

ENCORE CAPITAL GROUP INC

Form 10-Q

August 03, 2017

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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, 2017

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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.

| Class                          | Outstanding at July 27, 2017 |
|--------------------------------|------------------------------|
| Common Stock, \$0.01 par value | 25,740,950 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>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
| Assets  |                  |                      |
| Cash and cash equivalents   | \$ 146,647       | \$ 149,765           |
| Investment in receivable portfolios, net  | 2,555,925        | 2,382,809            |
| Property and equipment, net   | 71,135           | 72,257               |
| Deferred court costs, net   | 74,316           | 65,187               |
| Other assets  | 239,218          | 215,447              |
| Goodwill  | 831,556          | 785,032              |
| Total assets  | \$3,918,797      | \$3,670,497          |
| Liabilities and equity  |                  |                      |
| Liabilities:  |                  |                      |
| Accounts payable and accrued liabilities  | \$ 256,982       | \$ 234,398           |
| Debt  | 2,963,929        | 2,805,983            |
| Other liabilities   | 29,776           | 29,601               |
| Total liabilities   | 3,250,687        | 3,069,982            |
| Commitments and contingencies   |                  |                      |
| Redeemable noncontrolling interest  | 126,215          | 45,755               |
| Redeemable equity component of convertible senior notes   | 192              | 2,995                |
| 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, 25,741 shares and 25,593 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively | 257              | 256                  |
| Additional paid-in capital  | 43,076           | 103,392              |
| Accumulated earnings  | 593,290          | 560,567              |
| Accumulated other comprehensive loss  | (83,110)         | (104,911)            |
| Total Encore Capital Group, Inc. stockholders' equity   | 553,513          | 559,304              |
| Noncontrolling interest   | (11,810)         | (7,539)              |
| Total equity  | 541,703          | 551,765              |
| Total liabilities, redeemable equity and equity   | \$3,918,797      | \$3,670,497          |

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 10, "Variable Interest Entities" for additional information on the Company's VIEs.

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
| Assets                                   |                  |                      |
| Cash and cash equivalents                | \$ 43,077        | \$ 55,823            |
| Investment in receivable portfolios, net | 1,103,135        | 972,841              |
| Property and equipment, net              | 19,843           | 19,284               |
| Deferred court costs, net                | 25,049           | 22,760               |
| Other assets                             | 91,179           | 79,767               |

|   |            |           |
|---|------------|-----------|
| Goodwill  | 628,849    | 584,868   |
| Liabilities   |            |           |
| Accounts payable and accrued liabilities                              | \$ 117,645 | \$ 99,689 |
| Debt  | 1,666,962  | 1,514,799 |
| Other liabilities   | 618        | 1,921     |
| 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, |            |
|---|--------------------------------|-----------|------------------------------|------------|
|   | 2017                           | 2016      | 2017                         | 2016       |
| Revenues  |                                |           |                              |            |
| Revenue from receivable portfolios, net                               | \$272,236                      | \$267,452 | \$524,206                    | \$537,546  |
| Other revenues  | 18,681                         | 21,990    | 38,652                       | 40,913     |
| Total revenues  | 290,917                        | 289,442   | 562,858                      | 578,459    |
| Operating expenses  |                                |           |                              |            |
| Salaries and employee benefits  | 75,786                         | 75,499    | 144,064                      | 145,141    |
| Cost of legal collections   | 53,409                         | 46,807    | 101,366                      | 101,115    |
| Other operating expenses  | 24,030                         | 24,946    | 50,390                       | 51,289     |
| Collection agency commissions   | 11,494                         | 9,274     | 23,056                       | 19,394     |
| General and administrative expenses                                   | 36,932                         | 32,934    | 70,250                       | 68,173     |
| Depreciation and amortization   | 8,672                          | 8,235     | 17,297                       | 18,096     |
| Total operating expenses  | 210,323                        | 197,695   | 406,423                      | 403,208    |
| Income from operations  | 80,594                         | 91,747    | 156,435                      | 175,251    |
| Other (expense) income  |                                |           |                              |            |
| Interest expense  | (50,516 )                      | (50,597 ) | (99,714 )                    | (101,288 ) |
| Other income  | 2,529                          | 3,134     | 3,131                        | 10,258     |
| Total other expense   | (47,987 )                      | (47,463 ) | (96,583 )                    | (91,030 )  |
| Income from continuing operations before income taxes                 | 32,607                         | 44,284    | 59,852                       | 84,221     |
| Provision for income taxes  | (13,531 )                      | (13,451 ) | (25,598 )                    | (23,599 )  |
| Income from continuing operations                                     | 19,076                         | 30,833    | 34,254                       | 60,622     |
| Loss from discontinued operations, net of tax                         | —                              | —         | (199 )                       | (3,182 )   |
| Net income  | 19,076                         | 30,833    | 34,055                       | 57,440     |
| Net loss (income) attributable to noncontrolling interest             | 1,179                          | (1,245 )  | 8,298                        | (2,158 )   |
| Net income attributable to Encore Capital Group, Inc. stockholders    | \$20,255                       | \$29,588  | \$42,353                     | \$55,282   |
| Amounts attributable to Encore Capital Group, Inc.:                   |                                |           |                              |            |
| Income from continuing operations                                     | \$20,255                       | \$29,588  | \$42,552                     | \$58,464   |
| Loss from discontinued operations, net of tax                         | —                              | —         | (199 )                       | (3,182 )   |
| Net income  | \$20,255                       | \$29,588  | \$42,353                     | \$55,282   |
| Earnings (loss) per share attributable to Encore Capital Group, Inc.: |                                |           |                              |            |
| Basic earnings (loss) per share from:                                 |                                |           |                              |            |
| Continuing operations   | \$0.78                         | \$1.15    | \$1.64                       | \$2.28     |
| Discontinued operations   | \$—                            | \$—       | \$(0.01 )                    | \$(0.12 )  |
| Net basic earnings per share  | \$0.78                         | \$1.15    | \$1.63                       | \$2.16     |
| Diluted earnings (loss) per share from:                               |                                |           |                              |            |
| Continuing operations   | \$0.77                         | \$1.14    | \$1.62                       | \$2.26     |
| Discontinued operations   | \$—                            | \$—       | \$(0.01 )                    | \$(0.12 )  |
| Net diluted earnings per share  | \$0.77                         | \$1.14    | \$1.61                       | \$2.14     |
| Weighted average shares outstanding:                                  |                                |           |                              |            |
| Basic   | 25,983                         | 25,742    | 25,930                       | 25,646     |
| Diluted   | 26,391                         | 25,874    | 26,240                       | 25,871     |

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<br>Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|-----------------------------------|-----------|------------------------------|-----------|
|  | 2017                              | 2016      | 2017                         | 2016      |
| Net income   | \$19,076                          | \$30,833  | \$34,055                     | \$57,440  |
| Other comprehensive income (loss), net of tax:                               |                                   |           |                              |           |
| Change in unrealized gains/losses on derivative instruments:                 |                                   |           |                              |           |
| Unrealized gain (loss) on derivative instruments                             | 963                               | (562 )    | 1,434                        | (496 )    |
| Income tax effect  | 35                                | 220       | (512 )                       | 194       |
| Unrealized gain (loss) on derivative instruments, net of tax                 | 998                               | (342 )    | 922                          | (302 )    |
| Change in foreign currency translation:                                      |                                   |           |                              |           |
| Unrealized gain (loss) on foreign currency translation                       | 7,824                             | (25,126 ) | 22,288                       | (36,687 ) |
| Income tax effect  | —                                 | 32        | —                            | 1,353     |
| Unrealized gain (loss) on foreign currency translation, net of tax           | 7,824                             | (25,094 ) | 22,288                       | (35,334 ) |
| Other comprehensive income (loss), net of tax                                | 8,822                             | (25,436 ) | 23,210                       | (35,636 ) |
| Comprehensive income   | 27,898                            | 5,397     | 57,265                       | 21,804    |
| Comprehensive loss (income) attributable to noncontrolling interest:         |                                   |           |                              |           |
| Net loss (income)  | 1,179                             | (1,245 )  | 8,298                        | (2,158 )  |
| Unrealized loss (gain) on foreign currency translation                       | 1,841                             | 1,260     | (1,409 )                     | 922       |
| Comprehensive loss (income) attributable to noncontrolling interest          | 3,020                             | 15        | 6,889                        | (1,236 )  |
| Comprehensive income attributable to Encore Capital Group, Inc. stockholders | \$30,918                          | \$5,412   | \$64,154                     | \$20,568  |
| 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,<br>2017 | 2016      |
| Operating activities:   |                  |           |
| Net income  | \$ 34,055        | \$ 57,440 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |           |
| Loss from discontinued operations, net of income taxes                            | 199              | 3,182     |
| Depreciation and amortization   | 17,297           | 18,096    |
| Other non-cash expense, net   | 21,309           | 19,242    |
| Stock-based compensation expense  | 3,510            | 8,869     |
| Gain on derivative instruments, net   | (2,623)          | (7,531)   |
| Deferred income taxes   | (3,164)          | (25,002)  |
| Reversal of allowances on receivable portfolios, net                              | (10,961)         | (4,670)   |
| Changes in operating assets and liabilities                                       |                  |           |
| Deferred court costs and other assets   | (5,951)          | (666)     |
| Prepaid income tax and income taxes payable                                       | 20,389           | 5,260     |
| Accounts payable, accrued liabilities and other liabilities                       | (2,770)          | (27,236)  |
| Net cash provided by operating activities from continuing operations              | 71,290           | 46,984    |
| Net cash provided by operating activities from discontinued operations            | —                | 2,096     |
| Net cash provided by operating activities   | 71,290           | 49,080    |
| Investing activities:   |                  |           |

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|  |           |   |           |   |
|--|-----------|---|-----------|---|
| Cash paid for acquisitions, net of cash acquired                       | (5,623)   | ) | (675)     | ) |
| Proceeds from divestiture of business, — net of cash divested          |           |   | 106,041   |   |
| Purchases of receivable portfolios, net of put-backs                   | (464,507) | ) | (517,665) | ) |
| Collections applied to investment in receivable portfolios, net        | 371,285   |   | 351,219   |   |
| Purchases of property and equipment                                    | (11,984)  | ) | (10,094)  | ) |
| Payments to acquire interest in affiliates                             | (8,805)   | ) | —         |   |
| Other, net   | 4,559     |   | 3,502     |   |
| Net cash used in investing activities from continuing operations       | (115,075) | ) | (67,672)  | ) |
| Net cash provided by investing activities from discontinued operations | —         |   | 14,685    |   |
| Net cash used in investing activities                                  | (115,075) | ) | (52,987)  | ) |
| Financing activities:  |           |   |           |   |
| Payment of loan costs  | (3,415)   | ) | (2,934)   | ) |
| Proceeds from credit facilities  | 331,020   |   | 288,750   |   |
| Repayment of credit facilities   | (373,345) | ) | (307,946) | ) |
| Repayment of senior secured notes                                      | (6,174)   | ) | (11,256)  | ) |
| Proceeds from issuance of convertible senior notes                     | 150,000   |   | —         |   |
| Repayment of convertible senior notes                                  | (60,406)  | ) | —         |   |
| Proceeds from convertible hedge instruments                            | 5,580     |   | —         |   |
| Taxes paid related to net share settlement of equity awards            | (2,457)   | ) | (4,068)   | ) |
| Proceeds from other debt   | —         |   | 34,946    |   |
| Other, net   | (4,954)   | ) | (8,714)   | ) |

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|  |            |   |            |   |
|--|------------|---|------------|---|
| Net cash provided by<br>(used in) financing<br>activities          | 35,849     |   | (11,222    | ) |
| Net decrease in cash<br>and cash equivalents                       | (7,936     | ) | (15,129    | ) |
| Effect of exchange rate<br>changes on cash and<br>cash equivalents | 4,818      |   | 545        |   |
| Cash and cash<br>equivalents, beginning<br>of period               | 149,765    |   | 153,593    |   |
| Cash and cash<br>equivalents, end of<br>period                     | \$ 146,647 |   | \$ 139,009 |   |

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 with Encore, the “Company”), is an international specialty finance company providing debt recovery solutions and other related services for consumers 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.

Financial Statement Preparation and Presentation

The accompanying interim condensed consolidated financial statements have been prepared by the Company, 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, 2016. 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 10, “Variable Interest Entities,” for further details. All intercompany transactions and balances have been eliminated in consolidation.

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 or loss. 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 immaterial reclassifications have been made to the condensed consolidated financial statements to conform to the current year’s presentation. For the three and six months ended June 30, 2016, the Company revised its statements of comprehensive income. The comprehensive loss attributable to Encore increased by \$1.3 million and \$0.9 million for the three and six months ended June 30, 2016. This revision was not material. There were no revisions to the statements of financial condition, income or cash flows.



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### Change in Accounting Principle

In March 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. Upon adoption of this standard, excess tax benefits and tax deficiencies will be recognized as income tax expense, and the tax effects of exercised or vested awards will be treated as discrete items in the period in which they occur. As such, implementation of this standard could create volatility in an entity’s effective income tax rate on a quarter by quarter basis. The volatility in the effective income tax rate is due primarily to fluctuations in the stock price and the timing of stock option exercises and vesting of restricted share grants. The standard also requires excess tax benefits to be presented as an operating activity on the statement of cash flows rather than as a financing activity. An entity may elect to apply the change in presentation in the statement of cash flows either prospectively or retrospectively to all periods presented. Further, the amendments allow an entity to make an accounting policy election to either estimate forfeitures or recognize forfeitures as they occur. If an election is made, the change to recognize forfeitures as they occur must be adopted using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings.

ASU 2016-09 became effective for the Company on January 1, 2017. The Company applied the change in presentation to the statement of cash flows retrospectively for all periods presented after adoption date. The Company believes that the new standard may cause volatility in its effective tax rates and earnings per share due to the tax effects related to share-based payments being recorded to the income statement. The volatility in future periods will depend on the Company’s stock price at the awards’ vest dates and the number of awards that vest in each period. The Company will not elect an accounting policy change to record forfeitures as they occur and will continue to estimate forfeitures at each period.

### Recent Accounting Pronouncements

Other than the adoption of ASU 2016-09 as discussed in the “Change in Accounting Principle” section above, there have been no new accounting pronouncements made effective during the six months ended June 30, 2017 that have significance, or potential significance, to the Company’s consolidated financial statements.

