15.9) | %    | (43,218)  | (16.1) | % |
| Other income                                     | 395                         | 0.0    | %    | 75        | 0.0    | % |
| Total other expense                              | (45,855)                    | (15.9) | %    | (43,143)  | (16.1) | % |
| Income before income taxes                       | 41,149                      | 14.1   | %    | 35,363    | 13.1   | % |
| Provision for income taxes                       | (15,964)                    | (5.4)  | %    | (14,010)  | (5.2)  | % |
| Net income                                       | 25,185                      | 8.7    | %    | 21,353    | 7.9    | % |
| Net loss attributable to noncontrolling interest | 2,472                       | 0.8    | %    | 2,208     | 0.9    | % |
| Net income attributable to Encore shareholders   | \$27,657                    | 9.5    | %    | \$23,561  | 8.8    | % |

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|  | Six Months Ended June 30, |        |   |           |        |   |
|--|---------------------------|--------|---|-----------|--------|---|
|  | 2015                      |        |   | 2014      |        |   |
| Revenues   |                           |        |   |           |        |   |
| Revenue from receivable portfolios, net          | \$534,411                 | 92.8   | % | \$485,799 | 92.9   | % |
| Other revenues                                   | 27,522                    | 4.8    | % | 25,498    | 4.9    | % |
| Net interest income                              | 14,086                    | 2.4    | % | 11,639    | 2.2    | % |
| Total revenues                                   | 576,019                   | 100.0  | % | 522,936   | 100.0  | % |
| Operating expenses                               |                           |        |   |           |        |   |
| Salaries and employee benefits                   | 135,293                   | 23.5   | % | 122,492   | 23.4   | % |
| Cost of legal collections                        | 112,074                   | 19.5   | % | 99,854    | 19.1   | % |
| Other operating expenses                         | 48,249                    | 8.4    | % | 50,135    | 9.6    | % |
| Collection agency commissions                    | 19,151                    | 3.3    | % | 15,758    | 3.0    | % |
| General and administrative expenses              | 71,778                    | 12.5   | % | 74,976    | 14.3   | % |
| Depreciation and amortization                    | 16,434                    | 2.8    | % | 12,946    | 2.5    | % |
| Total operating expenses                         | 402,979                   | 70.0   | % | 376,161   | 71.9   | % |
| Income from operations                           | 173,040                   | 30.0   | % | 146,775   | 28.1   | % |
| Other (expense) income                           |                           |        |   |           |        |   |
| Interest expense                                 | (88,553)                  | (15.4) | % | (81,180)  | (15.5) | % |
| Other income                                     | 2,512                     | 0.5    | % | 340       | 0.0    | % |
| Total other expense                              | (86,041)                  | (14.9) | % | (80,840)  | (15.5) | % |
| Income before income taxes                       | 86,999                    | 15.1   | % | 65,935    | 12.6   | % |
| Provision for income taxes                       | (31,847)                  | (5.5)  | % | (25,752)  | (4.9)  | % |
| Net income                                       | 55,152                    | 9.6    | % | 40,183    | 7.7    | % |
| Net loss attributable to noncontrolling interest | 1,930                     | 0.3    | % | 6,558     | 1.2    | % |
| Net income attributable to Encore shareholders   | \$57,082                  | 9.9    | % | \$46,741  | 8.9    | % |

## Results of Operations—Cabot

The following table summarizes the operating results contributed by Cabot during the periods presented (in thousands):

|  | Three Months Ended June 30, 2015 |                              |              | Three Months Ended June 30, 2014 |                              |              |
|--|----------------------------------|------------------------------|--------------|----------------------------------|------------------------------|--------------|
|  | Janus Holdings                   | Encore Europe <sup>(1)</sup> | Consolidated | Janus Holdings                   | Encore Europe <sup>(1)</sup> | Consolidated |
| Total revenues                                   | \$84,613                         | \$—                          | \$ 84,613    | \$73,385                         | \$—                          | \$ 73,385    |
| Total operating expenses                         | (48,421)                         | —                            | (48,421)     | (36,629)                         | —                            | (36,629)     |
| Income from operations                           | 36,192                           | —                            | 36,192       | 36,756                           | —                            | 36,756       |
| Interest expense-non-PEC                         | (26,436)                         | —                            | (26,436)     | (25,628)                         | —                            | (25,628)     |
| PEC interest (expense) income                    | (12,008)                         | 5,885                        | (6,123)      | (11,051)                         | 5,391                        | (5,660)      |
| Other income                                     | 297                              | —                            | 297          | 44                               | —                            | 44           |
| (Loss) income before income taxes                | (1,955)                          | 5,885                        | 3,930        | 121                              | 5,391                        | 5,512        |
| Provision for income taxes                       | (1,403)                          | —                            | (1,403)      | (2,992)                          | —                            | (2,992)      |
| Net (loss) income                                | (3,358)                          | 5,885                        | 2,527        | (2,871)                          | 5,391                        | 2,520        |
| Net loss attributable to noncontrolling interest | 471                              | 1,441                        | 1,912        | 412                              | 1,227                        | 1,639        |
| Net (loss) income attributable to Encore         | \$(2,887)                        | \$7,326                      | \$ 4,439     | \$(2,459)                        | \$6,618                      | \$ 4,159     |

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|  | Six Months Ended June 30, 2015 |                              |              | Six Months Ended June 30, 2014 |                              |              |
|--|--------------------------------|------------------------------|--------------|--------------------------------|------------------------------|--------------|
|  | Janus Holdings                 | Encore Europe <sup>(1)</sup> | Consolidated | Janus Holdings                 | Encore Europe <sup>(1)</sup> | Consolidated |
| Total revenues                                   | \$164,390                      | \$—                          | \$164,390    | \$135,905                      | \$—                          | \$135,905    |
| Total operating expenses                         | (89,203 )                      | —                            | (89,203 )    | (76,206 )                      | —                            | (76,206 )    |
| Income from operations                           | 75,187                         | —                            | 75,187       | 59,699                         | —                            | 59,699       |
| Interest expense-non-PEC                         | (49,733 )                      | —                            | (49,733 )    | (47,404 )                      | —                            | (47,404 )    |
| PEC interest (expense) income                    | (23,740 )                      | 11,634                       | (12,106 )    | (22,093 )                      | 10,758                       | (11,335 )    |
| Other income                                     | 1,055                          | —                            | 1,055        | 119                            | —                            | 119          |
| Income (loss) before income taxes                | 2,769                          | 11,634                       | 14,403       | (9,679 )                       | 10,758                       | 1,079        |
| Provision for income taxes                       | (3,524 )                       | —                            | (3,524 )     | (846 )                         | —                            | (846 )       |
| Net (loss) income                                | (755 )                         | 11,634                       | 10,879       | (10,525 )                      | 10,758                       | 233          |
| Net loss attributable to noncontrolling interest | 106                            | 324                          | 430          | 1,510                          | 4,499                        | 6,009        |
| Net (loss) income attributable to Encore         | \$(649 )                       | \$11,958                     | \$11,309     | \$(9,015 )                     | \$15,257                     | \$6,242      |

(1) Includes only the results of operations related to Janus Holdings and therefore does not represent the complete financial performance of Encore Europe.

The net losses recognized at Janus Holdings during the periods presented above were due to Cabot incurring acquisition and integration related charges primarily related to Cabot's acquisition of dlc in June 2015 and Marlin in February 2014. Additionally, for the three and six months ended June 30, 2015 and 2014, Janus Holdings recognized all interest expense related to the outstanding preferred equity certificates ("PECs") owed to Encore and other minority shareholders, while the interest income from PECs owed to Encore was recognized at Janus Holdings' parent company, Encore Europe Holdings, S.a.r.l. ("Encore Europe"), which is a wholly-owned subsidiary of Encore.

#### Non-GAAP Disclosure

In addition to the financial information prepared in conformity with Generally Accepted Accounting Principles ("GAAP"), we provide historical non-GAAP financial information. Management believes that the presentation of such non-GAAP financial information is meaningful and useful in understanding the activities and business metrics of our operations. Management believes that these non-GAAP financial measures reflect an additional way of viewing aspects of our business that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business.

Management believes that the presentation of these measures provides investors with greater transparency and facilitates comparison of operating results across a broad spectrum of companies with varying capital structures, compensation strategies, derivative instruments, and amortization methods, which provide a more complete understanding of our financial performance, competitive position, and prospects for the future. Readers should consider the information in addition to, but not instead of, our financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of these measures for comparative purposes.

Adjusted Income Per Share. Management uses non-GAAP adjusted income attributable to Encore and adjusted income per share (which we also refer to from time to time as adjusted earnings per share), to assess operating performance, in order to highlight trends in our business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP. Adjusted income attributable to Encore excludes non-cash interest and issuance cost amortization relating to our convertible notes, one-time charges, and acquisition, integration and restructuring related expenses, all net of tax. The following table provides a reconciliation between income and diluted income per share attributable to Encore calculated in accordance with GAAP to adjusted income and adjusted income per share attributable to Encore, respectively. GAAP diluted earnings per share for the three months ended June 30, 2015 and 2014, includes the effect of approximately 0.8 million and 1.0 million, respectively, common shares that are issuable upon conversion of certain convertible senior notes because the average stock price during the respective

periods exceeded the conversion price of these notes. GAAP diluted earnings per share for the six months ended June 30, 2015 and 2014, includes the effect of approximately 0.9 million and 1.2 million, respectively, common shares that are issuable upon conversion of certain convertible senior notes because the average stock price during the respective periods exceeded the conversion price of these notes. However, as described in Note 10, "Debt—Encore Convertible Notes," in the notes to our condensed consolidated financial statements, we have certain hedging transactions in place that have the effect of increasing the effective conversion price of these notes. Accordingly, while these common shares are included in our diluted earnings per share, the hedge transactions will offset the impact of this dilution and



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no shares will be issued unless our stock price exceeds the effective conversion price, thereby creating a discrepancy between the accounting effect of those notes under GAAP and their economic impact. We have presented the following metrics both including and excluding the dilutive effect of these convertible senior notes to better illustrate the economic impact of those notes and the related hedging transactions to shareholders, with the GAAP item under the “Per Diluted Share-Accounting” and “Per Diluted Share-Economic” columns, respectively (in thousands, except per share data):

|  | Three Months Ended June 30,<br>2015 |                                     | 2014                              |          | Per Diluted<br>Share—<br>Accounting | Per Diluted<br>Share—<br>Economic |
|--|-------------------------------------|-------------------------------------|-----------------------------------|----------|-------------------------------------|-----------------------------------|
|  | \$                                  | Per Diluted<br>Share—<br>Accounting | Per Diluted<br>Share—<br>Economic | \$       |                                     |                                   |
| GAAP net income attributable to Encore, as reported                            | \$27,657                            | \$1.03                              | \$1.06                            | \$23,561 | \$0.86                              | \$0.89                            |
| Adjustments:   |                                     |                                     |                                   |          |                                     |                                   |
| Convertible notes non-cash interest and issuance cost amortization, net of tax | 1,685                               | 0.06                                | 0.06                              | 1,694    | 0.06                                | 0.06                              |
| Acquisition, integration and restructuring related expenses, net of tax        | 3,833                               | 0.14                                | 0.15                              | 3,836    | 0.14                                | 0.15                              |
| Adjusted income attributable to Encore   | \$33,175                            | \$1.23                              | \$1.27                            | \$29,091 | \$1.06                              | \$1.10                            |

|  | Six Months Ended June 30,<br>2015 |                                     | 2014                              |          | Per Diluted<br>Share—<br>Accounting | Per Diluted<br>Share—<br>Economic |
|--|-----------------------------------|-------------------------------------|-----------------------------------|----------|-------------------------------------|-----------------------------------|
|  | \$                                | Per Diluted<br>Share—<br>Accounting | Per Diluted<br>Share—<br>Economic | \$       |                                     |                                   |
| GAAP net income attributable to Encore, as reported                            | \$57,082                          | \$2.11                              | \$2.17                            | \$46,741 | \$1.68                              | \$1.76                            |
| Adjustments:   |                                   |                                     |                                   |          |                                     |                                   |
| Convertible notes non-cash interest and issuance cost amortization, net of tax | 3,351                             | 0.12                                | 0.13                              | 2,985    | 0.11                                | 0.11                              |
| Acquisition, integration and restructuring related expenses, net of tax        | 5,185                             | 0.19                                | 0.20                              | 8,194    | 0.29                                | 0.31                              |
| Adjusted income attributable to Encore   | \$65,618                          | \$2.42                              | \$2.50                            | \$57,920 | \$2.08                              | \$2.18                            |