### Recent Accounting Pronouncements Not Yet Effective

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718) (“ASU 2017-09”). ASU 2017-09 provides clarity in order to reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company does not anticipate that the adoption of ASU 2017-09 will have a material impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). The amendments in this update simplify the test for goodwill impairment by eliminating Step 2 from the impairment test, which required the entity to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining fair value of assets acquired and liabilities assumed in a business combination. The amendments in this update are effective for public companies for annual or any interim goodwill impairments tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements as well as whether to adopt the new guidance early.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805); Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this update are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). The FASB issued ASU 2016-15 to decrease the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update provide guidance on eight specific cash flow issues. ASU 2016-15 is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, provided that all of the amendments are adopted in the same period. The

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guidance requires application using a retrospective transition method. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements as well as whether to adopt the new guidance early.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 applies a current expected credit loss model which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected. ASU 2016-13 eliminates the current accounting model for loans and debt securities acquired with deteriorated credit quality under Accounting Standards Codification (“ASC”) 310-30, which provides authoritative guidance for the accounting of the Company’s investment in receivable portfolios. Under this new standard, entities will gross up the initial amortized cost for the purchased financial assets with credit deterioration (“PCD assets”), the initial amortized cost will be the sum of (1) the purchase price and (2) the estimate of credit losses as of the date of acquisition. After initial recognition of PCD assets and the related allowance, any change in estimated cash flows (favorable or unfavorable) will be immediately recognized in the income statement because the yield on PCD assets would be locked. ASU 2016-13 is effective for reporting periods beginning after December 15, 2019 with early adoption permitted for reporting periods beginning after December 15, 2018. The guidance will be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period in which ASU 2016-13 is adopted. However, the FASB has determined that financial assets for which the guidance in Subtopic 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality, has previously been applied should prospectively apply the guidance in ASU 2016-13 for PCD assets. A prospective transition approach should be used for PCD assets where upon adoption, the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses. This transition relief will avoid the need for a reporting entity to reassess its purchased financial assets that exist as of the date of adoption to determine whether they would have met at acquisition the new criteria of more-than insignificant credit deterioration since origination. The transition relief also will allow an entity to accrete the remaining noncredit discount (based on the revised amortized cost basis) into interest income at the effective interest rate at the adoption date of ASU 2016-13. The same transition requirements should be applied to beneficial interests that previously applied Subtopic 310-30 or have a significant difference between contractual cash flows and expected cash flows. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 changes accounting for leases and requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet and requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of fiscal year 2019. Early adoption is permitted. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying ASU 2014-09, companies will perform a



five-step analysis of transactions to determine when and how revenue is recognized. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB's ASC. ASU 2014-09 is effective for annual reporting periods (including interim periods within that reporting period) beginning after December 15, 2016 and shall be applied using either a full retrospective or modified retrospective approach. Early application is not permitted. In August 2015, FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all public companies for all annual periods beginning after December 15, 2017 with early adoption permitted only as of annual reporting periods beginning after December 31, 2016, including interim periods within the reporting period. In March 2016, the FASB issued ASU 2016-08 as an amendment to ASU 2014-09, which clarifies how to identify the unit of accounting for the principal versus agent evaluation, how to apply the control principle to certain types of arrangements, such as service transactions, and reframed the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. The Company is evaluating its implementation approach and the potential impacts of Topic 606 on its existing revenue recognition policies and procedures. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

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With the exception of the updated standards discussed above, there have been no new accounting pronouncements not yet effective that have significance, or potential significance, to the Company's consolidated financial statements.

## Note 2: Discontinued Operations

On March 31, 2016, the Company completed its previously announced divestiture of its membership interests in Propel Acquisition LLC ("Propel") pursuant to the Securities Purchase Agreement (the "Purchase Agreement"), dated February 19, 2016, among the Company and certain funds affiliated with Prophet Capital Asset Management LP. Pursuant to the Purchase Agreement, the application of the purchase price formula resulted in cash consideration paid to the Company at closing of \$144.4 million (net proceeds were \$106.0 million after divestiture of \$38.4 million in cash), subject to customary post-closing adjustments. The purchase price was finalized in the first quarter of 2017. During the three months ended March 31, 2016, the Company recognized a loss of \$3.0 million related to the sale of Propel, this loss was reduced to \$2.0 million based on the adjustments recorded in the fourth quarter of 2016 and the first quarter of 2017. Propel represented the Company's entire tax lien business reportable segment. Propel's operations are presented as discontinued operations in the Company's condensed consolidated statements of income. Certain immaterial costs that may be eliminated as a result of the sale remained in continuing operations.

The following table presents the results of the discontinued operations during the periods presented (in thousands):

|  | Three<br>Months<br>Ended<br>June 30, |      | Six Months<br>Ended<br>June 30, |           |
|--|--------------------------------------|------|---------------------------------|-----------|
|  | 2017                                 | 2016 | 2017                            | 2016      |
| Revenue  | \$ —                                 | \$ — | \$ —                            | \$4,950   |
| Salaries and employee benefits                               | —                                    | —    | —                               | (2,860 )  |
| Other operating expenses                                     | —                                    | —    | —                               | (1,473 )  |
| General and administrative expenses                          | —                                    | —    | —                               | (1,551 )  |
| Depreciation and amortization                                | —                                    | —    | —                               | (127 )    |
| Loss from discontinued operations, before income taxes       | —                                    | —    | —                               | (1,061 )  |
| Loss on sale of discontinued operations, before income taxes | —                                    | —    | (322 )                          | (3,000 )  |
| Total loss on discontinued operations, before income taxes   | —                                    | —    | (322 )                          | (4,061 )  |
| Income tax benefit   | —                                    | —    | 123                             | 879       |
| Total loss from discontinued operations, net of tax          | \$ —                                 | \$ — | \$(199)                         | \$(3,182) |

## Note 3: Earnings Per Share

Basic earnings or loss per share is calculated by dividing net earnings or loss 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.

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

|  | Three Months<br>Ended<br>June 30, |        | Six Months<br>Ended<br>June 30, |        |
|--|-----------------------------------|--------|---------------------------------|--------|
|  | 2017                              | 2016   | 2017                            | 2016   |
| Weighted average common shares outstanding—basic   | 25,983                            | 25,742 | 25,930                          | 25,646 |
| Dilutive effect of stock-based awards              | 160                               | 132    | 186                             | 225    |
| Dilutive effect of convertible senior notes        | 248                               | —      | 124                             | —      |
| Weighted average common shares outstanding—diluted | 26,391                            | 25,874 | 26,240                          | 25,871 |

Anti-dilutive employee stock options outstanding were approximately 317,000 and 200,000 during the three and six months ended June 30, 2017. Anti-dilutive employee stock options outstanding were zero or negligible during the three and six months ended June 30, 2016.



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## 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.

## 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<br>of<br>June 30, 2017 |         |            |            |
|-------------------------------------|---|---------|------------|------------|
|                                     | Level 1   | Level 2 | Level 3    | Total      |
| Assets                              |   |         |            |            |
| Foreign currency exchange contracts | \$3,748   | \$ —    | \$ —       | \$ 3,748   |
| Liabilities                         |   |         |            |            |
| Interest rate swap agreements       | —   | (56 )   | —          | (56 )      |
| Contingent consideration            | —   | —       | (10,885 )  | (10,885 )  |
| Temporary Equity                    |   |         |            |            |
| Redeemable noncontrolling interest  | —   | —       | (126,215 ) | (126,215 ) |

|                                     | Fair Value Measurements as<br>of<br>December 31, 2016 |          |           |           |
|-------------------------------------|---|----------|-----------|-----------|
|                                     | Level 1   | Level 2  | Level 3   | Total     |
| Assets                              |   |          |           |           |
| Foreign currency exchange contracts | \$1,122   | \$ —     | \$ —      | \$ 1,122  |
| Liabilities                         |   |          |           |           |
| Foreign currency exchange contracts | —   | (1,360 ) | —         | (1,360 )  |
| Interest rate swap agreements       | —   | (131 )   | —         | (131 )    |
| Contingent consideration            | —   | —        | (2,531 )  | (2,531 )  |
| Temporary Equity                    |   |          |           |           |
| Redeemable noncontrolling interest  | —   | —        | (45,755 ) | (45,755 ) |

## Derivative Contracts:

The Company uses derivative instruments to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. 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.

## Contingent Consideration:

The Company carries certain contingent liabilities resulting from its mergers and acquisition activities. Certain sellers of the Company’s acquired entities could earn additional earn-out payments in cash based on the entities’ subsequent operating performance. The Company recorded the acquisition date fair values of these contingent liabilities, based on the likelihood of contingent earn-out payments, as part of the consideration transferred. The earn-out payments are subsequently remeasured to fair value at each reporting date. During the three months ended June 30, 2017, the Company recorded additional contingent consideration of approximately \$10.5 million resulting from Cabot’s acquisition of a debt solution service provider in the United Kingdom. Additionally, the Company reviewed the

earn-out analysis for one of its previously acquired entities and

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determined that, based on actual and forecasted operating performance, there would be no future earn-out payment to the sellers, as a result, the entire liability for the contingent consideration of \$2.8 million relating to the acquisition of that entity was reversed and recorded as a reduction of general and administrative expenses in the Company's consolidated statements of income for the three months ended June 30, 2017. As of June 30, 2017, the aggregated fair value of the contingent consideration was approximately \$10.9 million.

The following table provides a roll forward of the fair value of contingent consideration for the periods ended June 30, 2017 and December 31, 2016 (in thousands):

|   | Amount   |
|---|----------|
| Balance at December 31, 2015  | \$10,403 |
| Change in fair value of contingent consideration                    | (7,602 ) |
| Effect of foreign currency translation                              | (270 )   |
| Balance at December 31, 2016  | 2,531    |
| Issuance of contingent consideration in connection with acquisition | 10,544   |
| Change in fair value of contingent consideration                    | (2,398 ) |
| Effect of foreign currency translation                              | 208      |
| Balance at June 30, 2017  | \$10,885 |

**Redeemable Noncontrolling Interest:**

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 and, in some cases, to force a sale of the subsidiary if the Company chooses not to purchase their interests at fair value. The noncontrolling interest subject to these arrangements is included in temporary equity as redeemable noncontrolling interest, and is adjusted to its estimated redemption amount each reporting period. Future reductions in the carrying amount are subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interest at the time it was originally recorded. The recorded value of the redeemable noncontrolling interest cannot go below the floor level. Adjustments to the carrying amount of redeemable noncontrolling interest are charged to retained earnings (or to additional paid-in capital if there are no retained earnings) and do not affect net income or comprehensive income in the consolidated financial statements.

The components of the change in the redeemable noncontrolling interest for the periods ended June 30, 2017 and December 31, 2016 are presented in the following table (in thousands):

|   | Amount    |
|---|-----------|
| Balance at December 31, 2015  | \$38,624  |
| Addition to redeemable noncontrolling interest  | 826       |
| Redemption of redeemable noncontrolling interest  | (3,562 )  |
| Net loss attributable to redeemable noncontrolling interest                               | (47,831 ) |
| Adjustment of the redeemable noncontrolling interest to fair value                        | 74,194    |
| Effect of foreign currency translation attributable to redeemable noncontrolling interest | (16,496 ) |
| Balance at December 31, 2016  | 45,755    |
| Addition to redeemable noncontrolling interest  | 277       |
| Net loss attributable to redeemable noncontrolling interest                               | (6,928 )  |
| Adjustment of the redeemable noncontrolling interest to fair value                        | 85,139    |
| Effect of foreign currency translation attributable to redeemable noncontrolling interest | 1,972     |
| Balance at June 30, 2017  | \$126,215 |

**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 using Level 3 inputs by discounting the estimated future cash flows generated by its proprietary forecasting models.

The key inputs



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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 fair value of investment in receivable portfolios was approximately \$2,453.5 million and \$2,446.6 million as of June 30, 2017 and December 31, 2016, respectively, as compared to the carrying value of \$2,555.9 million and \$2,382.8 million as of June 30, 2017 and December 31, 2016, respectively. 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 U.S. and European portfolios by approximately \$48.5 million and \$60.5 million, respectively, as of June 30, 2017. This fair value calculation does not represent, and should not be construed to represent, the underlying value of the Company or the amount that could be realized if its investment in receivable portfolios were sold.

**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.

**Debt:**

The majority of Encore and its subsidiaries' borrowings are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximate fair value. These borrowings include Encore's senior secured notes and borrowings under its revolving credit and term loan facilities, Cabot's senior secured notes and borrowings under its revolving credit facility, and other borrowing under term and revolving credit facilities at certain of the Company's subsidiaries.

Encore's convertible senior notes are carried at historical cost, adjusted for the debt discount. The carrying value of the convertible senior notes was \$510.8 million and \$416.5 million as of June 30, 2017 and December 31, 2016, respectively. The fair value estimate for these convertible senior notes, which incorporates quoted market prices using Level 2 inputs, was approximately \$583.7 million and \$431.7 million as of June 30, 2017 and December 31, 2016, respectively.

Cabot's senior secured notes are carried at historical cost, adjusted for debt discount and debt premium. The carrying value of Cabot's senior secured notes was \$1.4 billion and \$1.3 billion, as of June 30, 2017 and December 31, 2016, respectively. The fair value estimate for these senior notes, which incorporates quoted market prices using Level 2 inputs, was \$1.4 billion and \$1.3 billion as of June 30, 2017 and December 31, 2016, respectively.

The Company's preferred equity certificates are legal obligations to the noncontrolling shareholders of certain subsidiaries. They are carried at the face amount, plus any accrued interest. The Company determined that the carrying value of these preferred equity certificates approximated fair value as of June 30, 2017 and December 31, 2016.

**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. Certain of the Company's derivative financial instruments qualify for hedge accounting treatment under the authoritative guidance for derivatives and hedging.



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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, 2017             |            | December 31, 2016         |            |
|--|---------------------------|------------|---------------------------|------------|
|  | Balance Sheet<br>Location | Fair Value | Balance Sheet<br>Location | Fair Value |
| Derivatives designated as hedging instruments:     |                           |            |                           |            |
| Foreign currency exchange contracts                | Other assets              | \$ 2,117   | Other assets              | \$ 707     |
| Foreign currency exchange contracts                | Other liabilities         | —          | Other liabilities         | (51 )      |
| Interest rate swap agreements                      | Other liabilities         | (56 )      | Other liabilities         | (131 )     |
| Derivatives not designated as hedging instruments: |                           |            |                           |            |
| Foreign currency exchange contracts                | Other assets              | 1,631      | Other assets              | 415        |
| Foreign currency exchange contracts                | Other liabilities         | —          | Other liabilities         | (1,309 )   |

#### Derivatives Designated as Hedging Instruments

The Company has operations in foreign countries, which expose the Company to foreign currency exchange rate fluctuations due to transactions denominated in foreign currencies. To mitigate a portion of this risk, the Company enters into derivative financial instruments, principally foreign currency forward contracts with financial counterparties. 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.

Certain of the foreign currency forward contracts are designated as cash flow hedging instruments and qualify for hedge accounting treatment. Gains and losses arising from the effective portion of such contracts are recorded as a component of accumulated other comprehensive income ("OCI") as gains and losses on derivative instruments, net of income taxes. The hedging gains and losses in OCI are subsequently reclassified into earnings in the same period in which the underlying transactions affect the Company's 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, 2017, the total notional amount of the forward contracts that are designated as cash flow hedging instruments was \$21.0 million. All of these outstanding contracts qualified for hedge accounting treatment. The Company estimates that approximately \$1.7 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, 2017 and 2016.