Adjusted EBITDA. Management utilizes adjusted EBITDA (defined as net income before interest, taxes, depreciation and amortization, stock-based compensation expenses, portfolio amortization, one-time charges, and acquisition, integration and restructuring related expenses), which is materially similar to a financial measure contained in covenants used in the Encore revolving credit and term loan facility, in the evaluation of our operations and believes that this measure is a useful indicator of our ability to generate cash collections in excess of operating expenses through the liquidation of our receivable portfolios. Adjusted EBITDA for the periods presented is as follows (in thousands):

|  | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2015                           | 2014     | 2015                         | 2014     |
| GAAP net income, as reported                         | \$25,185                       | \$21,353 | \$55,152                     | \$40,183 |
| Adjustments:   |                                |          |                              |          |
| Interest expense                                     | 46,250                         | 43,218   | 88,553                       | 81,180   |
| Provision for income taxes                           | 15,964                         | 14,010   | 31,847                       | 25,752   |
| Depreciation and amortization                        | 8,084                          | 6,829    | 16,434                       | 12,946   |
| Amount applied to principal on receivable portfolios | 167,024                        | 161,048  | 327,985                      | 320,154  |
| Stock-based compensation expense                     | 6,198                          | 4,715    | 12,103                       | 9,551    |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Acquisition, integration and restructuring related expenses | 7,900     | 4,645     | 10,672    | 15,726    |
| Adjusted EBITDA   | \$276,605 | \$255,818 | \$542,746 | \$505,492 |

Adjusted Operating Expenses. Management utilizes adjusted operating expenses in order to facilitate a comparison of approximate cash costs to cash collections for our portfolio purchasing and recovery business. Adjusted operating expenses for

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our portfolio purchasing and recovery business are calculated by starting with GAAP total operating expenses and backing out stock-based compensation expense, operating expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition, integration and restructuring related operating expenses. Operating expenses related to non-portfolio purchasing and recovery business include operating expenses from our tax lien business and other non-reportable operating segments, as well as corporate overhead not related to our portfolio purchasing and recovery business. Adjusted operating expenses related to our portfolio purchasing and recovery business for the periods presented are as follows (in thousands):

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2015                           | 2014      | 2015                         | 2014      |
| GAAP total operating expenses, as reported  | \$203,352                      | \$190,689 | \$402,979                    | \$376,161 |
| Adjustments:  |                                |           |                              |           |
| Stock-based compensation expense  | (6,198 )                       | (4,715 )  | (12,103 )                    | (9,551 )  |
| Operating expenses related to non-portfolio purchasing and recovery business      | (24,928 )                      | (26,409 ) | (51,277 )                    | (46,241 ) |
| Acquisition, integration and restructuring related expenses                       | (7,900 )                       | (4,645 )  | (10,672 )                    | (15,726 ) |
| Adjusted operating expenses related to portfolio purchasing and recovery business | \$164,326                      | \$154,920 | \$328,927                    | \$304,643 |

#### Comparison of Results of Operations

##### Revenues

Our revenues consist primarily of portfolio revenue, contingent fee income, and net interest income from our tax lien business.

Portfolio revenue consists of accretion revenue and zero basis revenue. Accretion revenue represents revenue derived from pools (quarterly groupings of purchased receivable portfolios) with a cost basis that has not been fully amortized. Revenue from pools with a remaining unamortized cost basis is accrued based on each pool's effective interest rate applied to each pool's remaining unamortized cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and portfolio allowances. The effective interest rate is the Internal Rate of Return ("IRR") derived from the timing and amounts of actual cash received and anticipated future cash flow projections for each pool. All collections realized after the net book value of a portfolio has been fully recovered, or Zero Basis Portfolios ("ZBA"), are recorded as revenue, or Zero Basis Revenue. We account for our investment in receivable portfolios utilizing the interest method in accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality. We incur allowance charges when actual cash flows from our receivable portfolios underperform compared to our expectations. Factors that may contribute to underperformance and to the recording of valuation allowances may include both internal as well as external factors. External factors that may have an impact on our collections include new laws or regulations, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors that may have an impact on our collections include operational activities such as the productivity of our collection staff. We record allowance reversals on pool groups which have historic allowance reserves when actual cash flows from these receivable portfolios outperform our expectations. Allowance reversals are included in portfolio revenue.

Interest income, net of related interest expense represents net interest income on receivables secured by property tax liens.

The following tables summarize collections, revenue, end of period receivable balance and other related supplemental data, by year of purchase from our portfolio purchasing and recovery segment (in thousands, except percentages):

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|                                | Three Months Ended June 30, 2015 |                                 |   |   |                                  | As of<br>June 30, 2015  |                |   |  |
|--------------------------------|----------------------------------|---------------------------------|---|---|----------------------------------|-------------------------|----------------|---|--|
|                                | Collections <sup>(1)</sup>       | Gross<br>Revenue <sup>(2)</sup> | Revenue<br>Recognition<br>Rate <sup>(3)</sup> | Net<br>Portfolio<br>Allowance<br>Reversal | Revenue<br>% of Total<br>Revenue | Unamortized<br>Balances | Monthly<br>IRR |   |  |
| United States <sup>(4)</sup> : |                                  |                                 |   |   |                                  |                         |                |   |  |
| ZBA <sup>(5)</sup>             | \$26,732                         | \$23,323                        | 87.2  | % \$3,553                                 | 8.8                              | % \$—                   | —              |   |  |
| 2007                           | 774                              | 272                             | 35.1  | % 297                                     | 0.1                              | % 1,747                 | 4.6            | % |  |
| 2008                           | 3,694                            | 2,217                           | 60.0  | % 510                                     | 0.8                              | % 6,371                 | 10.3           | % |  |
| 2009                           | 7,098                            | 3,496                           | 49.3  | % —                                       | 1.3                              | % 2,259                 | 25.0           | % |  |
| 2010                           | 12,908                           | 6,649                           | 51.5  | % —                                       | 2.5                              | % 6,407                 | 18.7           | % |  |
| 2011                           | 30,681                           | 23,162                          | 75.5  | % —                                       | 8.7                              | % 40,591                | 17.1           | % |  |
| 2012                           | 47,748                           | 28,575                          | 59.8  | % —                                       | 10.7                             | % 111,139               | 7.8            | % |  |
| 2013                           | 82,770                           | 47,429                          | 57.3  | % —                                       | 17.8                             | % 216,379               | 6.6            | % |  |
| 2014                           | 84,120                           | 41,946                          | 49.9  | % —                                       | 15.8                             | % 444,389               | 2.9            | % |  |
| 2015                           | 22,259                           | 8,202                           | 36.8  | % —                                       | 3.1                              | % 213,749               | 2.0            | % |  |
| Subtotal                       | 318,784                          | 185,271                         | 58.1  | % 4,360                                   | 69.7                             | % 1,043,031             | 5.1            | % |  |
| Europe:                        |                                  |                                 |   |   |                                  |                         |                |   |  |
| 2013                           | 56,824                           | 43,628                          | 76.8  | % —                                       | 16.4                             | % 483,377               | 3.0            | % |  |
| 2014                           | 52,122                           | 31,408                          | 60.3  | % —                                       | 11.8                             | % 509,998               | 2.1            | % |  |
| 2015                           | 9,594                            | 5,634                           | 58.7  | % —                                       | 2.1                              | % 315,361               | 2.0            | % |  |
| Subtotal                       | 118,540                          | 80,670                          | 68.1  | % —                                       | 30.3                             | % 1,308,736             | 2.4            | % |  |
| Total                          | \$437,324                        | \$265,941                       | 60.8  | % \$4,360                                 | 100.0                            | % \$2,351,767           | 3.6            | % |  |
|                                |                                  |                                 |   |   |                                  |                         |                |   |  |
|                                | Three Months Ended June 30, 2014 |                                 |   |   |                                  | As of<br>June 30, 2014  |                |   |  |
|                                | Collections <sup>(1)</sup>       | Gross<br>Revenue <sup>(2)</sup> | Revenue<br>Recognition<br>Rate <sup>(3)</sup> | Net<br>Portfolio<br>Allowance<br>Reversal | Revenue<br>% of Total<br>Revenue | Unamortized<br>Balances | Monthly<br>IRR |   |  |
| United States <sup>(4)</sup> : |                                  |                                 |   |   |                                  |                         |                |   |  |
| ZBA <sup>(5)</sup>             | \$6,708                          | \$3,402                         | 50.7  | % \$3,306                                 | 1.4                              | % \$—                   | —              |   |  |
| 2006                           | 1,019                            | 198                             | 19.4  | % —                                       | 0.1                              | % 695                   | 5.3            | % |  |
| 2007                           | 2,294                            | 953                             | 41.5  | % 116                                     | 0.4                              | % 3,317                 | 7.3            | % |  |
| 2008                           | 7,893                            | 3,889                           | 49.3  | % —                                       | 1.6                              | % 10,604                | 9.5            | % |  |
| 2009                           | 15,841                           | 11,671                          | 73.7  | % —                                       | 4.8                              | % 13,046                | 23.8           | % |  |
| 2010                           | 30,451                           | 23,049                          | 75.7  | % —                                       | 9.4                              | % 32,753                | 20.5           | % |  |
| 2011                           | 42,145                           | 29,046                          | 68.9  | % —                                       | 11.9                             | % 73,385                | 11.8           | % |  |
| 2012                           | 70,871                           | 36,343                          | 51.3  | % —                                       | 14.8                             | % 200,479               | 5.4            | % |  |
| 2013                           | 113,300                          | 59,641                          | 52.6  | % —                                       | 24.3                             | % 381,923               | 4.8            | % |  |
| 2014                           | 22,085                           | 10,574                          | 47.9  | % —                                       | 4.3                              | % 268,803               | 2.2            | % |  |
| Subtotal                       | 312,607                          | 178,766                         | 57.2  | % 3,422                                   | 73.0                             | % 985,005               | 5.0            | % |  |
| Europe:                        |                                  |                                 |   |   |                                  |                         |                |   |  |
| 2013                           | 63,135                           | 42,563                          | 67.4  | % —                                       | 17.4                             | % 598,966               | 2.4            | % |  |
| 2014                           | 33,538                           | 23,480                          | 70.0  | % —                                       | 9.6                              | % 404,014               | 2.2            | % |  |
| Subtotal                       | 96,673                           | 66,043                          | 68.3  | % —                                       | 27.0                             | % 1,002,980             | 2.3            | % |  |
| Total                          | \$409,280                        | \$244,809                       | 59.8  | % \$3,422                                 | 100.0                            | % \$1,987,985           | 3.6            | % |  |



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|                                | Six Months Ended June 30, 2015 |                                 |   |   |                                  | As of<br>June 30, 2015  |                |   |  |
|--------------------------------|--------------------------------|---------------------------------|---|---|----------------------------------|-------------------------|----------------|---|--|
|                                | Collections <sup>(1)</sup>     | Gross<br>Revenue <sup>(2)</sup> | Revenue<br>Recognition<br>Rate <sup>(3)</sup> | Net<br>Portfolio<br>Allowance<br>Reversal | Revenue<br>% of Total<br>Revenue | Unamortized<br>Balances | Monthly<br>IRR |   |  |
| United States <sup>(4)</sup> : |                                |                                 |   |   |                                  |                         |                |   |  |
| ZBA <sup>(5)</sup>             | \$42,275                       | \$36,035                        | 85.2  | % \$6,412                                 | 6.8                              | % \$—                   | —              |   |  |
| 2007                           | 1,759                          | 605                             | 34.4  | % 297                                     | 0.1                              | % 1,747                 | 4.6            | % |  |
| 2008                           | 7,212                          | 4,677                           | 64.9  | % 510                                     | 0.9                              | % 6,371                 | 10.3           | % |  |
| 2009                           | 14,633                         | 9,122                           | 62.3  | % —                                       | 1.7                              | % 2,259                 | 25.0           | % |  |
| 2010                           | 34,343                         | 19,705                          | 57.4  | % —                                       | 3.7                              | % 6,407                 | 18.7           | % |  |
| 2011                           | 63,441                         | 48,135                          | 75.9  | % —                                       | 9.1                              | % 40,591                | 17.1           | % |  |
| 2012                           | 101,306                        | 61,387                          | 60.6  | % —                                       | 11.6                             | % 111,139               | 7.8            | % |  |
| 2013                           | 172,925                        | 95,272                          | 55.1  | % —                                       | 18.1                             | % 216,379               | 6.6            | % |  |
| 2014                           | 173,840                        | 86,012                          | 49.5  | % —                                       | 16.4                             | % 444,389               | 2.9            | % |  |
| 2015                           | 27,496                         | 9,506                           | 34.6  | % —                                       | 1.9                              | % 213,749               | 2.0            | % |  |
| Subtotal                       | 639,230                        | 370,456                         | 58.0  | % 7,219                                   | 70.3                             | % 1,043,031             | 5.1            | % |  |
| Europe:                        |                                |                                 |   |   |                                  |                         |                |   |  |
| 2013                           | 111,887                        | 87,335                          | 78.1  | % —                                       | 16.6                             | % 483,377               | 3.0            | % |  |
| 2014                           | 101,521                        | 63,473                          | 62.5  | % —                                       | 12.0                             | % 509,998               | 2.1            | % |  |
| 2015                           | 9,757                          | 5,928                           | 60.8  | % —                                       | 1.1                              | % 315,361               | 2.0            | % |  |
| Subtotal                       | 223,165                        | 156,736                         | 70.2  | % —                                       | 29.7                             | % 1,308,736             | 2.4            | % |  |
| Total                          | \$862,395                      | \$527,192                       | 61.1  | % \$7,219                                 | 100.0                            | % \$2,351,767           | 3.6            | % |  |