The Company may periodically enter into interest rate swap agreements to reduce its exposure to fluctuations in interest rates on variable interest rate debt and their impact on earnings and cash flows. As of June 30, 2017, Baycorp had two interest rate swap agreements outstanding with a total notional amount of \$30.0 million Australian dollars (approximately \$23.1 million U.S. dollars). These interest rate swap instruments are designated as cash flow hedges and accounted for using hedge accounting.

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The following table summarizes the effects of derivatives in cash flow hedging relationships designated as hedging instruments on the Company's condensed consolidated statements of income for the three and six months ended June 30, 2017 and 2016 (in thousands):

| Derivatives Designated as Hedging Instruments     | Gain or (Loss) Recognized in 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 Amount Excluded from Effectiveness Testing | Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing |      |
|---|--|-----------|--|--|--------|--|--|------|
|   | Three Months Ended June 30,                    |           |  | Three Months Ended June 30,  |        |  | Three Months Ended June 30,  |      |
|   | 2017   | 2016      |  | 2017   | 2016   |  | 2017   | 2016 |
| Foreign currency exchange contracts               | \$ 1,146                                       | \$ (207 ) | Salaries and employee benefits   | \$ 297   | \$ 274 | Other (expense) income   | \$ —   | \$ — |
| Foreign currency exchange contracts               | 160  | (36 )     | General and administrative expenses  | 27   | 46     | Other (expense) income   | —  | —    |
| Interest rate swap agreements                     | 14   | —         | Interest expense   | 33   | —      | Other (expense) income   | —  | —    |
| Derivatives Designated as Hedging Instruments     | Gain or (Loss) Recognized in 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 Amount Excluded from Effectiveness Testing | Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing |      |
|   | Six Months Ended June 30,                      |           |  | Six Months Ended June 30,  |        |  | Six Months Ended June 30,  |      |
|   | 2017   | 2016      |  | 2017   | 2016   |  | 2017   | 2016 |
| Foreign currency exchange contracts               | \$ 1,735                                       | \$ 295    | Salaries and employee benefits   | \$ 472   | \$ 532 | Other (expense) income   | \$ —   | \$ — |
| Foreign currency exchange contracts               | 240  | (190 )    | General and administrative expenses  | 41   | 69     | Other (expense) income   | —  | —    |
| Interest rate swap agreements                     | 19   | —         | Interest expense   | 110  | —      | Other (expense) income   | —  | —    |
| Derivatives Not Designated as Hedging Instruments |  |           |  |  |        |  |  |      |

In 2016, Encore and its Cabot subsidiary collectively began entering into currency exchange forward contracts to reduce the effects of currency exchange rate fluctuations between the British Pound and Euro. These derivative contracts generally mature within one to three months and are not designated as hedge instruments for accounting purposes. The Company continues to monitor the level of exposure of the foreign currency exchange risk and may enter into additional short-term forward contracts on an ongoing basis. The gains or losses on these derivative contracts are recognized in other income or expense based on the changes in fair value.

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The following table summarizes the effects of derivatives in cash flow hedging relationships not designated as hedging instruments on the Company's condensed consolidated statements of income for the three and six months ended June 30, 2017 and 2016 (in thousands):

| Derivatives Not Designated as Hedging Instruments | Location of Gain or (Loss) Recognized in income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative |                                |                                |                                  |
|---|---|---|--------------------------------|--------------------------------|----------------------------------|
|   |   | Three Months Ended June 30, 2017                            | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Three Months Ended June 30, 2016 |
| Foreign currency exchange contracts (1)           | Other income (expense)  | \$2,875   | \$1,990                        | \$2,623                        | \$7,376                          |
| Interest rate swap agreements                     | Interest expense  | 33  | 35                             | 110                            | 44                               |

(1) After the effect of income tax and noncontrolling interest, the net impact of the derivative contracts to consolidated net income from continuing operations attributable to Encore was a gain of \$1.0 million and \$0.9 million during the three and six months ended June 30, 2017, respectively, compared to a loss of \$0.2 million and a gain of \$1.6 million during the three and six months ended June 30, 2016, respectively.

**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, purchased consumer bankruptcy, and mortgage portfolios. The Company further groups these static pools by geographic region or location. Portfolios acquired in business combinations are also grouped into these pools. During any fiscal quarter in which the Company has an acquisition of an entity that has portfolio, the entire historical portfolio of the acquired company is aggregated into the pool groups for that quarter, based on common characteristics, resulting in pools for that quarter that may consist of several different vintages of portfolio. 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 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 operations as a reduction in revenue, with a corresponding valuation allowance, offsetting the investment in receivable portfolios in the consolidated statements of financial condition. With gross collections being discounted at monthly IRRs, when collections are lower in the near term, even if substantially higher collections are expected later in the collection curve, an allowance charge could result.

The Company utilizes its proprietary forecasting models to continuously evaluate the economic life of each pool. During the quarter ended September 30, 2016, the Company revised the forecasting methodology it uses to value and calculate IRRs on certain portfolios in Europe by extending the collection forecast from 120 months to 180 months. This change was made as a result of (1) the Company having observed that older portfolios in Europe have consistently experienced cash collections beyond 120 months, (2) an expectation that regulatory changes in the United

Kingdom resulting in a reduction in the number of highly discounted near term one-time settlements, an increase in the number of payment plans, and an increase in the length of existing payment plans will cause a lengthening of the collections curve, (3) an expectation that, as a result of a higher percentage of semi-performing account purchases in the United Kingdom in recent years, newer vintages will have a larger percentage of collections after 120 months and (4) the Company's increased confidence in its ability to forecast future cash collections to 180 months. The increase in the collection forecast from 120 months to 180 months was applied effective July 1, 2016 to certain portfolios in Europe for which the Company could accurately forecast through such term. These changes in forecasted future cash flows resulted in an increase in the aggregate total estimated remaining collections for the receivable portfolios of approximately \$296.5 million as of September 30, 2016. In addition, during the three months ended September 30, 2016, the Company recorded allowance charges of approximately \$94.0 million resulting from delays or shortfalls in near term collections against the forecasts for certain pools in Europe. Subsequent to the recording of the allowance charges for certain

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pools in Europe, the Company has experienced sustained improvements in collections resulting primarily from its liquidation improvement initiatives. As a result, during the three months ended June 30, 2017, the Company reversed approximately \$7.8 million of the previously recorded allowance charges for certain pools in Europe and raised IRRs for certain other pool groups in Europe.

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 carrying value 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       |
|--|---------------------|---|-------------|
| Balance at December 31, 2016                       | \$3,092,004         | \$365,504                               | \$3,457,508 |
| Revenue recognized, net                            | (211,718 )          | (40,252 )                               | (251,970 )  |
| (Reductions) additions on existing portfolios, net | (90,138 )           | 57,446                                  | (32,692 )   |
| Additions for current purchases, net               | 200,728             | —                                       | 200,728     |
| Effect of foreign currency translation             | 38,712              | 467                                     | 39,179      |
| Balance at March 31, 2017                          | 3,029,588           | 383,165                                 | 3,412,753   |
| Revenue recognized, net                            | (231,431 )          | (40,805 )                               | (272,236 )  |
| Net additions on existing portfolios               | 225,021             | 9,888                                   | 234,909     |
| Additions for current purchases, net               | 258,687             | —                                       | 258,687     |
| Effect of foreign currency translation             | 66,927              | (753 )                                  | 66,174      |
| Balance at June 30, 2017                           | \$3,348,792         | \$351,495                               | \$3,700,287 |

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|  | Accretable<br>Yield | Estimate of<br>Zero Basis<br>Cash Flows | Total       |
|--|---------------------|---|-------------|
| Balance at December 31, 2015           | \$3,047,640         | \$223,031                               | \$3,270,671 |
| Revenue recognized, net                | (238,547 )          | (31,547 )                               | (270,094 )  |
| Net additions on existing portfolios   | 39,538              | 8,071                                   | 47,609      |
| Additions for current purchases, net   | 193,654             | —                                       | 193,654     |
| Effect of foreign currency translation | (64,330 )           | 470                                     | (63,860 )   |
| Balance at March 31, 2016              | 2,977,955           | 200,025                                 | 3,177,980   |
| Revenue recognized, net                | (233,714 )          | (33,738 )                               | (267,452 )  |
| Net additions on existing portfolios   | 59,459              | 95,135                                  | 154,594     |
| Additions for current purchases, net   | 183,217             | —                                       | 183,217     |
| Effect of foreign currency translation | (181,223 )          | 245                                     | (180,978 )  |
| Balance at June 30, 2016               | \$2,805,694         | \$261,667                               | \$3,067,361 |

During the three months ended June 30, 2017, the Company purchased receivable portfolios with a face value of \$2.4 billion for \$246.4 million, or a purchase cost of 10.1% of face value. The estimated future collections at acquisition for all portfolios purchased during the three months ended June 30, 2017 amounted to \$505.0 million. During the three months ended June 30, 2016, the Company purchased receivable portfolios with a face value of \$2.8 billion for \$233.1 million, or a purchase cost of 8.2% of face value. The estimated future collections at acquisition for all portfolios purchased during the three months ended June 30, 2016 amounted to \$416.9 million.

During the six months ended June 30, 2017, the Company purchased receivable portfolios with a face value of \$4.1 billion for \$465.1 million, or a purchase cost of 11.3% of face value. The estimated future collections at acquisition for all portfolios purchased during the six months ended June 30, 2017 amounted to \$924.4 million. During the six months ended June 30, 2016, the Company purchased receivable portfolios with a face value of \$6.4 billion for \$489.9 million, or a purchase cost of 7.7% of face value. The estimated future collections at acquisition for all portfolios purchased during the six months ended June 30, 2016 amounted to \$875.5 million.

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, 2017 and 2016, Zero Basis Revenue was approximately \$40.8 million and \$33.7 million, respectively. During the six months ended June 30, 2017 and 2016, Zero Basis Revenue was approximately \$81.1 million and \$65.3 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, 2017 |               |            |             |
|---|----------------------------------|---------------|------------|-------------|
|   | Accrual Basis                    | Cost Recovery | Zero Basis | Total       |
|   | Portfolios                       | Portfolios    | Portfolios |             |
| Balance, beginning of period                          | \$2,422,299                      | \$ 13,719     | \$ —       | \$2,436,018 |
| Purchases of receivable portfolios                    | 245,246                          | 1,169         | —          | 246,415     |
| Disposals or transfers to held for sale               | (2,697 )                         | —             | —          | (2,697 )    |
| Gross collections <sup>(1)</sup>                      | (404,918 )                       | (459 )        | (40,805 )  | (446,182 )  |
| Put-backs and Recalls <sup>(2)</sup>                  | (3,237 )                         | —             | —          | (3,237 )    |
| Foreign currency adjustments                          | 53,466                           | (94 )         | —          | 53,372      |
| Revenue recognized                                    | 224,310                          | —             | 39,097     | 263,407     |
| Portfolio allowance reversals, net                    | 7,121                            | —             | 1,708      | 8,829       |
| Balance, end of period                                | \$2,541,590                      | \$ 14,335     | \$ —       | \$2,555,925 |
| Revenue as a percentage of collections <sup>(3)</sup> | 55.4                             | % 0.0         | % 95.8 %   | 59.0 %      |

|   | Three Months Ended June 30, 2016 |               |            |             |
|---|----------------------------------|---------------|------------|-------------|
|   | Accrual Basis                    | Cost Recovery | Zero Basis | Total       |
|   | Portfolios                       | Portfolios    | Portfolios |             |
| Balance, beginning of period                          | \$2,482,855                      | \$ 4,123      | \$ —       | \$2,486,978 |
| Purchases of receivable portfolios                    | 233,116                          | —             | —          | 233,116     |
| Transfer of portfolios                                | (96 )                            | 96            | —          | —           |
| Disposals or transfers to held for sale               | —                                | —             | —          | —           |
| Gross collections <sup>(1)</sup>                      | (399,498 )                       | (724 )        | (33,878 )  | (434,100 )  |
| Put-backs and Recalls <sup>(2)</sup>                  | (3,692 )                         | (5 )          | 140        | (3,557 )    |
| Foreign currency adjustments                          | (80,432 )                        | 136           | —          | (80,296 )   |
| Revenue recognized                                    | 233,010                          | —             | 31,963     | 264,973     |
| Portfolio allowance reversals, net                    | 704                              | —             | 1,775      | 2,479       |
| Balance, end of period                                | \$2,465,967                      | \$ 3,626      | \$ —       | \$2,469,593 |
| Revenue as a percentage of collections <sup>(3)</sup> | 58.3                             | % 0.0         | % 94.3 %   | 61.0 %      |

(1) 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

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

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



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|   | Six Months Ended June 30, 2017 |                          |                       | Total       |
|---|--------------------------------|--------------------------|-----------------------|-------------|
|   | Accrual Basis Portfolios       | Cost Recovery Portfolios | Zero Basis Portfolios |             |
| Balance, beginning of period                          | \$2,368,366                    | \$ 14,443                | \$ —                  | \$2,382,809 |
| Purchases of receivable portfolios                    | 463,973                        | 1,169                    | —                     | 465,142     |
| Disposals or transfers to held for sale               | (7,468 )                       | —                        | —                     | (7,468 )    |
| Gross collections <sup>(1)</sup>                      | (804,922 )                     | (1,099 )                 | (81,024 )             | (887,045 )  |
| Put-backs and Recalls <sup>(2)</sup>                  | (4,994 )                       | —                        | (33 )                 | (5,027 )    |
| Foreign currency adjustments                          | 83,486                         | (178 )                   | —                     | 83,308      |
| Revenue recognized                                    | 435,415                        | —                        | 77,830                | 513,245     |
| Portfolio allowance reversals, net                    | 7,734                          | —                        | 3,227                 | 10,961      |
| Balance, end of period                                | \$2,541,590                    | \$ 14,335                | \$ —                  | \$2,555,925 |
| Revenue as a percentage of collections <sup>(3)</sup> | 54.1                           | % 0.0                    | % 96.1 %              | 57.9 %      |

|   | Six Months Ended June 30, 2016 |                          |                       | Total       |
|---|--------------------------------|--------------------------|-----------------------|-------------|
|   | Accrual Basis Portfolios       | Cost Recovery Portfolios | Zero Basis Portfolios |             |
| Balance, beginning of period                          | \$2,436,054                    | \$ 4,615                 | \$ —                  | \$2,440,669 |
| Purchases of receivable portfolios                    | 489,869                        | —                        | —                     | 489,869     |
| Gross collections <sup>(1)</sup>                      | (815,225 )                     | (1,357 )                 | (65,323 )             | (881,905 )  |
| Put-backs and Recalls <sup>(2)</sup>                  | (16,577 )                      | (11 )                    | 38                    | (16,550 )   |
| Foreign currency adjustments                          | (100,319 )                     | 283                      | —                     | (100,036 )  |
| Revenue recognized                                    | 471,088                        | —                        | 61,788                | 532,876     |
| Portfolio allowance reversals, net                    | 1,173                          | —                        | 3,497                 | 4,670       |
| Balance, end of period                                | \$2,465,967                    | \$ 3,626                 | \$ —                  | \$2,469,593 |
| Revenue as a percentage of collections <sup>(3)</sup> | 57.8                           | % 0.0                    | % 94.6 %              | 60.4 %      |

(1) 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

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

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

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 June 30, |          | Six Months Ended June 30, |          |
|  | 2017                        | 2016     | 2017                      | 2016     |
| Balance at beginning of period         | \$136,325                   | \$58,397 | \$137,037                 | \$60,588 |
| Provision for portfolio allowances     | 682                         | —        | 682                       | —        |
| Reversal of prior allowances           | (9,511 )                    | (2,479 ) | (11,643 )                 | (4,670 ) |
| Effect of foreign currency translation | 3,179                       | —        | 4,599                     | —        |
| Balance at end of period               | \$130,675                   | \$55,918 | \$130,675                 | \$55,918 |

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 that 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 an estimated court cost recovery rate established based on its analysis of historical court costs recovery data. The Company estimates deferral periods for Deferred Court Costs based on jurisdiction and nature of litigation and writes off any Deferred Court Costs not recovered within the respective deferral period. 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 deferral period consist of the following as of the dates presented (in thousands):

|                       | June 30,<br>2017 | December 31,<br>2016 |
|-----------------------|------------------|----------------------|
| Court costs advanced  | \$704,409        | \$ 654,356           |
| Court costs recovered | (284,122 )       | (261,243 )           |
| Court costs reserve   | (345,971 )       | (327,926 )           |
| Deferred court costs  | \$74,316         | \$ 65,187            |

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>2017   | 2016        | June 30,<br>2017 | 2016        |
| Balance at beginning of period            | \$(334,639)        | \$(324,025) | \$(327,926)      | \$(318,784) |
| Provision for court costs                 | (22,197 )          | (11,479 )   | (40,202 )        | (30,376 )   |
| Net down of reserve after deferral period | 12,488             | 14,096      | 24,511           | 27,073      |
| Effect of foreign currency translation    | (1,623 )           | 1,757       | (2,354 )         | 2,436       |
| Balance at end of period                  | \$(345,971)        | \$(319,651) | \$(345,971)      | \$(319,651) |

## Note 8: Other Assets

Other assets consist of the following (in thousands):

|                                     | June 30,<br>2017 | December 31,<br>2016 |
|-------------------------------------|------------------|----------------------|
| Deferred tax assets                 | \$54,804         | \$ 51,077            |
| Identifiable intangible assets, net | 29,702           | 28,243               |
| Assets held for sale                | 26,977           | 21,147               |
| Service fee receivables             | 22,241           | 15,156               |
| Prepaid expenses                    | 20,480           | 18,036               |
| Other financial receivables         | 18,367           | 18,732               |
| Derivative instruments              | 3,748            | 1,122                |
| Security deposits                   | 3,180            | 2,781                |
| Receivable from seller              | 5,388            | 5,388                |
| Other                               | 54,331           | 53,765               |
| Total                               | \$239,218        | \$ 215,447           |

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## Note 9: Debt

The Company is in compliance with all covenants under its financing arrangements as of June 30, 2017. The components of the Company's consolidated debt and capital lease obligations were as follows (in thousands):

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
| Encore revolving credit facility               | \$ 539,000       | \$ 578,000           |
| Encore term loan facility                      | 116,740          | 164,615              |
| Encore senior secured notes                    | 5,145            | 11,320               |
| Encore convertible notes                       | 548,500          | 448,500              |
| Less: debt discount                            | (37,690 )        | (31,968 )            |
| Cabot senior secured notes                     | 1,360,489        | 1,280,241            |
| Add: debt premium                              | 16,511           | 17,686               |
| Less: debt discount                            | (2,090 )         | (2,200 )             |
| Cabot senior revolving credit facility         | 81,188           | 33,218               |
| Preferred equity certificates                  | 230,418          | 205,975              |
| Other credit facilities                        | 78,104           | 74,551               |
| Other  | 63,381           | 62,608               |
| Capital lease obligations                      | 4,109            | 5,091                |
|  | 3,003,805        | 2,847,637            |
| Less: debt issuance costs, net of amortization | (39,876 )        | (41,654 )            |
| Total  | \$ 2,963,929     | \$ 2,805,983         |

## Encore Revolving Credit Facility and Term Loan Facility

The Company has a revolving credit facility and term loan facility pursuant to a Third Amended and Restated Credit Agreement dated December 20, 2016 (as amended, the "Restated Credit Agreement"). The Restated Credit Agreement includes a revolving credit facility of \$801.7 million (the "Revolving Credit Facility"), a term loan facility of \$120.4 million (the "Term Loan Facility", and together with the Revolving Credit Facility, the "Senior Secured Credit Facilities"), and an accordion feature that allows the Company to increase the Senior Secured Credit Facilities by an additional \$250.0 million (approximately \$25.3 million of which has been exercised). The Senior Secured Credit Facilities have a five year maturity expiring in December 2021, except with respect to (1) revolving commitments under the Revolving Credit Facility of \$32.1 million and \$168.6 million expiring in November 2017 and February 2019, respectively, and (2) two subbranches of the Term Loan Facility of \$4.8 million and \$18.0 million, expiring in November 2017 and February 2019, respectively.

Provisions of the Restated Credit Agreement include, but are not limited to:

Revolving Credit Facility commitments of (1) \$601.0 million that expire in December 2021, (2) \$168.6 million that expire in February 2019 and (3) \$32.1 million that expire in November 2017, in each case with interest at a floating rate equal to, at the Company's option, either: (a) reserve adjusted London Interbank Offered Rate ("LIBOR"), plus a spread that ranges from 250 to 300 basis points depending on the cash flow leverage ratio of Encore and its restricted subsidiaries; or (b) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. "Alternate base rate," as defined in the Restated Credit 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, (iii) reserved adjusted LIBOR determined on a daily basis for a one month interest period, plus 1.0% per annum and (iv) zero;

A \$97.6 million term loan maturing in December 2021, 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 cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries.

Principal amortizes \$4.9 million in each of 2017 and 2018, \$7.3 million in each of 2019 and 2020, and \$7.3 million in 2021 with the remaining principal due at the end of the term;



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An \$18.0 million term loan maturing in February 2019, 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 cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. Principal amortizes \$1.8 million in each of 2017 and 2018 with the remaining principal due at the end of the term;

A \$4.8 million term loan maturing in November 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 cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. Principal amortizes \$0.5 million in 2017 with the remaining principal due at the end of the term;

A borrowing base under the Revolving Credit Facility equal to 35% of all eligible non-bankruptcy estimated remaining collections plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy;

▲ A maximum cash flow leverage ratio permitted of 3.00:1.00;

▲ A maximum cash flow first-lien leverage ratio of 2.00:1.00;

▲ A minimum interest coverage ratio of 1.75:1.00;

◻ The allowance of indebtedness in the form of senior secured notes not to exceed \$350.0 million;

◻ The allowance of additional unsecured or subordinated indebtedness not to exceed \$1.1 billion, including junior lien indebtedness not to exceed \$400.0 million;

◻ 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, that excludes acquisitions of stock by Red Mountain Capital Partners LLC, JCF FPK I, LP 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 Encore 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;

▲ A basket to allow for investments in persons organized under the laws of Canada in the amount of \$50.0 million;

A requirement that Encore and its restricted subsidiaries, for the four-month period ending February 2019, have sufficient cash or availability under the Revolving Credit Facility (excluding availability under revolving commitments expiring in February 2019) to satisfy any amounts due under the revolving commitments that expire in February 2019 and the sub-tranche of the Term Loan Facility that expires in February 2019;

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

At June 30, 2017, the outstanding balance under the Revolving Credit Facility was \$539.0 million, which bore a weighted average interest rate of 4.06% and 3.50% for the three months ended June 30, 2017 and 2016, respectively, and 3.90% and 3.49% for the six months ended June 30, 2017 and 2016, respectively. Available capacity under the Revolving Credit Facility, subject to borrowing base and applicable debt covenants, was \$262.7 million as of June 30, 2017, not including the \$224.7 million additional capacity provided by the facility's remaining accordion feature. At June 30, 2017, the outstanding balance under the Term Loan Facility was \$116.7 million.

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## 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, 2017, \$3.1 million of the 7.375% Senior Secured Notes and \$2.0 million of the 7.75% Senior Secured Notes, for an aggregate of \$5.1 million, remained outstanding.

The Senior Secured Notes are guaranteed in full by certain of Encore’s subsidiaries. The Senior Secured Notes are *pari passu* with, and are collateralized by the same collateral as, the Senior Secured Credit Facilities. 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 purchase agreement for the Senior Secured Notes have been amended in connection with amendments to the Restated Credit Agreement in order to 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 (the “2017 Convertible Notes”). 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 (the “2020 Convertible Notes”). 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 “2021 Convertible Notes”). In March 2017, Encore sold \$150.0 million aggregate principal amount of 3.25% 2022 Convertible Senior Notes that mature on March 15, 2022 in private placement transactions (the “2022 Convertible Notes” and together with the 2017 Convertible Notes, the 2020 Convertible Notes and the 2021 Convertible Notes, the “Convertible Notes”). The interest on these unsecured convertible senior notes is payable semi-annually.

The net proceeds from the sale of the \$150.0 million aggregate principal amount of the 2022 Convertible Notes were approximately \$145.3 million, after deducting the initial purchasers’ discounts and the estimated offering expenses payable by the Company. The Company used approximately \$60.4 million of the net proceeds from the offering to repurchase, in separate transactions, \$50.0 million aggregate principal amount of its 2017 Convertible Notes. In accordance with authoritative guidance, the total consideration allocated to the extinguishment of the liability component was approximately \$49.7 million and the total consideration allocated to the re-acquisition of the equity component was approximately \$10.7 million. Because the net carrying value of the repurchased portion of the 2017 Convertible Notes was \$48.9 million, the Company recognized a loss of approximately \$0.8 million on the repurchase transaction.

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, 2017 are listed below.

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|   | 2017<br>Convertible<br>Notes | 2020<br>Convertible<br>Notes | 2021<br>Convertible<br>Notes | 2022<br>Convertible<br>Notes |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| Initial conversion price                              | \$ 31.56                     | \$ 45.72                     | \$ 59.39                     | \$ 45.57                     |
| Closing stock price at date of issuance               | \$ 25.66                     | \$ 33.35                     | \$ 47.51                     | \$ 35.05                     |
| Closing stock price date                              | November<br>27,<br>2012      | June 24,<br>2013             | March 5,<br>2014             | February<br>27,<br>2017      |
| Conversion rate (shares per \$1,000 principal amount) | 31.6832                      | 21.8718                      | 16.8386                      | 21.9467                      |
| Conversion date <sup>(1)</sup>                        | May 27,<br>2017              | January 1,<br>2020           | September<br>15,<br>2020     | September<br>15,<br>2021     |

<sup>(1)</sup> The 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 Convertible Notes, 2021 Convertible Notes, and 2022 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 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<br>Convertible<br>Notes <sup>(1)</sup> | 2020<br>Convertible<br>Notes | 2021<br>Convertible<br>Notes | 2022<br>Convertible<br>Notes |
|-------------------------|---|------------------------------|------------------------------|------------------------------|
| Debt component          | \$ 64,646                                   | \$ 140,247                   | \$ 143,645                   | \$ 137,266                   |
| Equity component        | \$ 354                                      | \$ 32,253                    | \$ 17,355                    | \$ 12,734                    |
| Equity issuance cost    | \$ 788                                      | \$ 1,106                     | \$ 581                       | \$ 398                       |
| Stated interest rate    | 3.000                                       | % 3.000                      | % 2.875                      | % 3.250                      |
| Effective interest rate | 3.750                                       | % 6.350                      | % 4.700                      | % 5.200                      |

<sup>(1)</sup> As discussed above, in February 2017, the Company repurchased \$50.0 million aggregate principal amount of its 2017 Convertible Notes. This transaction is treated as debt extinguishment and the effective interest rate has been updated from 6.000% to 3.750%, which represents the effective interest rate for the remaining 2017 Convertible Notes at the time of repurchase.

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

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
| Liability component—principal amount    | \$548,500        | \$ 448,500           |
| Unamortized debt discount               | (37,690 )        | (31,968 )            |
| Liability component—net carrying amount | \$510,810        | \$ 416,532           |
| Equity component                        | \$62,504         | \$ 61,314            |

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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,           |         | June 30,         |          |
|  | 2017               | 2016    | 2017             | 2016     |
| Interest expense—stated coupon rate            | \$4,064            | \$3,297 | \$7,588          | \$6,608  |
| Interest expense—amortization of debt discount | 2,415              | 2,438   | 4,901            | 4,865    |
| Total interest expense—convertible notes       | \$6,479            | \$5,735 | \$12,489         | \$11,473 |

**Convertible Notes Hedge Transactions**

In order to reduce the risk related to the potential dilution and/or the potential cash payments the Company may be required to make in the event that the market price of the Company's common stock becomes greater than the conversion prices of the Convertible Notes, the Company maintains a hedge program that increases the effective conversion price for each of the 2017 Convertible Notes, 2020 Convertible Notes, and 2021 Convertible Notes. The Company did not hedge the 2022 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 details of the hedge program for each of the Convertible Notes are listed below (in thousands, except conversion price):

|                                  | 2017        | 2020        | 2021        |
|----------------------------------|-------------|-------------|-------------|
|                                  | Convertible | Convertible | Convertible |
|                                  | Notes       | Notes       | 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    |

In connection with the partial repurchase of the 2017 Convertible Notes as described above, the Company terminated a portion of its convertible note hedge transactions in a notional amount corresponding to the amount of the 2017 Convertible Notes repurchased. The Company received approximately \$5.6 million of proceeds in connection with the unwinding of the hedge transactions and recorded these proceeds as increase in additional paid-in capital.

**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 Revolving 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 \$83.9 million as of June 30, 2017. 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. The excess conversion premium may be settled in cash or shares of the Company's common stock at the discretion of the Company. As a result, the Company reclassified \$0.2 million of the equity component to temporary equity as of June 30, 2017. 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.

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None of the 2017 Convertible Notes have been converted since they became convertible.