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|                                | Six Months Ended June 30, 2014 |                                 |   |   |                                  | As of<br>June 30, 2014  |                |   |  |
|--------------------------------|--------------------------------|---------------------------------|---|---|----------------------------------|-------------------------|----------------|---|--|
|                                | Collections <sup>(1)</sup>     | Gross<br>Revenue <sup>(2)</sup> | Revenue<br>Recognition<br>Rate <sup>(3)</sup> | Net<br>Portfolio<br>Allowance<br>Reversal | Revenue<br>% of Total<br>Revenue | Unamortized<br>Balances | Monthly<br>IRR |   |  |
| United States <sup>(4)</sup> : |                                |                                 |   |   |                                  |                         |                |   |  |
| ZBA <sup>(5)</sup>             | \$13,219                       | \$6,993                         | 52.9  | % \$6,226                                 | 1.5                              | % \$—                   | —              |   |  |
| 2006                           | 2,306                          | 536                             | 23.2  | % —                                       | 0.1                              | % 695                   | 5.3            | % |  |
| 2007                           | 4,632                          | 2,180                           | 47.1  | % 116                                     | 0.5                              | % 3,317                 | 7.3            | % |  |
| 2008                           | 16,266                         | 8,951                           | 55.0  | % —                                       | 1.9                              | % 10,604                | 9.5            | % |  |
| 2009                           | 32,341                         | 24,411                          | 75.5  | % 310                                     | 5.1                              | % 13,046                | 23.8           | % |  |
| 2010                           | 62,414                         | 45,187                          | 72.4  | % —                                       | 9.4                              | % 32,753                | 20.5           | % |  |
| 2011                           | 87,794                         | 58,291                          | 66.4  | % —                                       | 12.2                             | % 73,385                | 11.8           | % |  |
| 2012                           | 149,729                        | 73,700                          | 49.2  | % —                                       | 15.4                             | % 200,479               | 5.4            | % |  |
| 2013                           | 233,072                        | 124,078                         | 53.2  | % —                                       | 25.9                             | % 381,923               | 4.8            | % |  |
| 2014                           | 26,127                         | 12,547                          | 48.0  | % —                                       | 2.6                              | % 268,803               | 2.2            | % |  |
| Subtotal                       | 627,900                        | 356,874                         | 56.8  | % 6,652                                   | 74.5                             | % 985,005               | 5.0            | % |  |
| Europe:                        |                                |                                 |   |   |                                  |                         |                |   |  |
| 2013                           | 126,729                        | 85,936                          | 67.8  | % —                                       | 17.9                             | % 598,966               | 2.4            | % |  |
| 2014                           | 51,325                         | 36,337                          | 70.8  | % —                                       | 7.6                              | % 404,014               | 2.2            | % |  |
| Subtotal                       | 178,054                        | 122,273                         | 68.7  | % —                                       | 25.5                             | % 1,002,980             | 2.3            | % |  |
| Total                          | \$805,954                      | \$479,147                       | 59.5  | % \$6,652                                 | 100.0                            | % \$1,987,985           | 3.6            | % |  |

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

(2) Gross revenue excludes the effects of net portfolio allowance or net portfolio allowance reversals.

(3) Revenue recognition rate excludes the effects of net portfolio allowance or net portfolio allowance reversals.

(4) United States data includes results from Latin America.

ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%. ZBA gross revenue includes an immaterial amount of accounts that are returned to the seller in accordance with the respective purchase agreement (“Put-Backs”) and accounts that are recalled by the seller in accordance with the respective purchase agreement (“Recalls”).

Total revenues were \$290.4 million during the three months ended June 30, 2015, an increase of \$21.2 million, or 7.9%, compared to total revenues of \$269.2 million during the three months ended June 30, 2014. Total revenues were \$576.0 million during the six months ended June 30, 2015, an increase of \$53.1 million, or 10.2%, compared to total revenues of \$522.9 million during the six months ended June 30, 2014.

Accretion revenue from our portfolio purchasing and recovery segment was \$270.3 million during the three months ended June 30, 2015, an increase of \$22.1 million, or 8.9%, compared to revenue of \$248.2 million during the three months ended June 30, 2014. The increase in portfolio purchasing and recovery revenue during the three months ended June 30, 2015 compared to 2014 was due to additional accretion revenue associated with a higher portfolio balance, primarily associated with portfolios acquired through our increased level of merger and acquisition related activities, and increases in yields on certain pool groups due to over-performance, offset by lower yields on recently formed pool groups. Accretion revenue from our portfolio purchasing and recovery segment was \$534.4 million during the six months ended June 30, 2015, an increase of \$48.6 million, or 10.0%, compared to revenue of \$485.8 million during the six months ended June 30, 2014. The increase in portfolio purchasing and recovery revenue during the six months ended June 30, 2015 compared to 2014 was due to additional accretion revenue associated with a higher portfolio balance, primarily associated with portfolios acquired through our increased level of merger and

acquisition related activities, and increases in yields on certain pool groups due to over-performance, offset by lower yields on recently formed pool groups.

During the three months ended June 30, 2015, we recorded a portfolio allowance reversal of \$4.4 million, compared to a portfolio allowance reversal of \$3.4 million during the three months ended June 30, 2014. During the six months ended June 30, 2015, we recorded a portfolio allowance reversal of \$7.2 million, compared to a portfolio allowance reversal of \$6.7 million during the six months ended June 30, 2014. The recording of allowance reversals during the three and six months ended June 30, 2015 and 2014 was primarily due to operational improvements which allowed us to assist our customers to repay their



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obligations and increased collections on our ZBA portfolios. Additionally, our refined valuation methodologies have limited the amount of valuation charges necessary during recent periods.

Other revenues were \$13.1 million and \$14.1 million for the three months ended June 30, 2015 and 2014, respectively, and \$27.5 million and \$25.5 million for the six months ended June 30, 2015 and 2014, respectively. Other revenues are primarily comprised of contingent fee income at our Cabot, Refinancia and Grove subsidiaries earned on accounts collected on behalf of others, primarily credit originators. The increase in other revenues during the six months ended June 30, 2015 was primarily due to the acquisition of Grove in April 2014. Contingent fees from Grove are only included in the prior year periods since the acquisition date.

Net interest income from our tax lien business segment was \$6.9 million and \$6.8 million for the three months ended June 30, 2015 and 2014, respectively, and \$14.1 million and \$11.6 million for the six months ended June 30, 2015 and 2014, respectively. The increase in revenue for the six month period was due to an increase in the balance of receivables secured by property tax liens primarily as a result of Propel's recent acquisition of a portfolio of tax liens for approximately \$43.0 million in May 2014.

Operating Expenses

Total operating expenses were \$203.4 million during the three months ended June 30, 2015, an increase of \$12.7 million, or 6.6%, compared to total operating expenses of \$190.7 million during the three months ended June 30, 2014.

Total operating expenses were \$403.0 million during the six months ended June 30, 2015, an increase of \$26.8 million, or 7.1%, compared to total operating expenses of \$376.2 million during the six months ended June 30, 2014.

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

Salaries and employee benefits increased \$3.1 million, or 5.0%, to \$67.5 million during the three months ended June 30, 2015, from \$64.4 million during the three months ended June 30, 2014. The increase was primarily the result of an increase in stock-based compensation expense of \$1.5 million, increased severance expenses of \$0.5 million including severance related to reducing our call center staffing in Warren, MI and San Diego, CA, and increases in headcount and related compensation expense as a result of our recent mergers and acquisition activities.

Salaries and employee benefits increased \$12.8 million, or 10.5%, to \$135.3 million during the six months ended June 30, 2015, from \$122.5 million during the six months ended June 30, 2014. The increase was primarily the result of an increase in stock-based compensation expense of \$2.5 million, increased severance expenses of \$2.0 million including severance related to reducing our call center staffing in Warren, MI and San Diego, CA, and increases in headcount and related compensation expense as a result of our recent mergers and acquisition activities.

Stock-based compensation increased \$1.5 million, or 31.5% to \$6.2 million during the three months ended June 30, 2015, from \$4.7 million during the three months ended June 30, 2014. This increase was primarily attributable to the higher fair value of equity awards granted in recent periods.

Stock-based compensation increased \$2.5 million, or 26.7% to \$12.1 million during the six months ended June 30, 2015, from \$9.6 million during the six months ended June 30, 2014. This increase was primarily attributable to the higher fair value of equity awards granted in recent periods.

Salaries and employee benefits broken down between the reportable segments were as follows (in thousands):

|                                   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|-----------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                   | 2015                           | 2014     | 2015                         | 2014      |
| Salaries and employee benefits:   |                                |          |                              |           |
| Portfolio purchasing and recovery | \$65,569                       | \$62,744 | \$131,121                    | \$119,142 |
| Tax lien business                 | 1,976                          | 1,611    | 4,172                        | 3,350     |
|                                   | \$67,545                       | \$64,355 | \$135,293                    | \$122,492 |

Table of Contents**Cost of Legal Collections—Portfolio Purchasing and Recovery**

The cost of legal collections increased \$7.1 million, or 14.1%, to \$57.1 million during the three months ended June 30, 2015, compared to \$50.0 million during the three months ended June 30, 2014. These costs represent contingent fees paid to our network of attorneys, internal legal costs and the cost of litigation. Gross legal collections were \$188.6 million during the three months ended June 30, 2015, up from \$168.0 million collected during the three months ended June 30, 2014. The cost of legal collections increased as a percentage of gross collections through this channel to 30.3% during the three months ended June 30, 2015, from 29.8% during the same period in the prior year. This increase was primarily due to increased cost of legal collections in Europe, offset by decreased cost as a percentage of legal collections in the United States as a result of a slight decrease in the commission rate we pay our attorneys. During the three months ended June 30, 2015, Cabot and Marlin collected \$20.8 million through Marlin's legal channel and incurred costs of \$7.3 million, or 35.3%, of collections including upfront court costs, compared to collections of \$12.5 million and costs of \$2.5 million, or cost as a percentage of legal collection of 19.8% during the three months ended June 30, 2014. As Cabot and Marlin continue to increase the number of consumer accounts directed through Marlin's legal platform, the cost as a percent of collections in Europe will increase, as experienced in the most recent quarter, primarily due to the increase in upfront court costs.

The cost of legal collections increased \$12.2 million, or 12.2%, to \$112.1 million during the six months ended June 30, 2015, compared to \$99.9 million during the six months ended June 30, 2014. These costs represent contingent fees paid to our network of attorneys, internal legal costs and the cost of litigation. Gross legal collections were \$365.6 million during the six months ended June 30, 2015, up from \$326.6 million collected during the six months ended June 30, 2014. The cost of legal collections increased as a percentage of gross collections through this channel to 30.7% during the three months ended June 30, 2015, from 30.6% during the same period in the prior year. This increase was primarily due to increased cost of legal collections in Europe, offset by decreased cost as a percentage of legal collections in the United States as a result of a slight decrease in the commission rate we pay our attorneys. During the six months ended June 30, 2015, Cabot and Marlin collected \$38.9 million through Marlin's legal channel and incurred costs of \$12.7 million, or 32.5%, of collections including upfront court costs, compared to collections of \$20.1 million and costs of \$3.9 million, or cost as a percentage of legal collection of 19.6% during the six months ended June 30, 2014. As Cabot and Marlin continue to increase the number of consumer accounts directed through Marlin's legal platform, the cost as a percent of collections in Europe will increase, as experienced in the most recent quarter, primarily due to the increase in upfront court costs.

**Other Operating Expenses**

Other operating expenses decreased \$0.7 million, or 2.9%, to \$23.0 million during the three months ended June 30, 2015, from \$23.7 million during the three months ended June 30, 2014. Other operating expenses decreased \$1.9 million, or 3.8%, to \$48.2 million during the six months ended June 30, 2015, from \$50.1 million during the six months ended June 30, 2014. The decreases for three and six months ended June 30, 2015, as compared to the same periods in the prior year, were primarily the result of reductions in certain other operating expenses due to our continued focus on discretionary costs offset by additional other operating expenses at our newly acquired subsidiaries.

Other operating expenses broken down between the reportable segments were as follows (in thousands):

|                                   | Three Months Ended |          | Six Months Ended |          |
|-----------------------------------|--------------------|----------|------------------|----------|
|                                   | June 30,           |          | June 30,         |          |
|                                   | 2015               | 2014     | 2015             | 2014     |
| Other operating expenses:         |                    |          |                  |          |
| Portfolio purchasing and recovery | \$21,735           | \$22,195 | \$46,061         | \$47,491 |
| Tax lien business                 | 1,280              | 1,517    | 2,188            | 2,644    |
|                                   | \$23,015           | \$23,712 | \$48,249         | \$50,135 |

**Collection Agency Commissions—Portfolio Purchasing and Recovery**

During the three months ended June 30, 2015, we incurred \$8.5 million in commissions to third-party collection agencies, or 16.5% of the related gross collections of \$51.4 million. During the period, the commission rate as a percentage of related gross collections was 18.9% and 15.2% for our collection outsourcing channels in the United

States and Europe, respectively. During the three months ended June 30, 2014, we incurred \$7.5 million in commissions, or 15.3%, of the related gross collections of \$49.0 million. During the 2014 period, the commission rate as a percentage of related gross collections was 13.9% and 16.2% for our collection outsourcing channels in the United States and Europe, respectively.

During the six months ended June 30, 2015, we incurred \$19.2 million in commissions to third-party collection agencies, or 17.5% of the related gross collections of \$109.6 million. During the period, the commission rate as a percentage of related gross collections was 17.3% and 17.5% for our collection outsourcing channels in the United States and Europe, respectively.

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During the six months ended June 30, 2014, we incurred \$15.8 million in commissions, or 15.9%, of the related gross collections of \$98.8 million. During the 2014 period, the commission rate as a percentage of related gross collections was 15.5% and 16.3% for our collection outsourcing channels in the United States and Europe, respectively.

Collections through this channel vary from period to period depending on, among other things, the number of accounts placed with an agency versus accounts collected internally. Commissions, as a percentage of collections in this channel also vary from period to period depending on, among other things, the amount of time that has passed since the charge-off of the accounts placed with an agency, the asset class, and the geographic location of the receivables. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time. Additionally, commission rates are lower in the United Kingdom where most of the receivables in this channel are semi-performing loans and IVAs, while the commission rates are higher in other European countries where most of the receivables in this channel are non-performing loans.

**General and Administrative Expenses**

General and administrative expenses increased \$0.9 million, or 2.3%, to \$39.2 million during the three months ended June 30, 2015, from \$38.3 million during the three months ended June 30, 2014. Excluding one-time acquisition and integration related costs of \$7.3 million and \$1.2 million during the three months ended June 30, 2015 and 2014, respectively, general and administrative expenses decreased \$5.2 million, or 14.1%, to \$31.9 million during the three months ended June 30, 2015, from \$37.1 million during the three months ended June 30, 2014. The decrease was primarily due to reduced building rent expense due to our recent consolidation of domestic collection sites.

General and administrative expenses decreased \$3.2 million, or 4.3%, to \$71.8 million during the six months ended June 30, 2015, from \$75.0 million during the six months ended June 30, 2014. Excluding one-time acquisition and integration related costs of \$8.9 million and \$15.7 million during the six months ended June 30, 2015 and 2014, respectively, general and administrative expenses increased \$3.5 million, or 6.0%, to \$62.8 million during the six months ended June 30, 2015, from \$59.3 million during the six months ended June 30, 2014. The increase was primarily due to an increase in costs associated with regulatory and legislative costs and general increases in expenses to support our growth.

General and administrative expenses broken down between the reportable segments were as follows (in thousands):

|                                      | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                      | 2015                           | 2014     | 2015                         | 2014     |
| General and administrative expenses: |                                |          |                              |          |
| Portfolio purchasing and recovery    | \$37,638                       | \$36,634 | \$68,835                     | \$72,696 |
| Tax lien business                    | 1,528                          | 1,648    | 2,943                        | 2,280    |
|                                      | \$39,166                       | \$38,282 | \$71,778                     | \$74,976 |

**Depreciation and Amortization**

Depreciation and amortization expense increased \$1.3 million, or 18.4%, to \$8.1 million during the three months ended June 30, 2015, from \$6.8 million during the three months ended June 30, 2014. Depreciation and amortization expense increased \$3.5 million, or 26.9%, to \$16.4 million during the six months ended June 30, 2015, from \$12.9 million during the six months ended June 30, 2014. The increases during the three and six months ended June 30, 2015 as compared to the same periods in the prior year were primarily related to increased depreciation expense resulting from the acquisition of fixed assets in the current and prior years and additional depreciation and amortization expenses resulting from fixed assets and intangible assets acquired through our recent acquisitions.

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## Cost per Dollar Collected—Portfolio Purchasing and Recovery

The following tables summarize our cost per dollar collected (in thousands, except percentages):

|                                     | Three Months Ended June 30,<br>2015 |           |  |  | 2014        |           |  |  |   |  |
|-------------------------------------|-------------------------------------|-----------|--|--|-------------|-----------|--|--|---|--|
|                                     | Collections                         | Cost      | Cost Per<br>Channel<br>Dollar<br>Collected | Cost Per<br>Total<br>Dollar<br>Collected | Collections | Cost      | Cost Per<br>Channel<br>Dollar<br>Collected | Cost Per<br>Total<br>Dollar<br>Collected |   |  |
| United States:                      |                                     |           |  |  |             |           |  |  |   |  |
| Collection sites <sup>(1)</sup>     | \$125,153                           | \$9,302   | 7.4  | % 3.0                                    | % \$130,788 | \$8,330   | 6.4  | % 2.7                                    | % |  |
| Legal outsourcing                   | 136,320                             | 45,899    | 33.7                                       | % 14.8                                   | % 125,564   | 43,595    | 34.7                                       | % 14.3                                   | % |  |
| Internal legal <sup>(2)</sup>       | 31,427                              | 11,652    | 37.1                                       | % 3.7                                    | % 29,939    | 12,064    | 40.3                                       | % 3.9                                    | % |  |
| Collection agencies                 | 17,952                              | 3,394     | 18.9                                       | % 1.1                                    | % 19,512    | 2,717     | 13.9                                       | % 0.9                                    | % |  |
| Other indirect costs <sup>(3)</sup> | —                                   | 55,578    | —  | 17.9                                     | % —         | 56,844    | —  | 18.6                                     | % |  |
| Subtotal                            | 310,852                             | 125,825   |  | 40.5                                     | % 305,803   | 123,550   |  | 40.4                                     | % |  |
| Europe:                             |                                     |           |  |  |             |           |  |  |   |  |
| Collection sites <sup>(1)</sup>     | 64,259                              | 4,461     | 6.9  | % 3.8                                    | % 54,716    | 3,773     | 6.9  | % 3.9                                    | % |  |
| Legal outsourcing                   | 20,833                              | 7,347     | 35.3                                       | % 6.2                                    | % 12,484    | 2,470     | 19.8                                       | % 2.6                                    | % |  |
| Collection agencies                 | 33,448                              | 5,072     | 15.2                                       | % 4.3                                    | % 29,473    | 4,765     | 16.2                                       | % 4.9                                    | % |  |
| Other indirect costs <sup>(3)</sup> | —                                   | 19,374    | —  | 16.3                                     | % —         | 18,280    | —  | 18.9                                     | % |  |
| Subtotal                            | 118,540                             | 36,254    |  | 30.6                                     | % 96,673    | 29,288    |  | 30.3                                     | % |  |
| Latin America:                      |                                     |           |  |  |             |           |  |  |   |  |
| Collection sites <sup>(1)</sup>     | 7,932                               | 943       | 11.9                                       | % 11.9                                   | % 6,804     | 815       | 12.0                                       | % 12.0                                   | % |  |
| Other indirect costs <sup>(3)</sup> | —                                   | 1,304     | —  | 16.4                                     | % —         | 1,267     | —  | 18.6                                     | % |  |
| Subtotal                            | 7,932                               | 2,247     |  | 28.3                                     | % 6,804     | 2,082     |  | 30.6                                     | % |  |
| Total <sup>(4)</sup>                | \$437,324                           | \$164,326 |  | 37.6                                     | % \$409,280 | \$154,920 |  | 37.9                                     | % |  |

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|                                     | Six Months Ended June 30,<br>2015 |           |  |  | 2014        |           |  |  |   |  |
|-------------------------------------|-----------------------------------|-----------|--|--|-------------|-----------|--|--|---|--|
|                                     | Collections                       | Cost      | Cost Per<br>Channel<br>Dollar<br>Collected | Cost Per<br>Total<br>Dollar<br>Collected | Collections | Cost      | Cost Per<br>Channel<br>Dollar<br>Collected | Cost Per<br>Total<br>Dollar<br>Collected |   |  |
| United States:                      |                                   |           |  |  |             |           |  |  |   |  |
| Collection sites <sup>(1)</sup>     | \$261,082                         | \$19,777  | 7.6  | % 3.1                                    | % \$267,313 | \$16,740  | 6.3  | % 2.7                                    | % |  |
| Legal outsourcing                   | 265,872                           | 91,594    | 34.5                                       | % 14.7                                   | % 245,297   | 87,605    | 35.7                                       | % 14.2                                   | % |  |
| Internal legal <sup>(2)</sup>       | 60,834                            | 22,951    | 37.7                                       | % 3.7                                    | % 61,235    | 24,253    | 39.6                                       | % 3.9                                    | % |  |
| Collection agencies                 | 36,053                            | 6,249     | 17.3                                       | % 1.0                                    | % 41,413    | 6,423     | 15.5                                       | % 1.1                                    | % |  |
| Other indirect costs <sup>(3)</sup> | —                                 | 112,954   | —  | 18.1                                     | % —         | 112,888   | —  | 18.4                                     | % |  |
| Subtotal                            | 623,841                           | 253,525   |  | 40.6                                     | % 615,258   | 247,909   |  | 40.3                                     | % |  |
| Europe:                             |                                   |           |  |  |             |           |  |  |   |  |
| Collection sites <sup>(1)</sup>     | 110,657                           | 8,463     | 7.6  | % 3.8                                    | % 100,577   | 6,496     | 6.5  | % 3.7                                    | % |  |
| Legal outsourcing                   | 38,936                            | 12,651    | 32.5                                       | % 5.7                                    | % 20,082    | 3,927     | 19.6                                       | % 2.2                                    | % |  |
| Collection agencies                 | 73,572                            | 12,902    | 17.5                                       | % 5.8                                    | % 57,395    | 9,335     | 16.3                                       | % 5.2                                    | % |  |
| Other indirect costs <sup>(3)</sup> | —                                 | 36,973    | —  | 16.5                                     | % —         | 33,019    | —  | 18.5                                     | % |  |
| Subtotal                            | 223,165                           | 70,989    |  | 31.8                                     | % 178,054   | 52,777    |  | 29.6                                     | % |  |
| Latin America:                      |                                   |           |  |  |             |           |  |  |   |  |
| Collection sites <sup>(1)</sup>     | 15,389                            | 1,749     | 11.4                                       | % 11.4                                   | % 12,642    | 1,679     | 13.3                                       | % 13.3                                   | % |  |
| Other indirect costs <sup>(3)</sup> | —                                 | 2,664     | —  | 17.3                                     | % —         | 2,278     | —  | 18.0                                     | % |  |
| Subtotal                            | 15,389                            | 4,413     |  | 28.7                                     | % 12,642    | 3,957     |  | 31.3                                     | % |  |
| Total <sup>(4)</sup>                | \$862,395                         | \$328,927 |  | 38.1                                     | % \$805,954 | \$304,643 |  | 37.8                                     | % |  |

Cost in collection sites represents only account managers and their supervisors' salaries, variable compensation, and (1) employee benefits. Collection sites in the United States include collection site expenses for our India and Costa Rica call centers.

(2) Cost in internal legal channel represents court costs expensed, internal legal channel employee salaries and benefits, and other related direct operating expenses.

(3) Other indirect costs represent non-collection site salaries and employee benefits, general and administrative expenses, other operating expenses and depreciation and amortization.

Total cost represents all operating expenses, excluding stock-based compensation expense, operating expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition and integration related (4) operating expenses. We include this information in order to facilitate a comparison of approximate cash costs to cash collections for the debt purchasing business in the periods presented. Refer to the "Non-GAAP Disclosure" section for further details.