**Cabot Senior Secured Notes**

On September 20, 2012, Cabot Financial (Luxembourg) S.A. (“Cabot Financial”), an indirect subsidiary of Encore, 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 October 6, 2016, the Cabot 2019 Notes were redeemed in full using the proceeds from the issuance of Senior Secured Notes due 2023 (the “Cabot 2023 Notes”) as discussed below. A call premium of £13.7 million (approximately \$17.4 million) was paid in connection with the redemption of the Cabot 2019 Notes. Since the Cabot 2019 Notes carried a premium of approximately £15.2 million (approximately \$19.2 million) at the time of redemption, Cabot recognized a gain of approximately £1.4 million (approximately \$1.8 million) on this transaction. The gain is included in other income in the Company’s consolidated statements of income for the year ended December 31, 2016.

On August 2, 2013, Cabot Financial issued £100.0 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.

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”). Interest on the Cabot 2021 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year.

On October 6, 2016, Cabot Financial issued £350.0 million (approximately \$442.6 million) in aggregate principal amount of 7.500% Senior Secured Notes due 2023 (the “Cabot 2023 Notes,” and together with the Cabot 2019 Notes, the Cabot 2020 Notes and the Cabot 2021 Notes, the “Cabot Notes”). Interest on the Cabot 2023 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year. The Cabot 2023 Notes were issued at a price equal to 100% of their face value. The proceeds from the offering were used to (1) redeem in full the Cabot 2019 Notes plus a call premium of £13.7 million (approximately \$17.4 million), (2) partially repay amounts outstanding under Cabot’s revolving credit facility, (3) pay accrued interest on the Cabot 2019 Notes, and (4) pay fees and expenses in relation to the offering of the Cabot 2023 Notes.

The Cabot Notes are fully and unconditionally guaranteed on a senior secured basis by the following indirect subsidiaries of the Company: Cabot Credit Management Limited (“CCM”), Cabot Financial Limited, and all material subsidiaries of Cabot Financial Limited (other than Cabot Financial and Marlin Intermediate Holdings plc). The Cabot Notes are secured by a first ranking security interest in all the outstanding shares of Cabot Financial and the guarantors (other than CCM and Marlin Midway Limited) and substantially all the assets of Cabot Financial and the guarantors (other than CCM). Subject to the Intercreditor Agreement described below under “Cabot Senior Revolving Credit Facility”, the guarantees provided in respect of the Cabot Notes are pari passu with each such guarantee given in respect of the Cabot Floating Rate Notes, Marlin Bonds and the Cabot Credit Facility described below.

On November 11, 2015, Cabot Financial (Luxembourg) II S.A. (“Cabot Financial II”), an indirect subsidiary of Encore, issued €310.0 million (approximately \$332.2 million) in aggregate principal amount of Senior Secured Floating Rate Notes due 2021 (the “Cabot Floating Rate Notes”). The Cabot Floating Rate Notes were issued at a 1%, or €3.1 million (approximately \$3.4 million), original issue discount, which is being amortized over the life of the notes and included as interest expense in the Company’s consolidated statements of income. The Cabot Floating Rate Notes bear interest at a rate equal to three-month EURIBOR plus 5.875% per annum, reset quarterly. Interest on the Cabot Floating Rate Notes is payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, beginning on February 15, 2016. The Cabot Floating Rate Notes will mature on November 15, 2021.

The Cabot Floating Rate Notes are fully and unconditionally guaranteed on a senior secured basis by the following indirect subsidiaries of the Company: CCM, Cabot Financial Limited and all material subsidiaries of Cabot Financial Limited (other than Cabot Financial II and Marlin Intermediate Holdings plc). The Cabot Floating Rate Notes are secured by a first-ranking security interest in all the outstanding shares of Cabot Financial II and the guarantors (other than CCM and Marlin Midway Limited) and substantially all the assets of Cabot Financial II and the guarantors (other than CCM).

On July 25, 2013, Marlin Intermediate Holdings plc (“Marlin”), a subsidiary of Cabot, 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 acquisition of Marlin. 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 Cabot Financial Limited and each of Cabot Financial Limited's material subsidiaries other than Marlin Intermediate Holdings plc, each of which is an indirect subsidiary of the Company. Subject to the Intercreditor Agreement described below under "Cabot Senior Revolving Credit Facility", the guarantees provided in respect of the Marlin Bonds are pari passu with each such guarantee given in respect of the Cabot Notes, the Cabot Floating Rate Notes and the Cabot Credit Facility. Interest expense related to the Cabot Notes, Cabot Floating Rate Notes and Marlin Bonds was as follows (in thousands):

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2017                           | 2016     | 2017                         | 2016     |
| Interest expense—stated coupon rate               | \$25,011                       | \$27,846 | \$48,993                     | \$55,489 |
| Interest income—accretion of debt premium         | (1,081 )                       | (2,694 ) | (2,097 )                     | (5,312 ) |
| Interest expense—amortization of debt discount    | 116                            | 257      | 226                          | 384      |
| Total interest expense—Cabot senior secured notes | \$24,046                       | \$25,409 | \$47,122                     | \$50,561 |

At June 30, 2017, the outstanding balance on the Cabot Notes, Cabot Floating Rate Notes and Marlin Bonds was \$1.4 billion.

**Cabot Senior Revolving Credit Facility**

On September 20, 2012, Cabot Financial (UK) Limited ("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"). Since such date there have been a number of amendments made, including, but not limited to, increases in the lenders' total commitments thereunder to £250.0 million (approximately \$316.2 million). On March 31, 2017, Cabot Financial UK amended and restated its existing senior secured revolving credit facility agreement effective as of April 3, 2017 to, among other things, extend the termination date for a £50.0 million tranche of commitments to March 2022 (as amended and restated, 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 £50.0 million, subject to obtaining the requisite commitments and compliance with the terms of Cabot Financial UK's other indebtedness, among other conditions precedent.

The Cabot Credit Facility consists of a £200.0 million tranche that expires in September 2019 and a £50.0 million tranche that expires in March 2022, and includes the following key provisions:

• Interest at LIBOR (or EURIBOR for any loan drawn in euro) plus 3.25%;

• A restrictive covenant that limits the loan to value ratio to 0.75 in the event that the Cabot Credit Facility is more than 20% utilized;

• 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 in the event that the Cabot Credit Facility is more than 20% utilized;

• 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 the following indirect subsidiaries of the Company: CCM, Cabot Financial Limited, and all material subsidiaries of Cabot Financial Limited. The Cabot Credit Facility is secured by first ranking security interests in all the outstanding shares of Cabot Financial UK and the guarantors (other than CCM) and substantially all the assets of Cabot Financial UK and the guarantors (other than CCM).

Pursuant to the terms of intercreditor agreements entered into with respect to the relative positions of the Cabot Notes, the Cabot Floating Rate 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, the Cabot Floating Rate 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, 2017, the outstanding borrowings under the Cabot Credit Facility were approximately \$81.2 million. The weighted average interest rate was 3.50% and 4.01% for the three months ended June 30, 2017 and 2016, respectively, and 3.51% and 4.01% for the six months ended June 30, 2017 and 2016, respectively.



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## 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 acquisition of Cabot (the “Cabot Acquisition”) by acquiring 50.1% of the equity interest in Janus Holdings S.a.r.l. (“Janus Holdings”). Encore Europe purchased from J.C. Flowers & Co. LLC (“JC 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 interest 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 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, 2017, the outstanding balance of the PECs, including accrued interest, was approximately \$230.4 million.

## Capital Lease Obligations

The Company has capital lease obligations primarily for computer equipment. As of June 30, 2017, the Company’s combined obligations for capital leases were approximately \$4.1 million. These capital lease obligations require monthly, quarterly or annual payments through 2021 and have implicit interest rates that range from zero to approximately 6.0%.

## Note 10: 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.

The Company’s VIEs include its subsidiary, Janus Holdings, and other immaterial special purpose entities that were created to purchase receivable portfolios in certain geographies.

Prior to March 31, 2016, the Company’s VIEs included its subsidiary Janus Holdings and its special purpose entity used for the Propel securitization. On March 31, 2016, the Company completed the divestiture of 100% of its membership interests in Propel. Since Propel is the primary beneficiary of the VIE used for securitization, subsequent to the sale of Propel, the Company no longer consolidates this VIE.

Janus Holdings is the indirect 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.

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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 VIE.

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

## Note 11: Income Taxes

Income tax expense for income from continuing operations remained the same at \$13.5 million during the three months ended June 30, 2017 and 2016. Income tax expense for income from continuing operations was \$25.6 million and \$23.6 million during the six months ended June 30, 2017 and 2016, respectively.

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

|  | Three Months |        | Six Months |         |
|--|--------------|--------|------------|---------|
|  | Ended        |        | Ended      |         |
|  | June 30,     |        | June 30,   |         |
|  | 2017         | 2016   | 2017       | 2016    |
| Federal provision                                | 35.0%        | 35.0%  | 35.0%      | 35.0%   |
| State provision                                  | 3.2%         | 4.0%   | 3.2%       | 4.0%    |
| International provision (benefit) <sup>(1)</sup> | 2.9%         | (9.1)% | 3.7%       | (10.1)% |
| Permanent items                                  | 0.3%         | 0.4%   | 0.4%       | 0.5%    |
| Other <sup>(2)</sup>                             | 0.1%         | 0.1%   | 0.5%       | (1.4)%  |
| Effective rate                                   | 41.5%        | 30.4%  | 42.8%      | 28.0%   |

Relates primarily to lower tax rates on income or loss attributable to international operations. Effective January 1, (1)2017, there was a change to U.K. tax law that resulted in an unfavorable deductibility on interest expenses as compared to the prior period.

(2)Includes the effect of discrete items.

The effective tax rates fluctuated significantly during the periods presented due to the following factors.

In accordance with the authoritative guidance for income taxes, each interim period is considered an integral part of the annual period and tax expense or benefit is measured using an estimated annual effective income tax rate. The estimated annual effective income tax rate for the full year is applied to the respective interim period, taking into account year-to-date amounts and projected amounts for the year. Since the Company operates in foreign countries with varying tax rates that are much lower than the tax rate in the United States, the magnitude of the impact of the results from the international operations have on the Company's quarterly effective tax rate is dependent on the level of income or loss from the international operations in the period.

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, 2017 and 2016, was immaterial.

The Company had gross unrecognized tax benefits, inclusive of penalties and interest, of \$21.2 million at June 30, 2017. These unrecognized tax benefits, if recognized, would result in a net tax benefit of \$7.1 million as of June 30, 2017. The gross unrecognized tax benefits did not change from December 31, 2016.

During the three and six months ended June 30, 2017, the Company did not provide for U.S. 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 was approximately zero and \$11.5 million during the three and six months ended June 30, 2017, respectively.

## Note 12: 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

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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.

At June 30, 2017, there were 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, 2016.

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 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, 2017, other than the reserves for the Consumer Finance Protection Bureau (“CFPB”) and ancillary state regulatory matters, and the TCPA settlement fund discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, 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, 2017, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately \$2.2 billion for a purchase price of approximately \$310.1 million. The majority of purchase commitments do not extend past one year.

**Note 13: Segment Information**

The Company conducts business through several operating segments that meet the aggregation criteria under authoritative guidance related to segment reporting. 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. Prior to the first quarter 2016 the Company had determined that it had two reportable segments: portfolio purchasing and recovery and tax lien business. As discussed in Note 2, “Discontinued Operations,” on March 31, 2016, the Company completed the divestiture of its membership interests in Propel, which comprised the entire tax lien business segment. Propel’s operations are presented as discontinued operations in the Company’s condensed consolidated statements of income. Beginning in the first quarter 2016, the Company has one reportable segment, portfolio purchasing and recovery.

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

|                           | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|---------------------------|-----------------------------|-----------|---------------------------|-----------|
|                           | 2017                        | 2016      | 2017                      | 2016      |
| Revenues <sup>(1)</sup> : |                             |           |                           |           |
| United States             | \$173,613                   | \$166,112 | \$343,929                 | \$336,843 |
| International             |                             |           |                           |           |
| Europe <sup>(2)</sup>     | 94,754                      | 100,403   | 172,692                   | 197,763   |
| Other foreign countries   | 22,550                      | 22,927    | 46,237                    | 43,853    |

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|       |           |           |           |           |
|-------|-----------|-----------|-----------|-----------|
|       | 117,304   | 123,330   | 218,929   | 241,616   |
| Total | \$290,917 | \$289,442 | \$562,858 | \$578,459 |

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

(2) Based on the financial information that is used to produce the general-purpose financial statements, providing further geographic information is impracticable.

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## Note 14: Goodwill and Identifiable Intangible Assets

In accordance with authoritative guidance, goodwill is tested for impairment at the reporting unit level annually and in interim periods if certain events occur that indicate that the fair value of a reporting unit may be below its carrying value. Determining the number of reporting units and the fair value of a reporting unit requires the Company to make judgments and involves the use of significant estimates and assumptions.

The annual goodwill testing date for the reporting units that are included in the portfolio purchasing and recovery reportable segment is October 1st. There have been no events or circumstances during the six months ended June 30, 2017 that have required the Company to perform an interim assessment of goodwill carried at these reporting units. Management continues to evaluate and monitor all key factors impacting the carrying value of the Company's recorded goodwill and long-lived assets. Adverse changes in the Company's actual or expected operating results, market capitalization, business climate, economic factors or other negative events that may be outside the control of management could result in a material non-cash impairment charge in the future.

The Company's goodwill is attributable to reporting units included in its portfolio purchasing and recovery segment.

The following table summarizes the activity in the Company's goodwill balance (in thousands):

|  | Total     |
|--|-----------|
| Balance, December 31, 2016             | \$785,032 |
| Goodwill acquired                      | 11,142    |
| Effect of foreign currency translation | 35,382    |
| Balance, June 30, 2017                 | \$831,556 |

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

|                         | As of June 30, 2017   |                          |                     | As of December 31, 2016 |                          |                     |
|-------------------------|-----------------------|--------------------------|---------------------|-------------------------|--------------------------|---------------------|
|                         | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount   | Accumulated Amortization | Net Carrying Amount |
| Customer relationships  | \$25,393              | \$ (4,736 )              | \$ 20,657           | \$21,200                | \$ (3,220 )              | \$ 17,980           |
| Developed technologies  | 6,667                 | (4,740 )                 | 1,927               | 6,497                   | (3,891 )                 | 2,606               |
| Trade name and other    | 13,197                | (6,079 )                 | 7,118               | 12,566                  | (4,909 )                 | 7,657               |
| Total intangible assets | \$45,257              | \$ (15,555 )             | \$ 29,702           | \$40,263                | \$ (12,020 )             | \$ 28,243           |

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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 and other related services for consumers 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 (collectively, “Cabot”), is a market leader in credit management services 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). Our 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”), through its subsidiaries, is a market leader in debt collection and management in Colombia and Peru. Our majority-owned subsidiary, Baycorp Holdings Pty Limited (“Baycorp”), is one of Australasia's leading debt resolution specialists. In India, Encore’s Asset Reconstruction Company (“EARC”) is operational and has completed initial immaterial purchases.