During the three months ended June 30, 2015, overall cost per dollar collected decreased by 30 basis points to 37.6% of gross collections, from 37.9% of gross collections during the three months ended June 30, 2014. Cost to collect increased slightly in both the United States and Europe, however, overall cost per dollar collected decreased primarily due to increased collections from Europe, as a percentage of total collections, where cost to collect is lower than in the United States. Over time, we expect our cost to collect to remain competitive, but also expect that it will fluctuate from quarter to quarter based on seasonality, acquisitions, the cost of investments in new operating initiatives, and the ongoing management of the changing regulatory and legislative environment.

The increase in total cost to collect in the United States was due to several factors, including:

The cost from collection sites, which includes account manager salaries, variable compensation, and employee benefits, as a percentage of total collections in the United States, increased to 3.0% during the three months ended June 30, 2015 from 2.7% during the three months ended June 30, 2014 and, as a percentage of our site collections, increased to 7.4% during the three months ended June 30, 2015, from 6.4% during the three months ended June 30, 2014. The increase in cost as a percentage of site collections, through our collection sites in the United States, was primarily related to our Atlantic subsidiary, acquired in August 2014 which maintains a higher cost structure.

The cost of legal collections through our legal outsourcing channel, as a percentage of total collections in the United States, increased to 14.8% during the three months ended June 30, 2015, from 14.3% during the three months ended June 30, 2014. However, cost as a percentage of channel collections, decreased to 33.7% during the three months ended

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June 30, 2015, from 34.7% during the same period in the prior year. The increase in the cost of legal collections as a percentage of total collections was primarily due to an increase in this channel's collections as a percentage of total collections. The decrease in cost, as a percentage of channel collections, was primarily due to a reduction in the commission rates we pay to our network of attorneys in the United States.

Collection agency commissions, as a percentage of total collections in the United States, increased to 1.1% during the three months ended June 30, 2015, from 0.9% during the same period in the prior year. Our collection agency commission rate increased to 18.9% during the three months ended June 30, 2015, from 13.9% during the same period in the prior year. The increase in collection agency commissions as a percentage of total collections was primarily related to a decrease in this channel's collections as a percentage of total collections. Commissions, as a percentage of collections in this channel, vary from period to period depending on, among other things, the amount of time that has passed since the charge-off of the accounts placed with an agency. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time.

The increase in cost per dollar collected in the United States was partially offset due to the following factors:

The cost of legal collections through our internal legal channel, as a percentage of total collections in the United States, decreased to 3.7% during the three months ended June 30, 2015, from 3.9% during the three months ended June 30, 2014 and, as a percentage of channel collections, decreased to 37.1% during the three months ended June 30, 2015, from 40.3% during the three months ended June 30, 2014. The decrease in cost as a percentage of total collections was primarily due to decreased internal legal collections as a percentage of total collections. The decrease in cost as a percentage of channel collections was primarily due to improved productivity in our internal legal channel.

The increase in total cost to collect in Europe was due to the following:

The cost of legal collections through the legal outsourcing channel, as a percentage of total collections in Europe, increased to 6.2% during the three months ended June 30, 2015, from 2.6% during the three months ended June 30, 2014. Cost as a percentage of channel collections, increased to 35.3% during the three months ended June 30, 2015, from 19.8% during the same period in the prior year. The increase in the cost of legal collections as a percentage of total collections was primarily due to Cabot placing accounts through Marlin's legal channel and expensing the related non recoverable portion of upfront legal costs.

The increase in cost per dollar collected in Europe was partially offset due to the following:

Collection agency commissions, as a percentage of total collections in Europe, decreased to 4.3% during the three months ended June 30, 2015, from 4.9% during the same period in the prior year. Our collection agency commission rate in Europe decreased to 15.2% during the three months ended June 30, 2015, from 16.2% during the same period in the prior year. Commissions, as a percentage of agency collections in Europe, vary from period to period depending on, among other things, the asset class and the geographic location of the receivables. Commission rates are lower in the United Kingdom where most of the receivables in this channel are semi-performing loans and IVAs, while the commission rates are higher in other European countries where most of the receivables in this channel are non-performing loans.

Other indirect costs decreased to 16.3% during the three months ended June 30, 2015 from 18.9% during the three months ended June 30, 2014. This decrease was primarily due to collections growing at a rate faster than the growth in other indirect costs as we experience efficiencies in our European subsidiaries.

During the six months ended June 30, 2015, overall cost per dollar collected increased by 30 basis points to 38.1% of gross collections from 37.8% of gross collections during the six months ended June 30, 2014. This increase was primarily due to increased cost to collect in the United States and Europe. Over time, we expect our cost to collect to remain competitive, but also expect that it will fluctuate from quarter to quarter based on seasonality, acquisitions, the cost of investments in new operating initiatives, and the ongoing management of the changing regulatory and legislative environment.

The increase in total cost to collect in the United States was due to several factors, including:

The cost from collection sites, which includes account manager salaries, variable compensation, and employee benefits, as a percentage of total collections in the United States, increased to 3.1% during the six months ended June 30, 2015 from 2.7% during the six months ended June 30, 2014 and, as a percentage of our site collections,



increased to 7.6% during the six months ended June 30, 2015, from 6.3% during the six months ended June 30, 2014. The increase in cost as a percentage of site collections, through our collection sites in the United States, was primarily related to our Atlantic subsidiary, acquired in August 2014 which maintains a higher cost structure.

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The cost of legal collections through the legal outsourcing channel, as a percentage of total collections in the United States, increased to 14.7% during the six months ended June 30, 2015, from 14.2% during the six months ended June 30, 2014. However, cost as a percentage of channel collections, decreased to 34.5% during the six months ended June 30, 2015, from 35.7% during the same period in the prior year. The increase in the cost of legal collections as a percentage of total collections was primarily due to an increase in this channel's collections as a percentage of total collections. The decrease in cost as a percentage of channel collections was primarily due to a reduction in the commission rates we pay to our network of attorneys in the United States.

The increase in cost per dollar collected in the United States was partially offset due to the following factors:

- The cost of legal collections through our internal legal channel, as a percentage of total collections in the United States, decreased to 3.7% during the six months ended June 30, 2015, from 3.9% during the six months ended June 30, 2014 and, as a percentage of channel collections, decreased to 37.7% during the six months ended June 30, 2015, from 39.6% during the six months ended June 30, 2014. The decrease in cost as a percentage of total collections was primarily due to decreased internal legal collections as a percentage of total collections. The decrease in cost as a percentage of channel collections was primarily due to improved productivity in our internal legal channel.

Collection agency commissions, as a percentage of total collections in the United States, decreased slightly to 1.0% during the six months ended June 30, 2015, from 1.1% during the same period in the prior year. Our collection agency commission rate increased to 17.3% during the six months ended June 30, 2015, from 15.5% during the same period in the prior year. The decrease in collection agency commissions as a percentage of total collections was primarily related to a decrease in this channel's collections as a percentage of total collections. Commissions, as a percentage of collections in this channel, vary from period to period depending on, among other things, the amount of time that has passed since the charge-off of the accounts placed with an agency. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time.

The increase in total cost to collect in Europe was due to several factors, including:

The cost from collection sites, which includes account manager salaries, variable compensation, and employee benefits, as a percentage of total collections increased slightly to 3.8% during the six months ended June 30, 2015 from 3.7% during the six months ended June 30, 2014 and, as a percentage of our site collections, increased to 7.6% during the six months ended June 30, 2015, from 6.5% during the six months ended June 30, 2014. The increase in cost as a percentage of site collections, through our collection sites in Europe, was primarily related to an account manager staff increase at Cabot. Cost from collection sites will decrease as these account managers gain experience in future periods.

The cost of legal collections through the legal outsourcing channel, as a percentage of total collections in Europe, increased to 5.7% during the six months ended June 30, 2015, from 2.2% during the six months ended June 30, 2014. Cost as a percentage of channel collections, increased to 32.5% during the six months ended June 30, 2015, from 19.6% during the same period in the prior year. The increase in the cost of legal collections as a percentage of total collections was primarily due to Cabot placing accounts through Marlin's legal channel and expensing the related non recoverable portion of upfront legal costs.

Collection agency commissions, as a percentage of total collections in Europe, increased to 5.8% during the six months ended June 30, 2015, from 5.2% during the same period in the prior year. Our collection agency commission rate increased to 17.5% during the six months ended June 30, 2015, from 16.3% during the same period in the prior year. Commissions, as a percentage of agency collections in Europe, vary from period to period depending on, among other things, the asset class and the geographic location of the receivables. Commission rates are lower in the United Kingdom where most of the receivables in this channel are semi-performing loans and IVAs, while the commission rates are higher in other European countries where most of the receivables in this channel are non-performing loans. The increase in cost per dollar collected in Europe was partially offset due to the following:

Other indirect costs decreased to 16.5% during the six months ended June 30, 2015 from 18.5% during the six months ended June 30, 2014. This decrease was primarily due to collections growing at a rate faster than the growth in other indirect costs as we experience efficiencies in our European subsidiaries.

Interest Expense—Portfolio Purchasing and Recovery

Interest expense increased \$3.1 million to \$46.3 million during the three months ended June 30, 2015, from \$43.2 million during the three months ended June 30, 2014. Interest expense increased \$7.4 million to \$88.6 million during the six months ended June 30, 2015, from \$81.2 million during the six months ended June 30, 2014.

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The following table summarizes our interest expense (in thousands, except percentages):

|   | Three Months Ended June 30, |          |           |          |   |
|---|-----------------------------|----------|-----------|----------|---|
|   | 2015                        | 2014     | \$ Change | % Change |   |
| Stated interest on debt obligations               | \$36,817                    | \$36,184 | \$633     | 1.7      | % |
| Interest expense on preferred equity certificates | 6,124                       | 5,660    | 464       | 8.2      | % |
| Amortization of loan fees and other loan costs    | 3,659                       | 1,766    | 1,893     | 107.2    | % |
| Amortization of debt discount                     | 2,310                       | 2,181    | 129       | 5.9      | % |
| Accretion of debt premium                         | (2,660)                     | (2,573)  | (87)      | 3.4      | % |
| Total interest expense                            | \$46,250                    | \$43,218 | \$3,032   | 7.0      | % |
|   | Six Months Ended June 30,   |          |           |          |   |
|   | 2015                        | 2014     | \$ Change | % Change |   |
| Stated interest on debt obligations               | \$71,336                    | \$65,516 | \$5,820   | 8.9      | % |
| Interest expense on preferred equity certificates | 12,106                      | 11,335   | 771       | 6.8      | % |
| Amortization of loan fees and other loan costs    | 5,730                       | 5,198    | 532       | 10.2     | % |
| Amortization of debt discount                     | 4,588                       | 3,936    | 652       | 16.6     | % |
| Accretion of debt premium                         | (5,207)                     | (4,805)  | (402)     | 8.4      | % |
| Total interest expense                            | \$88,553                    | \$81,180 | \$7,373   | 9.1      | % |

The payment of the accumulated interest on the preferred equity certificates issued in connection with the acquisition of a controlling interest in Cabot (the "Cabot Acquisition") will only be satisfied in connection with the disposition of the noncontrolling interests of J.C. Flowers & Co. LLC and management.

The increase in interest expense was primarily attributable to increased debt levels in the United States and in Europe related to additional borrowings to finance recent acquisitions and portfolio purchases.

**Other Income**

Other income increased \$0.3 million to \$0.4 million during the three months ended June 30, 2015, from \$0.1 million during the three months ended June 30, 2014. Other income increased \$2.2 million to \$2.5 million during the six months ended June 30, 2015, from \$0.3 million during the six months ended June 30, 2014. During the six months ended June 30, 2015, we recognized a foreign currency exchange gain of \$1.6 million.

**Provision for Income Taxes**

During the three months ended June 30, 2015 and 2014, we recorded income tax provisions of \$16.0 million and \$14.0 million, respectively. During the six months ended June 30, 2015 and 2014, we recorded income tax provisions of \$31.8 million and \$25.8 million, respectively.

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The effective tax rates for the respective periods are shown below:

|                                      | Three Months Ended |         | Six Months Ended |         |    |    |
|--------------------------------------|--------------------|---------|------------------|---------|----|----|
|                                      | June 30,           |         | June 30,         |         |    |    |
|                                      | 2015               | 2014    | 2015             | 2014    |    |    |
| Federal provision                    | 35.0               | % 35.0  | % 35.0           | % 35.0  | %  | %  |
| State provision                      | 6.9                | % 5.8   | % 6.9            | % 5.8   | %  | %  |
| State benefit                        | (2.4               | )% (2.0 | )% (2.4          | )% (2.0 | )% | )% |
| International benefit <sup>(1)</sup> | (4.5               | )% (1.9 | )% (5.3          | )% (3.4 | )% | )% |
| Permanent items <sup>(2)</sup>       | 3.2                | % 3.5   | % 2.1            | % 3.7   | %  | %  |
| Other <sup>(3)</sup>                 | 0.6                | % (0.8  | )% 0.3           | % 0.0   | %  | %  |
| Effective rate                       | 38.8               | % 39.6  | % 36.6           | % 39.1  | %  | %  |

(1) Relates primarily to lower tax rates on income attributable to international operations.

(2) Represents a provision for nondeductible items.

(3) Includes the effect of discrete items and reserves taken for a certain tax position adopted by the Company.

The effective tax rate for the three and six months ended June 30, 2015 as compared to 2014, decreased as a result of proportionately more earnings realized in countries that have lower statutory tax rates than the United States' federal rate. Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

Our subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2018 and a 50% tax holiday for the subsequent four years. The impact of the tax holiday in Costa Rica for the three and six months ended June 30, 2015 and 2014 was immaterial.

Supplemental Performance Data—Portfolio purchasing and recovery

The Company utilizes its proprietary forecasting models to continuously evaluate the economic life of each pool. The collection forecast of each pool is estimated to be 120 months which is included in its estimated remaining collections and is used for calculating its IRRs.

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## Cumulative Collections to Purchase Price Multiple

The following table summarizes our purchases and related gross collections by year of purchase (in thousands, except multiples):

| Year of Purchase                  | Purchase Price <sup>(1)</sup> | Cumulative Collections through June 30, 2015 |           |           |           |           |           |           |           |           |             |
|-----------------------------------|-------------------------------|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
|                                   |                               | <2005  | 2005      | 2006      | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      | 2013        |
| Purchased consumer receivables:   |                               |  |           |           |           |           |           |           |           |           |             |
| United States <sup>(4)</sup> :    |                               |  |           |           |           |           |           |           |           |           |             |
| <1999                             | \$41,117                      | \$137,929                                    | \$2,042   | \$1,513   | \$989     | \$501     | \$406     | \$296     | \$207     | \$128     | \$100       |
| 1999                              | 48,712                        | 84,758                                       | 5,157     | 3,513     | 1,954     | 1,149     | 885       | 590       | 487       | 345       | 256         |
| 2000                              | 6,153                         | 23,873                                       | 1,323     | 1,007     | 566       | 324       | 239       | 181       | 115       | 103       | 96          |
| 2001                              | 38,185                        | 137,004                                      | 20,622    | 14,521    | 5,644     | 2,984     | 2,005     | 1,411     | 1,139     | 991       | 731         |
| 2002                              | 61,490                        | 180,831                                      | 45,699    | 33,694    | 14,902    | 7,922     | 4,778     | 3,575     | 2,795     | 1,983     | 1,715       |
| 2003                              | 88,496                        | 145,996                                      | 69,932    | 55,131    | 26,653    | 13,897    | 8,032     | 5,871     | 4,577     | 3,582     | 2,882       |
| 2004                              | 101,316                       | 39,400                                       | 79,845    | 54,832    | 34,625    | 19,116    | 11,363    | 8,062     | 5,860     | 4,329     | 3,442       |
| 2005                              | 192,585                       | —  | 66,491    | 129,809   | 109,078   | 67,346    | 42,387    | 27,210    | 18,651    | 12,669    | 9,552       |
| 2006                              | 141,026                       | —  | —         | 42,354    | 92,265    | 70,743    | 44,553    | 26,201    | 18,306    | 12,825    | 9,468       |
| 2007                              | 204,064                       | —  | —         | —         | 68,048    | 145,272   | 111,117   | 70,572    | 44,035    | 29,619    | 20,812      |
| 2008                              | 227,756                       | —  | —         | —         | —         | 69,049    | 165,164   | 127,799   | 87,850    | 59,507    | 41,773      |
| 2009                              | 253,088                       | —  | —         | —         | —         | —         | 96,529    | 206,773   | 164,605   | 111,569   | 80,443      |
| 2010                              | 345,524                       | —  | —         | —         | —         | —         | —         | 125,465   | 284,541   | 215,088   | 150,558     |
| 2011                              | 382,334                       | —  | —         | —         | —         | —         | —         | —         | 122,224   | 300,536   | 225,451     |
| 2012                              | 473,412                       | —  | —         | —         | —         | —         | —         | —         | —         | 186,472   | 322,962     |
| 2013                              | 543,100                       | —  | —         | —         | —         | —         | —         | —         | —         | —         | 223,862     |
| 2014                              | 609,365                       | —  | —         | —         | —         | —         | —         | —         | —         | —         | —           |
| 2015                              | 227,910                       | —  | —         | —         | —         | —         | —         | —         | —         | —         | —           |
| Subtotal                          | 3,985,633                     | 749,791                                      | 291,111   | 336,374   | 354,724   | 398,303   | 487,458   | 604,006   | 755,392   | 939,746   | 1,094,100   |
| Europe:                           |                               |  |           |           |           |           |           |           |           |           |             |
| 2013                              | 619,079                       | —  | —         | —         | —         | —         | —         | —         | —         | —         | 134,259     |
| 2014                              | 630,348                       | —  | —         | —         | —         | —         | —         | —         | —         | —         | —           |
| 2015                              | 312,704                       | —  | —         | —         | —         | —         | —         | —         | —         | —         | —           |
| Subtotal                          | 1,562,131                     | —  | —         | —         | —         | —         | —         | —         | —         | —         | 134,259     |
| Purchased bankruptcy receivables: |                               |  |           |           |           |           |           |           |           |           |             |
| 2010                              | 11,971                        | —  | —         | —         | —         | —         | —         | 388       | 4,247     | 5,598     | 6,248       |
| 2011                              | 1,642                         | —  | —         | —         | —         | —         | —         | —         | 1,372     | 1,413     | 1,070       |
| 2012                              | 83,159                        | —  | —         | —         | —         | —         | —         | —         | —         | 1,249     | 31,020      |
| 2013                              | 39,833                        | —  | —         | —         | —         | —         | —         | —         | —         | —         | 12,806      |
| Subtotal                          | 136,605                       | —  | —         | —         | —         | —         | —         | 388       | 5,619     | 8,260     | 51,144      |
| Total                             | \$5,684,369                   | \$749,791                                    | \$291,111 | \$336,374 | \$354,724 | \$398,303 | \$487,458 | \$604,394 | \$761,011 | \$948,006 | \$1,279,500 |

(1) Adjusted for Put-Backs and Recalls.

(2) Cumulative collections from inception through June 30, 2015, excluding collections on behalf of others.

(3) Cumulative Collections Multiple ("CCM") through June 30, 2015 refers to collections as a multiple of purchase price.

(4) United States data includes results from Latin America.

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## Total Estimated Collections to Purchase Price Multiple

The following table summarizes our purchases, resulting historical gross collections, and estimated remaining gross collections, by year of purchase (in thousands, except multiples):

|                                   | Purchase Price <sup>(1)</sup> | Historical Collections <sup>(2)</sup> | Estimated Remaining Collections <sup>(3)</sup> | Total Estimated Gross Collections | Total Estimated Gross Collections to Purchase Price |
|-----------------------------------|-------------------------------|---------------------------------------|--|-----------------------------------|---|
| Purchased consumer receivables:   |                               |                                       |  |                                   |   |
| United States <sup>(4)</sup> :    |                               |                                       |  |                                   |   |
| <2006                             | \$578,054                     | \$1,858,550                           | \$542  | \$1,859,092                       | 3.2   |
| 2006                              | 141,026                       | 326,562                               | 4,543  | 331,105                           | 2.3   |
| 2007                              | 204,064                       | 510,127                               | 13,336   | 523,463                           | 2.6   |
| 2008                              | 227,756                       | 593,358                               | 29,221   | 622,579                           | 2.7   |
| 2009                              | 253,088                       | 742,070                               | 51,190   | 793,260                           | 3.1   |
| 2010                              | 345,524                       | 926,113                               | 97,982   | 1,024,095                         | 3.0   |
| 2011                              | 382,334                       | 866,499                               | 204,965  | 1,071,464                         | 2.8   |
| 2012                              | 473,412                       | 835,333                               | 296,132  | 1,131,465                         | 2.4   |
| 2013                              | 543,100                       | 776,541                               | 627,742  | 1,404,283                         | 2.6   |
| 2014                              | 609,365                       | 327,670                               | 911,777  | 1,239,447                         | 2.0   |
| 2015                              | 227,910                       | 27,496                                | 366,892  | 394,388                           | 1.7   |
| Subtotal                          | 3,985,633                     | 7,790,319                             | 2,604,322                                      | 10,394,641                        | 2.6   |
| Europe:                           |                               |                                       |  |                                   |   |
| 2013                              | 619,079                       | 495,453                               | 1,330,625                                      | 1,826,078                         | 2.9   |
| 2014                              | 630,348                       | 237,070                               | 1,074,479                                      | 1,311,549                         | 2.1   |
| 2015                              | 312,704                       | 9,757                                 | 620,444  | 630,201                           | 2.0   |
| Subtotal                          | 1,562,131                     | 742,280                               | 3,025,548                                      | 3,767,828                         | 2.4   |
| Purchased bankruptcy receivables: |                               |                                       |  |                                   |   |
| 2010                              | 11,971                        | 24,849                                | 2,480  | 27,329                            | 2.3   |
| 2011                              | 1,642                         | 4,322                                 | 147  | 4,469                             | 2.7   |
| 2012                              | 83,159                        | 69,760                                | 29,577   | 99,337                            | 1.2   |
| 2013                              | 39,833                        | 49,040                                | 21,935   | 70,975                            | 1.8   |
| Subtotal                          | 136,605                       | 147,971                               | 54,139   | 202,110                           | 1.5   |
| Total                             | \$5,684,369                   | \$8,680,570                           | \$5,684,009                                    | \$14,364,579                      | 2.5   |

(1) Adjusted for Put-Backs and Recalls.

(2) Cumulative collections from inception through June 30, 2015, excluding collections on behalf of others.

(3) Estimated remaining collections (“ERC”) for purchased consumer receivables includes \$100.2 million related to accounts that converted to bankruptcy after purchase.

(4) United States data includes results from Latin America.

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## Estimated Remaining Gross Collections by Year of Purchase

The following table summarizes our estimated remaining gross collections by year of purchase (in thousands):

| Estimated Remaining Gross Collections by Year of Purchase <sup>(1), (2)</sup> |                     |             |           |           |           |           |           |           |           |          |             |
|---|---------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-------------|
|   | 2015 <sup>(3)</sup> | 2016        | 2017      | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      | >2023    | Total       |
| Purchased consumer receivables:   |                     |             |           |           |           |           |           |           |           |          |             |
| United States <sup>(4)</sup> :  |                     |             |           |           |           |           |           |           |           |          |             |
| <2006   | \$540               | \$2         | \$—       | \$—       | \$—       | \$—       | \$—       | \$—       | \$—       | \$—      | \$542       |
| 2006  | 2,053               | 2,490       | —         | —         | —         | —         | —         | —         | —         | —        | 4,543       |
| 2007  | 4,175               | 6,421       | 2,739     | 1         | —         | —         | —         | —         | —         | —        | 13,336      |
| 2008  | 8,996               | 11,097      | 6,533     | 2,595     | —         | —         | —         | —         | —         | —        | 29,221      |
| 2009  | 13,271              | 18,776      | 10,207    | 6,243     | 2,693     | —         | —         | —         | —         | —        | 51,190      |
| 2010  | 23,358              | 32,167      | 19,737    | 12,105    | 7,900     | 2,715     | —         | —         | —         | —        | 97,982      |
| 2011  | 47,766              | 71,332      | 39,501    | 23,028    | 12,409    | 8,021     | 2,908     | —         | —         | —        | 204,965     |
| 2012  | 65,272              | 98,693      | 57,654    | 34,392    | 19,631    | 10,922    | 7,328     | 2,240     | —         | —        | 296,132     |
| 2013  | 114,081             | 175,782     | 120,508   | 81,066    | 53,950    | 36,035    | 23,708    | 16,827    | 5,785     | —        | 627,742     |
| 2014  | 129,964             | 222,183     | 172,602   | 156,672   | 110,203   | 54,118    | 27,017    | 18,669    | 13,843    | 6,506    | 911,777     |
| 2015  | 41,178              | 97,265      | 80,549    | 53,308    | 35,849    | 23,467    | 13,778    | 9,112     | 6,724     | 5,662    | 366,892     |
| Subtotal  | 450,654             | 736,208     | 510,030   | 369,410   | 242,635   | 135,278   | 74,739    | 46,848    | 26,352    | 12,168   | 2,604,322   |
| Europe:   |                     |             |           |           |           |           |           |           |           |          |             |
| 2013  | 92,149              | 208,243     | 210,995   | 185,799   | 163,836   | 145,905   | 129,534   | 115,878   | 78,286    | —        | 1,330,625   |
| 2014  | 84,007              | 171,271     | 166,890   | 142,712   | 123,322   | 109,393   | 96,862    | 84,297    | 75,393    | 20,332   | 1,074,479   |
| 2015  | 44,966              | 100,909     | 91,308    | 76,235    | 65,300    | 56,306    | 49,577    | 44,510    | 39,825    | 51,508   | 620,444     |
| Subtotal  | 221,122             | 480,423     | 469,193   | 404,746   | 352,458   | 311,604   | 275,973   | 244,685   | 193,504   | 71,840   | 3,025,548   |
| Purchased bankruptcy receivables:   |                     |             |           |           |           |           |           |           |           |          |             |
| 2010  | 1,687               | 793         | —         | —         | —         | —         | —         | —         | —         | —        | 2,480       |
| 2011  | 69                  | 76          | 2         | —         | —         | —         | —         | —         | —         | —        | 147         |
| 2012  | 8,830               | 12,431      | 6,382     | 1,934     | —         | —         | —         | —         | —         | —        | 29,577      |
| 2013  | 9,204               | 9,563       | 2,660     | 508       | —         | —         | —         | —         | —         | —        | 21,935      |
| Subtotal  | 19,790              | 22,863      | 9,044     | 2,442     | —         | —         | —         | —         | —         | —        | 54,139      |
| Total   | \$691,566           | \$1,239,494 | \$988,267 | \$776,598 | \$595,093 | \$446,882 | \$350,712 | \$291,533 | \$219,856 | \$84,008 | \$5,684,009 |