On March 31, 2016, we completed the divestiture of our membership interests in Propel Acquisition LLC (“Propel”). Propel represented our entire tax lien business reportable segment prior to the divestiture. Propel’s operations are presented as discontinued operations in our condensed consolidated statements of income. Beginning in the first quarter 2016, we conduct business through one reportable segment, portfolio purchasing and recovery.

In the first quarter of 2017, we and our co-investor in Cabot, J.C. Flowers & Co. LLC (“J.C. Flowers”), began exploring options in relation to a potential initial public offering by Cabot (“Cabot IPO”). Upon consummation of the Cabot IPO, we intend to deconsolidate Cabot from our financial statements. The potential deconsolidation would significantly



change our financial statements. For example, assets and liabilities attributable to Cabot that are currently consolidated in our statements of financial condition would be removed and the fair value of our retained interest in Cabot would be accounted for under the guidance of equity method accounting for so long as we retained significant influence over Cabot. The Cabot IPO could also significantly change our liquidity and capital resources to the extent we decide to sell any interest in Cabot after the Cabot IPO.

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

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### Government Regulation

#### United States

As discussed in more detail under “Part I - Item 1 - Business - Government Regulation” 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 prohibitions on unfair, deceptive or abusive debt collection practices. In July, the Consumer Financial Protection Bureau, or CFPB, issued an agenda that included plans to issue a Notice of Proposed Rulemaking in September 2017 concerning debt collectors’ and debt buyers’ communications practices and consumer disclosures.

#### International

As discussed in more detail under “Part I - Item 1 - Business - Government Regulation” in our Annual Report on Form 10-K, our international operations are affected by foreign statutes, rules and regulations regarding debt collection and debt purchase activities. These statutes, rules, regulations, ordinances, 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.

In the United Kingdom, Cabot applied for full authorization of its business with the FCA in March 2015 and Cabot Credit Management Group Limited (“CCMG”), a Cabot subsidiary, became authorized and regulated by the FCA in March 2016. CCMG appointed other Cabot subsidiaries to carry out debt-collecting and debt administration services on its behalf. CCMG assumes full regulatory responsibility for such entities. In addition to the permissions granted as part of this authorization, Cabot successfully applied for additional permission to collect MCOB (Mortgage/Secured) debt in November 2016, this was unconditionally granted in February 2017.

Also in the United Kingdom, an area of new legislation is the extension of the Senior Managers and Certification Regime to all sectors of the financial services industry, which is due to be implemented from 2018. The extended regime will reflect the requirements of the regime applied to U.K. banks in 2016. The Senior Managers and Certification Regime was designed to drive up individual accountability and general governance standards.

In July 2015, the Irish Parliament introduced the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015, which requires credit servicing firms to be regulated by the Central Bank of Ireland to ensure regulatory protection for consumers following loan book sales. Cabot is registered with and regulated by the Central Bank of Ireland for credit servicing activities and its activities are subject to detailed rules on consumer protection. Cabot was issued an unconditional authorization in May 2017.

In June 2016, the United Kingdom held a referendum in which voters approved the United Kingdom’s exit from the European Union (“E.U.”), commonly referred to as “Brexit.” The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the U.K. government formally initiates a withdrawal process. In March 2017, the United Kingdom formally triggered the process of leaving the E.U. by invoking Article 50 of the Treaty on European Union. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications Brexit will have and how it will affect us.

### Portfolio Purchasing and Recovery

#### United States

We purchase receivables based on robust, account-level valuation methods and employ 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 business, 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.

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Collection seasonality 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.

### Europe

**Cabot:** Through Cabot, we purchase paying and non-paying receivable portfolios using a proprietary pricing model that utilizes account-level statistical and behavioral data. 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 services providers in the United Kingdom and continues to expand in the United Kingdom and the rest of Europe with its acquisitions of portfolios and other credit management services providers.

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.

**Grove:** In April 2014, we acquired a controlling equity ownership interest in Grove. In December 2016, we acquired the remaining minority 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 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 debt collection and management 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 point-of-purchase lending to consumers and providing financial solutions to individuals who have previously defaulted on their credit obligations. In addition to operations in Colombia and Peru, we evaluate and purchase non-performing loans in other countries in Latin America, including Mexico and Brazil. We also invest in non-performing secured residential mortgages in Latin America.

### Asia Pacific

Through our acquisition of a majority ownership interest in Baycorp in October 2015 (the "Baycorp Acquisition"), we are one of Australasia's leading debt resolution specialists. Baycorp specializes in the management of non-performing loans in Australia and New Zealand. In addition to purchasing defaulted receivables, Baycorp offers portfolio management services to banks for non-performing loans.

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Purchases and Collections

Portfolio Pricing, Supply and Demand

United States

Prices for portfolios offered for sale directly from credit issuers are beginning to decrease after several years of elevated pricing, 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. Recently we have noticed that, in addition to selling their volume earlier in the calendar year, issuers have continued to increase the amount of fresh portfolios in their asset sales. Industry delinquency and charge-off rates, which have been at historic lows, are beginning to increase which creates higher volumes of charged-off accounts. We believe the softening in pricing, especially for fresh portfolios, is primarily due to this anticipated growth in supply.

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.

Europe

The U.K. market for charged-off portfolios 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. 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 believe that with our competitive advantages, we will continue to be able to generate strong risk adjusted returns in the U.K. market.

The U.K. insolvency market as a whole has remained flat over the past twelve months, although we are seeing an increase in individual insolvencies driven by high unemployment rates. We expect that this trend will drive increased purchasing opportunities once large retail banks start to off-load their insolvency portfolios.

The Spanish debt market continues to be one of the largest in Europe with a significant amount of debt to be sold and serviced. In particular, we anticipate strong debt purchasing and servicing opportunities in the secured and small and medium enterprise asset classes given the backlog of non-performing debt that has accumulated in these sectors. Additionally, financial institutions continue to experience both market and regulatory pressure to dispose of non-performing loans which should further increase debt purchasing opportunities in Spain.

Although pricing has been elevated, we believe that as our U.K. businesses increase in scale and expand to other European markets, and with anticipated improvements in liquidation and improved efficiencies in collections, our margins will remain competitive. Additionally, Cabot's continuing investment in its litigation liquidation channel has enabled them to collect from consumers who have the ability to pay, but have so far been unwilling to do so.

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## Purchases by Type and Geographic Location

The following table summarizes the types and geographic locations of consumer receivable portfolios we purchased during the periods presented (in thousands):

|                                 | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|---------------------------------|-----------------------------|-----------|---------------------------|-----------|
|                                 | 2017                        | 2016      | 2017                      | 2016      |
| United States:                  |                             |           |                           |           |
| Credit card                     | \$121,297                   | \$116,234 | \$234,023                 | \$247,629 |
| Consumer bankruptcy receivables | 10,985                      | 12,787    | 21,137                    | 23,862    |
| Subtotal                        | 132,282                     | 129,021   | \$255,160                 | \$271,491 |
| Europe:                         |                             |           |                           |           |
| Credit card                     | 90,696                      | 83,555    | 175,809                   | 175,956   |
| Other                           | 1,561                       | 2,340     | 1,561                     | 3,438     |
| Subtotal                        | 92,257                      | 85,895    | 177,370                   | 179,394   |
| Other geographies:              |                             |           |                           |           |
| Credit card                     | 17,964                      | 14,696    | 27,964                    | 32,505    |
| Other                           | 3,912                       | 3,504     | 4,648                     | 6,479     |
| Subtotal                        | 21,876                      | 18,200    | 32,612                    | 38,984    |
| Total purchases                 | \$246,415                   | \$233,116 | \$465,142                 | \$489,869 |

During the three months ended June 30, 2017, we invested \$246.4 million to acquire consumer receivable portfolios, with face values aggregating \$2.4 billion, for an average purchase price of 10.1% of face value. This is a \$13.3 million, or 5.7%, increase in the amount invested, compared with the \$233.1 million invested during the three months ended June 30, 2016, to acquire consumer receivable portfolios with face values aggregating \$2.8 billion, for an average purchase price of 8.2% of face value.

In the United States, capital deployment increased for the three months ended June 30, 2017, as compared to the corresponding period in the prior year, due to increased supply available for sale during the quarter as a result of issuers selling more of their available volume earlier in the calendar year. This increase was partially offset by a decrease in capital deployment resulting from the improved pricing environment and our disciplined approach to capital deployment, which allows us to deploy capital on portfolios with higher returns enabling us to purchase similar amounts of total estimated gross collections for less. In Europe, capital deployment increased for the three months ended June 30, 2017, as compared to the corresponding period in the prior year due to continued strategic expansion in the European debt purchasing market.

During the six months ended June 30, 2017, we invested \$465.1 million to acquire consumer receivable portfolios, with face values aggregating \$4.1 billion, for an average purchase price of 11.3% of face value. This is a \$24.8 million, or 5.1%, decrease in the amount invested, compared with the \$489.9 million invested during the six months ended June 30, 2016, to acquire consumer receivable portfolios with face values aggregating \$6.4 billion, for an average purchase price of 7.7% of face value.

In the United States, capital deployment decreased for the six months ended June 30, 2017, as compared to the corresponding period in the prior year, due to the improved pricing environment and our disciplined approach to capital deployment, which allows us to deploy capital on portfolios with higher returns enabling us to purchase similar amounts of total estimated gross collections for less. This decrease was partially offset by the increased supply available for sale during the period as a result of issuers selling more of their available volume earlier in the calendar year.

In Europe, capital deployment for the six months ended June 30, 2017 decreased slightly as compared to the corresponding period in the prior year, primarily driven by larger than usual portfolio purchases in Spain during the prior year and the unfavorable impact of foreign currency translation, which was primarily the result of the weakening of the British Pound against the U.S. dollar.

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

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## Collections by Channel and Geographic Location

We currently utilize three channels for the collection of our receivables: collection sites, legal collections, and collection agencies. The collection sites channel consists of collections that result from our call centers, direct mail program and online collections. The legal collections channel consists of collections that result from our internal legal channel or from our network of retained law firms. The collection agencies channel consists of collections from third-party collection agencies that we utilize when we believe they can liquidate better or less expensively than we can or to supplement capacity in our internal call centers.

The following table summarizes the total collections by collection channel and geographic area (in thousands):

|                                    | Three Months Ended |           | Six Months Ended |           |
|------------------------------------|--------------------|-----------|------------------|-----------|
|                                    | June 30,           |           | June 30,         |           |
|                                    | 2017               | 2016      | 2017             | 2016      |
| United States:                     |                    |           |                  |           |
| Collection sites                   | \$128,351          | \$121,867 | \$260,069        | \$250,257 |
| Legal collections                  | 145,009            | 142,937   | 287,973          | 296,987   |
| Collection agencies <sup>(1)</sup> | 13,105             | 14,082    | 25,898           | 28,755    |
| Subtotal                           | 286,465            | 278,886   | 573,940          | 575,999   |
| Europe:                            |                    |           |                  |           |
| Collection sites                   | 68,949             | 60,605    | 144,767          | 119,436   |
| Legal collections                  | 32,247             | 31,616    | 61,513           | 63,094    |
| Collection agencies                | 31,492             | 35,129    | 52,366           | 71,954    |
| Subtotal                           | 132,688            | 127,350   | 258,646          | 254,484   |
| Other geographies:                 |                    |           |                  |           |
| Collection sites                   | 21,313             | 20,579    | 42,435           | 38,208    |
| Legal collections                  | 1,865              | 2,723     | 3,649            | 5,141     |
| Collection agencies                | 3,851              | 4,562     | 8,375            | 8,073     |
| Subtotal                           | 27,029             | 27,864    | 54,459           | 51,422    |
| Total collections                  | \$446,182          | \$434,100 | \$887,045        | \$881,905 |

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 by \$12.1 million, or 2.8%, to \$446.2 million during the three months ended June 30, 2017, from \$434.1 million during the three months ended June 30, 2016. Gross collections increased by \$5.1 million, or 0.6%, to \$887.0 million during the six months ended June 30, 2017, from \$881.9 million during the six months ended June 30, 2016.

The increase of collections in the United States was primarily due to increased purchasing volume and the acquisition in recent periods of portfolios with higher returns. The increase in collections in Europe was primarily the result of implementing certain liquidation improvement initiatives, offset by the unfavorable impact of foreign currency translation, primarily driven by the weakening of the British Pound against the U.S. dollar.



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## Results of Operations

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

|  | Three Months Ended June 30, |         |           |         |
|--|-----------------------------|---------|-----------|---------|
|  | 2017                        |         | 2016      |         |
| Revenues   |                             |         |           |         |
| Revenue from receivable portfolios, net                            | \$272,236                   | 93.6 %  | \$267,452 | 92.4 %  |
| Other revenues   | 18,681                      | 6.4 %   | 21,990    | 7.6 %   |
| Total revenues   | 290,917                     | 100.0 % | 289,442   | 100.0 % |
| Operating expenses   |                             |         |           |         |
| Salaries and employee benefits                                     | 75,786                      | 26.1 %  | 75,499    | 26.1 %  |
| Cost of legal collections  | 53,409                      | 18.3 %  | 46,807    | 16.2 %  |
| Other operating expenses   | 24,030                      | 8.2 %   | 24,946    | 8.6 %   |
| Collection agency commissions                                      | 11,494                      | 4.0 %   | 9,274     | 3.2 %   |
| General and administrative expenses                                | 36,932                      | 12.7 %  | 32,934    | 11.4 %  |
| Depreciation and amortization                                      | 8,672                       | 3.0 %   | 8,235     | 2.8 %   |
| Total operating expenses   | 210,323                     | 72.3 %  | 197,695   | 68.3 %  |
| Income from operations   | 80,594                      | 27.7 %  | 91,747    | 31.7 %  |
| Other (expense) income   |                             |         |           |         |
| Interest expense   | (50,516)                    | (17.4)% | (50,597)  | (17.5)% |
| Other income   | 2,529                       | 0.9 %   | 3,134     | 1.1 %   |
| Total other expense  | (47,987)                    | (16.5)% | (47,463)  | (16.4)% |
| Income before income taxes   | 32,607                      | 11.2 %  | 44,284    | 15.3 %  |
| Provision for income taxes   | (13,531)                    | (4.6)%  | (13,451)  | (4.6)%  |
| Net income   | 19,076                      | 6.6 %   | 30,833    | 10.7 %  |
| Net loss (income) attributable to noncontrolling interest          | 1,179                       | 0.4 %   | (1,245)   | (0.5)%  |
| Net income attributable to Encore Capital Group, Inc. stockholders | \$20,255                    | 7.0 %   | \$29,588  | 10.2 %  |