(1)ERC for Zero Basis Portfolios can extend beyond our collection forecasts.

(2)ERC for purchased consumer receivables includes \$100.2 million related to accounts that converted to bankruptcy after purchase.

(3)2015 amount consists of six months data from July 1, 2015 to December 31, 2015.

(4)United States data includes results from Latin America.



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## Unamortized Balances of Portfolios

The following table summarizes the remaining unamortized balances of our purchased receivable portfolios by year of purchase (in thousands, except percentages):

|                                   | Unamortized<br>Balance as of<br>June 30, 2015 | Purchase<br>Price <sup>(1)</sup> | Unamortized<br>Balance as a<br>Percentage of<br>Purchase Price | Unamortized<br>Balance as a<br>Percentage<br>of Total |   |
|-----------------------------------|---|----------------------------------|--|---|---|
| Purchased consumer receivables:   |   |                                  |  |   |   |
| United States <sup>(2)</sup> :    |   |                                  |  |   |   |
| 2007                              | \$1,747                                       | \$204,064                        | 0.9  | % 0.2   | % |
| 2008                              | 6,371   | 227,756                          | 2.8  | % 0.6   | % |
| 2009                              | 2,259   | 253,088                          | 0.9  | % 0.2   | % |
| 2010                              | 6,407   | 345,524                          | 1.9  | % 0.6   | % |
| 2011                              | 40,591  | 382,334                          | 10.6   | % 4.0   | % |
| 2012                              | 84,863  | 473,412                          | 17.9   | % 8.4   | % |
| 2013                              | 205,671                                       | 543,100                          | 37.9   | % 20.4  | % |
| 2014                              | 444,389                                       | 609,365                          | 72.9   | % 44.2  | % |
| 2015                              | 213,749                                       | 227,910                          | 93.8   | % 21.3  | % |
| Subtotal                          | 1,006,047                                     | 3,266,553                        | 30.8   | % 100.0   | % |
| Europe:                           |   |                                  |  |   |   |
| 2013                              | 483,377                                       | 619,079                          | 78.1   | % 36.9  | % |
| 2014                              | 509,998                                       | 630,348                          | 80.9   | % 39.0  | % |
| 2015                              | 315,361                                       | 312,704                          | 100.8  | % 24.1  | % |
| Subtotal                          | 1,308,736                                     | 1,562,131                        | 83.8   | % 100.0   | % |
| Purchased bankruptcy receivables: |   |                                  |  |   |   |
| 2012                              | 26,276  | 83,159                           | 31.6   | % 71.0  | % |
| 2013                              | 10,708  | 39,833                           | 26.9   | % 29.0  | % |
| Subtotal                          | 36,984  | 122,992                          | 30.1   | % 100.0   | % |
| Total                             | \$2,351,767                                   | \$4,951,676                      | 47.5   | % 100.0   | % |

(1) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put-Backs, Recalls, and other adjustments.

(2) United States data includes results from Latin America.

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## Estimated Future Amortization of Portfolios

As of June 30, 2015, we had \$2.4 billion in investment in receivable portfolios. This balance will be amortized based upon current projections of cash collections in excess of revenue applied to the principal balance. The estimated amortization of the investment in receivable portfolios balance is as follows (in thousands):

| Years Ending December 31, | Purchased<br>Consumer<br>Receivables<br>United States <sup>(1)</sup> | Purchased<br>Consumer<br>Receivables<br>Europe | Purchased<br>Bankruptcy<br>Receivables | Total<br>Amortization |
|---------------------------|--|--|--|-----------------------|
| 2015 <sup>(2)</sup>       | \$108,986  | \$40,339                                       | \$11,576                               | \$160,901             |
| 2016                      | 251,473  | 136,722  | 15,770                                 | 403,965               |
| 2017                      | 194,269  | 170,411  | 7,394                                  | 372,074               |
| 2018                      | 167,192  | 150,877  | 2,244                                  | 320,313               |
| 2019                      | 121,655  | 139,276  | —                                      | 260,931               |
| 2020                      | 67,233   | 137,668  | —                                      | 204,901               |
| 2021                      | 37,037   | 142,048  | —                                      | 179,085               |
| 2022                      | 31,016   | 170,124  | —                                      | 201,140               |
| 2023                      | 18,103   | 160,174  | —                                      | 178,277               |
| 2024                      | 8,081  | 45,873   | —                                      | 53,954                |
| 2025                      | 1,002  | 15,224   | —                                      | 16,226                |
| Total                     | \$1,006,047  | \$1,308,736                                    | \$36,984                               | \$2,351,767           |

(1)United States data includes results from Latin America.

(2)2015 amount consists of six months data from July 1, 2015 to December 31, 2015.

## Headcount by Function by Geographic Location

The following table summarizes our headcount by function by geographic location:

|                                | Headcount as of June 30, |               |          |               |
|--------------------------------|--------------------------|---------------|----------|---------------|
|                                | 2015                     |               | 2014     |               |
|                                | Domestic                 | International | Domestic | International |
| General & Administrative       | 945                      | 1,705         | 951      | 1,601         |
| Internal Legal Account Manager | 33                       | 90            | 52       | 56            |
| Account Manager                | 250                      | 2,578         | 230      | 2,384         |
|                                | 1,228                    | 4,373         | 1,233    | 4,041         |

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## Gross Collections by Account Manager

The following table summarizes our collection performance by account manager (in thousands, except headcount):

|  | Three Months Ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,<br>2015   | 2014      | June 30,<br>2015 | 2014      |
| United States <sup>(1)</sup> :                 |                    |           |                  |           |
| Gross collections—collection sites             | \$125,153          | \$130,788 | \$261,082        | \$267,313 |
| Average active Account Manager                 | 1,461              | 1,552     | 1,465            | 1,597     |
| Collections per average active Account Manager | \$85.7             | \$84.3    | \$178.2          | \$167.4   |
| Europe <sup>(2)</sup> :                        |                    |           |                  |           |
| Gross collections—collection sites             | \$64,259           | \$54,716  | \$110,657        | \$100,577 |
| Average active Account Manager                 | 696                | 576       | 660              | 503       |
| Collections per average active Account Manager | \$92.3             | \$95.0    | \$167.7          | \$200.0   |
| Overall:                                       |                    |           |                  |           |
| Collections per average active Account Manager | \$87.8             | \$87.2    | \$174.9          | \$175.2   |

(1) United States represents account manager statistics for United States portfolios and includes applicable collection statistics from our India and Costa Rica call centers.

(2) Europe represents account manager statistics for Europe portfolios and includes applicable collection statistics for our India call centers.

## Gross Collections per Hour Paid

The following table summarizes our gross collections per hour paid to account managers (in thousands, except gross collections per hour paid):

|                                    | Three Months Ended |           | Six Months Ended |           |
|------------------------------------|--------------------|-----------|------------------|-----------|
|                                    | June 30,<br>2015   | 2014      | June 30,<br>2015 | 2014      |
| United States <sup>(1)</sup> :     |                    |           |                  |           |
| Gross collections—collection sites | \$125,153          | \$130,788 | \$261,082        | \$267,313 |
| Total hours paid                   | 721                | 776       | 1,418            | 1,518     |
| Collections per hour paid          | \$173.6            | \$168.5   | \$184.1          | \$176.1   |
| Europe <sup>(2)</sup> :            |                    |           |                  |           |
| Gross collections—collection sites | \$64,259           | \$54,716  | \$110,657        | \$100,577 |
| Total hours paid                   | 211                | 164       | 364              | 297       |
| Collections per hour paid          | \$304.5            | \$333.6   | \$304.0          | \$338.6   |
| Overall:                           |                    |           |                  |           |
| Collections per hour paid          | \$203.2            | \$197.3   | \$208.6          | \$202.7   |

(1) United States represents account manager statistics for United States portfolios and includes applicable collection statistics from our India and Costa Rica call centers.

(2) Europe represents account manager statistics for Europe portfolios and includes applicable collection statistics for our India call centers.

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## Collection Sites Direct Cost per Dollar Collected

The following table summarizes our gross collections in collection sites and the related direct cost (in thousands, except percentages):

|                                    | Three Months Ended |            | Six Months Ended |            |   |
|------------------------------------|--------------------|------------|------------------|------------|---|
|                                    | June 30,           |            | June 30,         |            |   |
|                                    | 2015               | 2014       | 2015             | 2014       |   |
| United States <sup>(1)</sup> :     |                    |            |                  |            |   |
| Gross collections—collection sites | \$ 125,153         | \$ 130,788 | \$ 261,082       | \$ 267,313 |   |
| Direct cost <sup>(2)</sup>         | \$ 9,302           | \$ 8,330   | \$ 19,777        | \$ 16,740  |   |
| Cost per dollar collected          | 7.4                | % 6.4      | % 7.6            | % 6.3      | % |
| Europe <sup>(3)</sup> :            |                    |            |                  |            |   |
| Gross collections—collection sites | \$ 64,259          | \$ 54,716  | \$ 110,657       | \$ 100,577 |   |
| Direct cost <sup>(2)</sup>         | \$ 4,461           | \$ 3,773   | \$ 8,463         | \$ 6,496   |   |
| Cost per dollar collected          | 6.9                | % 6.9      | % 7.6            | % 6.5      | % |
| Overall:                           |                    |            |                  |            |   |
| Cost per dollar collected          | 7.3                | % 6.5      | % 7.6            | % 6.3      | % |

(1) United States statistics include applicable gross collections and direct costs from India and Costa Rica call centers.

(2) Represent account managers and their supervisors' salaries, variable compensation, and employee benefits.

(3) Europe statistics include applicable gross collections and direct costs from our India call centers.

## Salaries and Employee Benefits by Function

The following table summarizes our salaries and employee benefits by function (excluding stock-based compensation) (in thousands):

|   | Three Months Ended |           | Six Months Ended |            |
|---|--------------------|-----------|------------------|------------|
|   | June 30,           |           | June 30,         |            |
|   | 2015               | 2014      | 2015             | 2014       |
| Portfolio purchasing and recovery activities                      |                    |           |                  |            |
| Collection site salaries and employee benefits <sup>(1)</sup>     | \$ 14,706          | \$ 12,918 | \$ 29,989        | \$ 24,915  |
| Non-collection site salaries and employee benefits <sup>(2)</sup> | 43,579             | 44,564    | 86,781           | 84,129     |
| Subtotal  | 58,285             | 57,482    | 116,770          | 109,044    |
| Non portfolio purchasing and recovery                             | 3,062              | 2,158     | 6,420            | 3,897      |
|   | \$ 61,347          | \$ 59,640 | \$ 123,190       | \$ 112,941 |

(1) Represent account managers and their supervisors' salaries, variable compensation, and employee benefits.