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|  | Six Months Ended June 30, |          |            |          |
|--|---------------------------|----------|------------|----------|
|  | 2017                      |          | 2016       |          |
| Revenues   |                           |          |            |          |
| Revenue from receivable portfolios, net                            | \$524,206                 | 93.1 %   | \$537,546  | 92.9 %   |
| Other revenues   | 38,652                    | 6.9 %    | 40,913     | 7.1 %    |
| Total revenues   | 562,858                   | 100.0 %  | 578,459    | 100.0 %  |
| Operating expenses   |                           |          |            |          |
| Salaries and employee benefits                                     | 144,064                   | 25.6 %   | 145,141    | 25.1 %   |
| Cost of legal collections  | 101,366                   | 18.0 %   | 101,115    | 17.4 %   |
| Other operating expenses   | 50,390                    | 9.0 %    | 51,289     | 8.9 %    |
| Collection agency commissions                                      | 23,056                    | 4.1 %    | 19,394     | 3.4 %    |
| General and administrative expenses                                | 70,250                    | 12.4 %   | 68,173     | 11.8 %   |
| Depreciation and amortization                                      | 17,297                    | 3.1 %    | 18,096     | 3.1 %    |
| Total operating expenses   | 406,423                   | 72.2 %   | 403,208    | 69.7 %   |
| Income from operations   | 156,435                   | 27.8 %   | 175,251    | 30.3 %   |
| Other (expense) income   |                           |          |            |          |
| Interest expense   | (99,714 )                 | (17.7 )% | (101,288 ) | (17.5 )% |
| Other income   | 3,131                     | 0.5 %    | 10,258     | 1.8 %    |
| Total other expense  | (96,583 )                 | (17.2 )% | (91,030 )  | (15.7 )% |
| Income from continuing operations before income taxes              | 59,852                    | 10.6 %   | 84,221     | 14.6 %   |
| Provision for income taxes   | (25,598 )                 | (4.5 )%  | (23,599 )  | (4.1 )%  |
| Income from continuing operations                                  | 34,254                    | 6.1 %    | 60,622     | 10.5 %   |
| Loss from discontinued operations, net of tax                      | (199 )                    | 0.0 %    | (3,182 )   | (0.6 )%  |
| Net income   | 34,055                    | 6.1 %    | 57,440     | 9.9 %    |
| Net loss (income) attributable to noncontrolling interest          | 8,298                     | 1.4 %    | (2,158 )   | (0.3 )%  |
| Net income attributable to Encore Capital Group, Inc. stockholders | \$42,353                  | 7.5 %    | \$55,282   | 9.6 %    |

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## 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, 2017 |                              |              | Three Months Ended June 30, 2016 |                              |              |
|---|----------------------------------|------------------------------|--------------|----------------------------------|------------------------------|--------------|
|   | Janus Holdings                   | Encore Europe <sup>(1)</sup> | Consolidated | Janus Holdings                   | Encore Europe <sup>(1)</sup> | Consolidated |
| Total revenues  | \$ 89,523                        | \$ —                         | \$ 89,523    | \$ 92,128                        | \$ —                         | \$ 92,128    |
| Total operating expenses  | (48,503 )                        | —                            | (48,503 )    | (50,150 )                        | —                            | (50,150 )    |
| Income from operations  | 41,020                           | —                            | 41,020       | 41,978                           | —                            | 41,978       |
| Interest expense-non-PEC  | (27,084 )                        | —                            | (27,084 )    | (28,579 )                        | —                            | (28,579 )    |
| PEC interest (expense) income   | (12,573 )                        | 6,161                        | (6,412 )     | (12,652 )                        | 6,200                        | (6,452 )     |
| Other income  | 2,892                            | —                            | 2,892        | 5,432                            | —                            | 5,432        |
| Income before income taxes  | 4,255                            | 6,161                        | 10,416       | 6,179                            | 6,200                        | 12,379       |
| Provision for income taxes  | (3,362 )                         | —                            | (3,362 )     | (2,130 )                         | —                            | (2,130 )     |
| Net income  | 893                              | 6,161                        | 7,054        | 4,049                            | 6,200                        | 10,249       |
| Net income attributable to noncontrolling interest                        | (164 )                           | (363 )                       | (527 )       | (519 )                           | (1,761 )                     | (2,280 )     |
| Net income attributable to Encore Capital Group, Inc. stockholders        | \$ 729                           | \$ 5,798                     | \$ 6,527     | \$ 3,530                         | \$ 4,439                     | \$ 7,969     |
|   | Six Months Ended June 30, 2017   |                              |              | Six Months Ended June 30, 2016   |                              |              |
|   | Janus Holdings                   | Encore Europe <sup>(1)</sup> | Consolidated | Janus Holdings                   | Encore Europe <sup>(1)</sup> | Consolidated |
| Total revenues  | \$ 159,829                       | \$ —                         | \$ 159,829   | \$ 181,661                       | \$ —                         | \$ 181,661   |
| Total operating expenses  | (91,830 )                        | —                            | (91,830 )    | (100,980 )                       | —                            | (100,980 )   |
| Income from operations  | 67,999                           | —                            | 67,999       | 80,681                           | —                            | 80,681       |
| Interest expense-non-PEC  | (52,723 )                        | —                            | (52,723 )    | (56,851 )                        | —                            | (56,851 )    |
| PEC interest (expense) income   | (24,612 )                        | 12,061                       | (12,551 )    | (25,063 )                        | 12,282                       | (12,781 )    |
| Other income  | 2,540                            | —                            | 2,540        | 11,398                           | —                            | 11,398       |
| (Loss) income before income taxes   | (6,796 )                         | 12,061                       | 5,265        | 10,165                           | 12,282                       | 22,447       |
| Provision for income taxes  | (3,182 )                         | —                            | (3,182 )     | (3,817 )                         | —                            | (3,817 )     |
| Net (loss) income   | (9,978 )                         | 12,061                       | 2,083        | 6,348                            | 12,282                       | 18,630       |
| Net loss (income) attributable to noncontrolling interest                 | 1,263                            | 4,349                        | 5,612        | (841 )                           | (2,748 )                     | (3,589 )     |
| Net (loss) income attributable to Encore Capital Group, Inc. stockholders | \$(8,715 )                       | \$ 16,410                    | \$ 7,695     | \$ 5,507                         | \$ 9,534                     | \$ 15,041    |

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

For all periods presented, 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.

## Comparison of Results of Operations

## Revenues

Our revenues consist of portfolio revenue and other revenue.

Portfolio revenue consists of accretion revenue and zero basis revenue. Accretion revenue represents revenue derived from pools (quarterly groupings of purchased receivable portfolios) with a cost basis that has not been fully amortized.

## Revenue



from pools with a remaining unamortized cost basis is accrued based on each pool's effective interest rate applied to each pool's remaining unamortized cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and 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 may incur allowance charges when actual cash flows from our receivable portfolios underperform compared to our expectations or when there is a change in the timing of cash flows. Factors that may contribute to underperformance and to the recording of valuation allowances may include both internal as well as external factors. Internal factors that may have an impact on our collections include operational activities, such as the productivity of our collection staff. 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. We record allowance reversals on pool groups that have historic allowance reserves when actual cash flows from these receivable portfolios outperform our expectations. Allowance reversals are included in portfolio revenue.

Other revenues consist primarily of fee-based income earned on accounts collected on behalf of others, primarily credit originators. Certain of the Company's international subsidiaries earn fee-based income by providing portfolio management services to credit originators for non-performing loans.

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the U.S. dollar relative to other foreign currencies has an unfavorable impact on our international revenues, and the weakening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international revenues.

Our revenues were unfavorably impacted by foreign currency translation, primarily by the weakening of the British Pound against the U.S. dollar by 10.8% for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, and 12.1% for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. Portfolio revenue was \$272.2 million during the three months ended June 30, 2017, an increase of \$4.7 million, or 1.8%, compared to \$267.5 million during the three months ended June 30, 2016. The increase in portfolio revenue during the three months ended June 30, 2017 compared to the three months ended June 30, 2016 was due to reversal of a portion of a previously recorded portfolio allowance as a result of sustained improvements in portfolio collections driven by liquidation improvement initiatives. The increase was partially offset by the unfavorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar and decreased accretion revenue due to reduced portfolio balance resulting from a large allowance charge recorded on certain pools in Europe in the third quarter of 2016.

Portfolio revenue was \$524.2 million during the six months ended June 30, 2017, a decrease of \$13.3 million, or 2.5%, compared to revenue of \$537.5 million during the six months ended June 30, 2016. The decrease in portfolio revenue during the six months ended June 30, 2017 compared to 2016 was due to the unfavorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar and reduced portfolio balance resulting from a large allowance charge recorded on certain pools in Europe in the third quarter of 2016. The decrease was partially offset by a reversal of a portion of a previously recorded portfolio allowance as a result of sustained improvements in portfolio collections driven by liquidation improvement initiatives.

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

|                     | Three Months Ended June 30, 2017 |                              |   |                                    |                            | As of<br>June 30, 2017 |             |  |  |
|---------------------|----------------------------------|------------------------------|---|------------------------------------|----------------------------|------------------------|-------------|--|--|
|                     | Collections <sup>(1)</sup>       | Gross Revenue <sup>(2)</sup> | Revenue Recognition Rate <sup>(3)</sup> | Net Reversal (Portfolio Allowance) | Revenue % of Total Revenue | Unamortized Balances   | Monthly IRR |  |  |
| United States:      |                                  |                              |   |                                    |                            |                        |             |  |  |
| ZBA <sup>(4)</sup>  | \$38,051                         | \$36,323                     | 95.5 %                                  | \$ 1,708                           | 13.8 %                     | \$—                    | —           |  |  |
| 2007                | 566                              | 74                           | 13.1 %                                  | —                                  | 0.0 %                      | 122                    | 4.6 %       |  |  |
| 2008                | 1,231                            | 531                          | 43.1 %                                  | —                                  | 0.2 %                      | 2,931                  | 5.2 %       |  |  |
| 2009 <sup>(5)</sup> | —                                | —                            | 0.0 %                                   | —                                  | 0.0 %                      | —                      | 0.0 %       |  |  |
| 2010 <sup>(5)</sup> | —                                | —                            | 0.0 %                                   | —                                  | 0.0 %                      | —                      | 0.0 %       |  |  |
| 2011                | 5,577                            | 4,724                        | 84.7 %                                  | —                                  | 1.8 %                      | 5,634                  | 25.0 %      |  |  |
| 2012                | 20,382                           | 15,056                       | 73.9 %                                  | —                                  | 5.7 %                      | 25,461                 | 17.2 %      |  |  |
| 2013                | 37,956                           | 24,445                       | 64.4 %                                  | —                                  | 9.3 %                      | 63,270                 | 11.2 %      |  |  |
| 2014                | 38,582                           | 20,785                       | 53.9 %                                  | —                                  | 7.9 %                      | 147,907                | 4.3 %       |  |  |
| 2015                | 50,498                           | 20,444                       | 40.5 %                                  | —                                  | 7.8 %                      | 247,554                | 2.5 %       |  |  |
| 2016                | 72,671                           | 36,386                       | 50.1 %                                  | —                                  | 13.8 %                     | 440,502                | 2.6 %       |  |  |
| 2017                | 20,951                           | 13,122                       | 62.6 %                                  | —                                  | 5.0 %                      | 246,557                | 2.8 %       |  |  |
| Subtotal            | 286,465                          | 171,890                      | 60.0 %                                  | 1,708                              | 65.3 %                     | 1,179,938              | 3.7 %       |  |  |
| Europe:             |                                  |                              |   |                                    |                            |                        |             |  |  |
| 2013                | 37,774                           | 23,342                       | 61.8 %                                  | 7,803                              | 8.8 %                      | 248,243                | 3.0 %       |  |  |
| 2014                | 34,610                           | 21,529                       | 62.2 %                                  | —                                  | 8.2 %                      | 297,606                | 2.4 %       |  |  |
| 2015                | 26,729                           | 14,029                       | 52.5 %                                  | —                                  | 5.3 %                      | 243,826                | 1.9 %       |  |  |
| 2016                | 24,523                           | 12,350                       | 50.4 %                                  | —                                  | 4.7 %                      | 220,573                | 1.8 %       |  |  |
| 2017                | 9,052                            | 3,864                        | 42.7 %                                  | —                                  | 1.5 %                      | 175,883                | 1.6 %       |  |  |
| Subtotal            | 132,688                          | 75,114                       | 56.6 %                                  | 7,803                              | 28.5 %                     | 1,186,131              | 2.1 %       |  |  |
| Other geographies:  |                                  |                              |   |                                    |                            |                        |             |  |  |
| ZBA <sup>(4)</sup>  | 2,754                            | 2,754                        | 100.0 %                                 | —                                  | 1.1 %                      | —                      | —           |  |  |
| 2013                | 223                              | —                            | —                                       | —                                  | 0.0 %                      | 466                    | 0.0 %       |  |  |
| 2014                | 1,808                            | 4,040                        | 223.5 %                                 | —                                  | 1.5 %                      | 61,315                 | 2.3 %       |  |  |
| 2015                | 10,183                           | 5,309                        | 52.1 %                                  | —                                  | 2.0 %                      | 44,015                 | 3.7 %       |  |  |
| 2016                | 9,097                            | 3,675                        | 40.4 %                                  | (682 )                             | 1.4 %                      | 54,154                 | 2.1 %       |  |  |
| 2017                | 2,964                            | 625                          | 21.1 %                                  | —                                  | 0.2 %                      | 29,906                 | 1.3 %       |  |  |
| Subtotal            | 27,029                           | 16,403                       | 60.7 %                                  | (682 )                             | 6.2 %                      | 189,856                | 2.5 %       |  |  |
| Total               | \$446,182                        | \$263,407                    | 59.0 %                                  | \$ 8,829                           | 100.0 %                    | \$2,555,925            | 2.9 %       |  |  |

(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.

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 (4) 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”).

(5) Total collections realized exceed the net book value of the portfolio and have been converted to ZBA.