Includes internal legal channel salaries and employee benefits of \$5.3 million and \$6.0 million for the three months (2) ended June 30, 2015 and 2014, respectively, and \$10.5 million and \$11.8 million for the six months ended June 30, 2015 and 2014, respectively.

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## Purchases by Quarter

The following table summarizes the consumer receivable portfolios and bankruptcy receivables we purchased by quarter, and the respective purchase prices (in thousands):

| Quarter                | # of<br>Accounts | Face Value  | Purchase<br>Price |
|------------------------|------------------|-------------|-------------------|
| Q1 2013                | 1,678            | \$1,615,214 | \$58,771          |
| Q2 2013 <sup>(1)</sup> | 23,887           | 68,906,743  | 423,113           |
| Q3 2013 <sup>(2)</sup> | 4,232            | 13,437,807  | 617,852           |
| Q4 2013                | 614              | 1,032,472   | 105,043           |
| Q1 2014 <sup>(3)</sup> | 1,104            | 4,288,159   | 467,565           |
| Q2 2014                | 1,210            | 3,075,343   | 225,762           |
| Q3 2014 <sup>(4)</sup> | 2,203            | 3,970,145   | 299,509           |
| Q4 2014                | 859              | 2,422,128   | 258,524           |
| Q1 2015                | 734              | 1,041,011   | 125,154           |
| Q2 2015 <sup>(5)</sup> | 2,970            | 5,544,885   | 418,780           |

(1) Includes \$383.4 million of portfolios acquired with a face value of approximately \$68.2 billion in connection with the merger with Asset Acceptance Capital Corp.

(2) Includes \$559.0 million of portfolios acquired with a face value of approximately \$12.8 billion in connection with the Cabot Acquisition.

(3) Includes \$208.5 million of portfolios acquired with a face value of approximately \$2.4 billion in connection with the Marlin Acquisition.

(4) Includes \$105.4 million of portfolios acquired with a face value of approximately \$1.7 billion in connection with the Atlantic Acquisition.

(5) Includes \$216.0 million of portfolios acquired with a face value of approximately \$3.1 billion in connection with the dlc Acquisition.

## Liquidity and Capital Resources

## Liquidity

The following table summarizes our cash flows by category for the periods presented (in thousands):

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2015                         | 2014       |
|   | (Unaudited)                  |            |
| Net cash provided by operating activities | \$47,412                     | \$52,373   |
| Net cash used in investing activities     | (331,882                     | ) (493,943 |
| Net cash provided by financing activities | 303,795                      | 443,066    |

## Operating Cash Flows

Net cash provided by operating activities was \$47.4 million and \$52.4 million during the six months ended June 30, 2015 and 2014, respectively.

Cash provided by operating activities during the six months ended June 30, 2015 was primarily related to net income of \$55.2 million, various non-cash add backs in operating activities, and changes in operating assets and liabilities.

Cash provided by operating activities during the six months ended June 30, 2014 was primarily related to net income of \$40.2 million, various non-cash add backs in operating activities, and changes in operating assets and liabilities.

## Investing Cash Flows

Net cash used in investing activities was \$331.9 million and \$493.9 million during the six months ended June 30, 2015 and 2014, respectively.

The cash flows used in investing activities during the six months ended June 30, 2015 were primarily related to cash paid for the dlc Acquisition, net of cash acquired, of \$237.9 million, receivable portfolio purchases (excluding the

portfolios acquired from the dlc Acquisition of \$216.0 million) of \$356.3 million, offset by collection proceeds applied to the principal of our receivable portfolios in the amount of \$334.6 million. The cash flows used in investing activities during the six months ended June 30, 2014 were primarily related to cash paid for the Marlin Acquisition, net of cash acquired, of \$303.5 million,

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receivable portfolio purchases (excluding the portfolios acquired from the Marlin Acquisition of \$208.5 million) of \$475.1 million, offset by gross collection proceeds applied to the principal of our receivable portfolios in the amount of \$325.5 million.

Capital expenditures for fixed assets acquired with internal cash flows were \$10.6 million and \$8.9 million for six months ended June 30, 2015 and 2014, respectively.

**Financing Cash Flows**

Net cash provided by financing activities was \$303.8 million and \$443.1 million during the six months ended June 30, 2015 and 2014, respectively.

The cash provided by financing activities during the six months ended June 30, 2015 primarily reflects \$737.6 million in borrowings under our credit facilities, offset by \$354.4 million in repayments of amounts outstanding under our credit facilities and \$33.2 million in repurchases of common stock. The cash provided by financing activities during the six months ended June 30, 2014 primarily reflects \$679.9 million in borrowings under our credit facilities, \$288.6 million of proceeds from the Cabot 2021 Notes, and \$161.0 million of proceeds from the issuance of the 2021 Convertible Notes, and \$134.0 million of proceeds from the issuance of Propel's securitized notes, offset by \$732.9 million in repayments of amounts outstanding under our credit facilities and \$33.6 million in purchases of convertible hedge instruments, including the payment for our warrant restrike transaction associated with our 2017 Convertible Notes.

**Capital Resources**

Historically, we have met our cash requirements by utilizing our cash flows from operations, bank borrowings, convertible debt offerings, and equity offerings. Our primary cash requirements have included the purchase of receivable portfolios, the acquisition of U.S. and international entities, operating expenses, the payment of interest and principal on borrowings, and the payment of income taxes.

Our revolving credit facility and term loan facility (the "Credit Facility") includes a revolving credit facility tranche of \$692.6 million, a term loan facility tranche of \$153.8 million, and an accordion feature that allows us to increase the revolving credit facility by an additional \$250.0 million. Including the accordion feature, the maximum amount that can be borrowed under the Credit Facility is \$1.1 billion. The Credit Facility has a five-year maturity, expiring in February 2019, except with respect to two subtranches of the term loan facility of \$60.0 million and \$6.3 million, expiring in February 2017 and November 2017, respectively. As of June 30, 2015, we had \$666.1 million outstanding and \$126.4 million of availability under the Credit Facility, excluding the \$250.0 million accordion.

In March 2014, we sold \$161.0 million in aggregate principal amount of 2.875% convertible senior notes due March 15, 2021 in a private placement transaction (the "2021 Convertible Notes"). The 2021 Convertible Notes are general unsecured obligations of Encore. We used approximately \$19.5 million of the net proceeds from this offering to pay the cost of the capped call transactions entered into in connection with the 2021 Convertible Notes and used the remainder of the net proceeds from this offering for general corporate purposes, including working capital.

Through Cabot Financial (UK) Limited ("Cabot Financial UK"), an indirect subsidiary, we have a revolving credit facility of £195.0 million (the "Cabot Credit Facility"). The Cabot Credit Facility includes an uncommitted accordion facility which will allow the facility to be increased by an additional £55.0 million, subject to obtaining the requisite commitments and compliance with the terms of Cabot Financial UK's other indebtedness.

On February 7, 2014, in connection with the Marlin Acquisition, Cabot Financial UK borrowed £75.0 million (approximately \$122.3 million) under this facility and used the proceeds to pay for a portion of the purchase price. The Marlin Acquisition was financed with the £75.0 million (approximately \$122.3 million) Cabot Credit Facility draw discussed above, and with borrowings under senior secured bridge facilities entered into on February 7, 2014. On March 21, 2014, Cabot Financial issued £175.0 million (approximately \$288.6 million) in aggregate principal amount of 6.5% Senior Secured Notes due 2021 (the "Cabot 2021 Notes"). The senior secured bridge facilities were paid in full using proceeds from borrowings under the Cabot 2021 Notes.

On June 1, 2015, Cabot entered into a new senior secured bridge facility (the "2015 Senior Secured Bridge Facility") that provides an aggregate principal amount of up to £90.0 million. The purpose of the 2015 Senior Secured Bridge Facility was to provide funding for the financing, in full or in part, of the purchase price for the dlc Acquisition and the payment of costs, fees and expenses in connection with the dlc Acquisition, and was fully drawn on as of the

closing of the dlc Acquisition. The 2015 Senior Secured Bridge Facility has an initial term of one year and can be extended for an additional year if it is not repaid during the first year of issuance. Cabot borrowed £91.0 million (approximately \$138.4 million) under the Cabot Credit Facility



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to pay for the remaining purchase price of the dlc Acquisition. As of June 30, 2015, we had £146.6 million (approximately \$230.7 million) outstanding and £48.4 million (approximately \$76.1 million) of availability under the Cabot Credit Facility.

Currently, all of our portfolio purchases are funded with cash from operations and borrowings under our Restated Credit Agreement and our Cabot Credit Facility.

We are in compliance with all covenants under our financing arrangements. See Note 10, “Debt” to our condensed consolidated financial statements for a further discussion of our debt.

Our cash and cash equivalents at June 30, 2015 consisted of \$60.5 million held by United States-based entities and \$77.6 million held by foreign entities. Most of our cash and cash equivalents held by foreign entities is indefinitely reinvested and may be subject to material tax effects if repatriated. However, we believe that our United States sources of cash and liquidity are sufficient to meet our business needs in the United States and do not expect that we will need to repatriate the funds.

We believe that we have sufficient liquidity to fund our operations for at least the next twelve months, given our expectation of continued positive cash flows from operations, our cash and cash equivalents, our access to capital markets, and availability under our credit facilities. Our future cash needs will depend on our acquisitions of portfolios and businesses.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rates. At June 30, 2015, there had not been a material change in any of the foreign currency risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Interest Rates. At June 30, 2015, there had not been a material change in the interest rate risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the “SEC”) and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and accordingly, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their most recent evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act are effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II – OTHER INFORMATION

## Item 1 – Legal Proceedings

Information with respect to this item may be found in Note 13, “Commitments and Contingencies,” to the condensed consolidated financial statements.

## Item 1A – Risk Factors

There is no material change in the information reported under “Part I—Item 1A—Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

## Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Repurchases of Equity Securities

The following table presents information with respect to purchases of common stock of the Company during the three months ended June 30, 2015, by the Company or an “affiliated purchaser” of the Company, as defined in Rule 10b-18(a)(3) under the Exchange Act:

| Period                          | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup> | Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Publicly Announced Plans or Programs |
|---------------------------------|----------------------------------|------------------------------|---|---|
| April 1, 2015 to April 30, 2015 | —                                | \$—                          | —   | \$ —  |
| May 1, 2015 to May 31, 2015     | 839,295                          | 39.54                        | 839,295   | —   |
| June 1, 2015 to June 30, 2015   | —                                | —                            | —   | —   |
| Total                           | 839,295                          | \$39.54                      | 839,295   | \$ —  |

On April 24, 2014, we publicly announced that our Board of Directors had authorized a stock repurchase program for the Company to purchase \$50.0 million of our Company’s common stock. This column discloses the number of shares purchased pursuant to the program during the indicated time periods. As of June 30, 2015, the Company had purchased the full \$50.0 million of our Company’s common stock authorized under the stock repurchase program.

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Item 6 – Exhibits

- 10.1 Amendment No. 1 to Limited Guarantee, dated April 3, 2015, by Encore Capital Group, Inc., in favor of Wells Fargo Bank, N.A. (filed herewith)
- 10.2\* Amendment No. 2 to Tax Lien Loan and Security Agreement, dated April 3, 2015, by and among PFS Financial 1, LLC, PFS Finance Holdings, LLC, the Borrowers from time to time party thereto and Wells Fargo Bank, N.A. (filed herewith)
- 10.3 Credit Facility Loan Agreement, dated May 8, 2015, by and among Texas Capital Bank, National Association, as administrative agent, certain banks and Propel Financial Services, LLC (filed herewith)
- 10.4 Amendment No. 2 to Second Amended and Restated Credit Agreement, dated July 9, 2015, by and among Encore Capital Group, Inc., the several banks and other financial institutions and lenders from time to time party thereto and listed on the signature pages thereof, and SunTrust Bank, as administrative agent and collateral agent (filed herewith)
- 10.5 Amendment No. 4, dated July 9, 2015, to Second Amended and Restated Senior Secured Note Purchase Agreement, dated May 9, 2013, by and between Encore Capital Group, Inc., The Prudential Insurance Company of America, Pruco Life Insurance Company, Prudential Retirement Insurance and Annuity Company and Prudential Annuities Life Assurance Corporations (filed herewith)
- 31.1 Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
- 101.INS XBRL Instance Document (filed herewith)
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

The asterisk denotes that confidential portions of this exhibit have been omitted in reliance on Rule 24b-2 of the \*Securities Exchange Act of 1934. The confidential portions have been submitted separately to the Securities and Exchange Commission.



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SIGNATURES

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

ENCORE CAPITAL GROUP, INC.

By: /s/ Jonathan C. Clark  
Jonathan C. Clark  
Executive Vice President,  
Chief Financial Officer and Treasurer

Date: August 10, 2015