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|                     | Three Months Ended June 30, 2016 |                                 |   |   |                                  | As of<br>June 30, 2016  |                |  |  |
|---------------------|----------------------------------|---------------------------------|---|---|----------------------------------|-------------------------|----------------|--|--|
|                     | 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:      |                                  |                                 |   |   |                                  |                         |                |  |  |
| ZBA <sup>(4)</sup>  | \$31,883                         | \$30,119                        | 94.5 %  | \$ 1,775                                  | 11.4 %                           | \$—                     | —              |  |  |
| 2007                | 556                              | 194                             | 34.9 %  | 154                                       | 0.1 %                            | 1,183                   | 4.6 %          |  |  |
| 2008                | 2,924                            | 1,249                           | 42.7 %  | 550                                       | 0.5 %                            | 3,851                   | 6.3 %          |  |  |
| 2009 <sup>(5)</sup> | —                                | —                               | —   | —   | —                                | —                       | —              |  |  |
| 2010                | 2,704                            | 2,198                           | 81.3 %  | —   | 0.8 %                            | 2,539                   | 25.0 %         |  |  |
| 2011                | 17,197                           | 9,842                           | 57.2 %  | —   | 3.7 %                            | 12,713                  | 17.4 %         |  |  |
| 2012                | 29,983                           | 18,601                          | 62.0 %  | —   | 7.0 %                            | 55,789                  | 9.9 %          |  |  |
| 2013                | 53,213                           | 32,408                          | 60.9 %  | —   | 12.2 %                           | 116,497                 | 8.2 %          |  |  |
| 2014                | 57,762                           | 29,617                          | 51.3 %  | —   | 11.2 %                           | 228,107                 | 4.0 %          |  |  |
| 2015                | 58,427                           | 27,014                          | 46.2 %  | —   | 10.2 %                           | 368,768                 | 2.0 %          |  |  |
| 2016                | 24,237                           | 12,254                          | 50.6 %  | —   | 4.6 %                            | 256,407                 | 2.2 %          |  |  |
| Subtotal            | 278,886                          | 163,496                         | 58.6 %  | 2,479                                     | 61.7 %                           | 1,045,854               | 4.0 %          |  |  |
| Europe:             |                                  |                                 |   |   |                                  |                         |                |  |  |
| 2013                | 44,915                           | 37,909                          | 84.4 %  | —   | 14.3 %                           | 384,927                 | 3.1 %          |  |  |
| 2014                | 41,755                           | 25,492                          | 61.1 %  | —   | 9.6 %                            | 379,330                 | 2.1 %          |  |  |
| 2015                | 32,144                           | 17,328                          | 53.9 %  | —   | 6.6 %                            | 319,354                 | 1.7 %          |  |  |
| 2016                | 8,536                            | 4,991                           | 58.5 %  | —   | 1.9 %                            | 172,067                 | 1.5 %          |  |  |
| Subtotal            | 127,350                          | 85,720                          | 67.3 %  | —   | 32.4 %                           | 1,255,678               | 2.2 %          |  |  |
| Other geographies:  |                                  |                                 |   |   |                                  |                         |                |  |  |
| ZBA <sup>(4)</sup>  | 1,995                            | 1,843                           | 92.4 %  | —   | 0.7 %                            | —                       | —              |  |  |
| 2013                | 423                              | —                               | 0.0 %   | —   | 0.0 %                            | 1,812                   | 0.0 %          |  |  |
| 2014                | 4,967                            | 4,637                           | 93.4 %  | —   | 1.7 %                            | 62,609                  | 2.3 %          |  |  |
| 2015                | 15,003                           | 7,288                           | 48.6 %  | —   | 2.7 %                            | 66,928                  | 3.3 %          |  |  |
| 2016                | 5,476                            | 1,989                           | 36.3 %  | —   | 0.8 %                            | 36,712                  | 2.4 %          |  |  |
| Subtotal            | 27,864                           | 15,757                          | 56.5 %  | —   | 5.9 %                            | 168,061                 | 2.7 %          |  |  |
| Total               | \$434,100                        | \$264,973                       | 61.0 %  | \$ 2,479                                  | 100.0 %                          | \$2,469,593             | 3.0 %          |  |  |

(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.

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 (4) 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”).

(5) Total collections realized exceed the net book value of the portfolio and have been converted to ZBA.



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|                     | Six Months Ended June 30, 2017 |                                 |   |   |                                  | As of<br>June 30, 2017  |                |   |  |
|---------------------|--------------------------------|---------------------------------|---|---|----------------------------------|-------------------------|----------------|---|--|
|                     | Collections <sup>(1)</sup>     | Gross<br>Revenue <sup>(2)</sup> | Revenue<br>Recognition<br>Rate <sup>(3)</sup> | Net<br>Reversal<br>(Portfolio<br>Allowance) | Revenue<br>% of Total<br>Revenue | Unamortized<br>Balances | Monthly<br>IRR |   |  |
| United States:      |                                |                                 |   |   |                                  |                         |                |   |  |
| ZBA <sup>(4)</sup>  | \$75,146                       | \$ 71,909                       | 95.7  | % \$ 3,227                                  | 14.0                             | % \$—                   | —              |   |  |
| 2007                | 1,112                          | 204                             | 18.3  | % —   | 0.0                              | % 122                   | 4.6            | % |  |
| 2008                | 2,484                          | 1,171                           | 47.1  | % 613                                       | 0.2                              | % 2,931                 | 5.2            | % |  |
| 2009 <sup>(5)</sup> | —                              | —                               | —   | —   | —                                | —                       | —              | — |  |
| 2010                | 1,106                          | 299                             | 27.0  | % —   | 0.1                              | % —                     | 0.0            | % |  |
| 2011                | 11,372                         | 9,146                           | 80.4  | % —   | 1.8                              | % 5,634                 | 25.0           | % |  |
| 2012                | 42,996                         | 29,623                          | 68.9  | % —   | 5.8                              | % 25,461                | 17.2           | % |  |
| 2013                | 77,469                         | 50,174                          | 64.8  | % —   | 9.8                              | % 63,270                | 11.2           | % |  |
| 2014                | 82,106                         | 43,168                          | 52.6  | % —   | 8.4                              | % 147,907               | 4.3            | % |  |
| 2015                | 106,479                        | 42,217                          | 39.6  | % —   | 8.2                              | % 247,554               | 2.5            | % |  |
| 2016                | 148,858                        | 75,416                          | 50.7  | % —   | 14.7                             | % 440,502               | 2.6            | % |  |
| 2017                | 24,812                         | 16,708                          | 67.3  | % —   | 3.3                              | % 246,557               | 2.8            | % |  |
| Subtotal            | 573,940                        | 340,035                         | 59.2  | % 3,840                                     | 66.3                             | % 1,179,938             | 3.7            | % |  |
| Europe:             |                                |                                 |   |   |                                  |                         |                |   |  |
| 2013                | 75,881                         | 46,349                          | 61.1  | % 7,803                                     | 9.0                              | % 248,243               | 3.0            | % |  |
| 2014                | 69,735                         | 40,507                          | 58.1  | % —   | 7.9                              | % 297,606               | 2.4            | % |  |
| 2015                | 54,627                         | 26,284                          | 48.1  | % —   | 5.1                              | % 243,826               | 1.9            | % |  |
| 2016                | 47,271                         | 22,018                          | 46.6  | % —   | 4.3                              | % 220,573               | 1.8            | % |  |
| 2017                | 11,132                         | 4,935                           | 44.3  | % —   | 1.0                              | % 175,883               | 1.6            | % |  |
| Subtotal            | 258,646                        | 140,093                         | 54.2  | % 7,803                                     | 27.3                             | % 1,186,131             | 2.1            | % |  |
| Other geographies:  |                                |                                 |   |   |                                  |                         |                |   |  |
| ZBA <sup>(4)</sup>  | 5,878                          | 5,900                           | 100.4   | % —   | 1.2                              | % —                     | —              |   |  |
| 2013                | 549                            | —                               | —   | —   | 0.0                              | % 466                   | —              |   |  |
| 2014                | 4,355                          | 7,921                           | 181.9   | % —   | 1.5                              | % 61,315                | 2.3            | % |  |
| 2015                | 21,117                         | 10,978                          | 52.0  | % —   | 2.1                              | % 44,015                | 3.7            | % |  |
| 2016                | 18,921                         | 7,579                           | 40.1  | % (682 )                                    | 1.5                              | % 54,154                | 2.1            | % |  |
| 2017                | 3,639                          | 739                             | 20.3  | % —   | 0.1                              | % 29,906                | 1.3            | % |  |
| Subtotal            | 54,459                         | 33,117                          | 60.8  | % (682 )                                    | 6.4                              | % 189,856               | 2.5            | % |  |
| Total               | \$887,045                      | \$ 513,245                      | 57.9  | % \$ 10,961                                 | 100.0                            | % \$2,555,925           | 2.9            | % |  |

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

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 (4) 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”).

(5) Total collections realized exceed the net book value of the portfolio and have been converted to ZBA.

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|                     | Six Months Ended June 30, 2016 |                              |   |                                  |                            | As of June 30, 2016  |             |  |  |
|---------------------|--------------------------------|------------------------------|---|----------------------------------|----------------------------|----------------------|-------------|--|--|
|                     | Collections <sup>(1)</sup>     | Gross Revenue <sup>(2)</sup> | Revenue Recognition Rate <sup>(3)</sup> | Net Portfolio Allowance Reversal | Revenue % of Total Revenue | Unamortized Balances | Monthly IRR |  |  |
| United States:      |                                |                              |   |                                  |                            |                      |             |  |  |
| ZBA <sup>(4)</sup>  | \$61,657                       | \$58,267                     | 94.5 %                                  | \$ 3,497                         | 10.9 %                     | \$—                  | —           |  |  |
| 2007                | 1,132                          | 414                          | 36.6 %                                  | 301                              | 0.1 %                      | 1,183                | 4.6 %       |  |  |
| 2008                | 5,778                          | 2,959                        | 51.2 %                                  | 872                              | 0.5 %                      | 3,851                | 6.3 %       |  |  |
| 2009 <sup>(5)</sup> | —                              | —                            | —                                       | —                                | —                          | —                    | —           |  |  |
| 2010                | 5,688                          | 4,510                        | 79.3 %                                  | —                                | 0.8 %                      | 2,539                | 25.0 %      |  |  |
| 2011                | 39,438                         | 24,918                       | 63.2 %                                  | —                                | 4.7 %                      | 12,713               | 17.4 %      |  |  |
| 2012                | 64,608                         | 40,609                       | 62.9 %                                  | —                                | 7.6 %                      | 55,789               | 9.9 %       |  |  |
| 2013                | 114,506                        | 69,660                       | 60.8 %                                  | —                                | 13.1 %                     | 116,497              | 8.2 %       |  |  |
| 2014                | 124,488                        | 61,462                       | 49.4 %                                  | —                                | 11.5 %                     | 228,107              | 4.0 %       |  |  |
| 2015                | 128,652                        | 54,504                       | 42.4 %                                  | —                                | 10.2 %                     | 368,768              | 2.0 %       |  |  |
| 2016                | 30,052                         | 14,724                       | 49.0 %                                  | —                                | 2.8 %                      | 256,407              | 2.2 %       |  |  |
| Subtotal            | 575,999                        | 332,027                      | 57.6 %                                  | 4,670                            | 62.3 %                     | 1,045,854            | 4.0 %       |  |  |
| Europe:             |                                |                              |   |                                  |                            |                      |             |  |  |
| 2013                | 90,458                         | 76,417                       | 84.5 %                                  | —                                | 14.4 %                     | 384,927              | 3.1 %       |  |  |
| 2014                | 84,900                         | 51,878                       | 61.1 %                                  | —                                | 9.7 %                      | 379,330              | 2.1 %       |  |  |
| 2015                | 65,690                         | 34,654                       | 52.8 %                                  | —                                | 6.5 %                      | 319,354              | 1.7 %       |  |  |
| 2016                | 13,436                         | 7,487                        | 55.7 %                                  | —                                | 1.4 %                      | 172,067              | 1.5 %       |  |  |
| Subtotal            | 254,484                        | 170,436                      | 67.0 %                                  | —                                | 32.0 %                     | 1,255,678            | 2.2 %       |  |  |
| Other geographies:  |                                |                              |   |                                  |                            |                      |             |  |  |
| ZBA <sup>(4)</sup>  | 3,666                          | 3,520                        | 96.0 %                                  | —                                | 0.7 %                      | —                    | —           |  |  |
| 2013                | 794                            | —                            | 0.0 %                                   | —                                | 0.0 %                      | 1,812                | 0.0 %       |  |  |
| 2014                | 9,364                          | 9,202                        | 98.3 %                                  | —                                | 1.7 %                      | 62,609               | 2.3 %       |  |  |
| 2015                | 30,087                         | 14,829                       | 49.3 %                                  | —                                | 2.8 %                      | 66,928               | 3.3 %       |  |  |
| 2016                | 7,511                          | 2,862                        | 38.1 %                                  | —                                | 0.5 %                      | 36,712               | 2.4 %       |  |  |
| Subtotal            | 51,422                         | 30,413                       | 59.1 %                                  | —                                | 5.7 %                      | 168,061              | 2.7 %       |  |  |
| Total               | \$881,905                      | \$532,876                    | 60.4 %                                  | \$ 4,670                         | 100.0 %                    | \$2,469,593          | 3.0 %       |  |  |

(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.

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 Put-Backs.

(5) Total collections realized exceed the net book value of the portfolio and have been converted to ZBA.

Other revenues were \$18.7 million and \$22.0 million for the three months ended June 30, 2017 and 2016, respectively, and \$38.7 million and \$40.9 million for the six months ended June 30, 2017 and 2016, respectively. Other revenues primarily consist of fee-based income earned at our international subsidiaries that provide portfolio management services to credit originators for non-performing loans. Because most of our other revenues are from our international subsidiaries, other revenues were unfavorably impacted by the strengthening of the U.S. dollar relative to other foreign currencies during the period presented. The decreases in other revenues in the periods presented were primarily attributable to the unfavorable impact of foreign currency translation.



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## Operating Expenses

Total operating expenses were \$210.3 million during the three months ended June 30, 2017, an increase of \$12.6 million, or 6.4%, compared to total operating expenses of \$197.7 million during the three months ended June 30, 2016.

Total operating expenses were \$406.4 million during the six months ended June 30, 2017, an increase of \$3.2 million, or 0.8%, compared to total operating expense of \$403.2 million during the six months ended June 30, 2016.

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international operating expenses, and the weakening of the U.S. dollar relative to other foreign currencies has an unfavorable impact on our international operating expenses.

Operating expenses are explained in more detail as follows:

## Salaries and Employee Benefits

Salaries and employee benefits increased slightly by \$0.3 million, or 0.4%, to \$75.8 million during the three months ended June 30, 2017, from \$75.5 million during the three months ended June 30, 2016.

Salaries and employee benefits decreased \$1.0 million, or 0.7%, to \$144.1 million during the six months ended June 30, 2017, from \$145.1 million during the six months ended June 30, 2016. The decrease was primarily the result of decreased stock-based compensation expense and the impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar, partially offset by increases in domestic salaries and employee benefits.

Stock-based compensation decreased \$2.4 million, or 46.4%, to \$2.8 million during the three months ended June 30, 2017, from \$5.2 million during the three months ended June 30, 2016. Stock-based compensation decreased \$5.4 million, or 60.4%, to \$3.5 million during the six months ended June 30, 2017, from \$8.9 million during the six months ended June 30, 2016. The decreases were primarily attributable to expense reversals resulting from adjustments to estimated vesting of certain performance-based awards and reversals for current period actual forfeitures.

## Cost of Legal Collections

Cost of legal collections includes primarily contingent fees paid to our network of attorneys and the cost of litigation. We pursue legal collections using a network of attorneys that specialize in collection matters and through our internal legal channel. Under the agreements with our contracted attorneys, we advance certain out-of-pocket court costs, or Deferred Court Costs. We capitalize these costs in the consolidated financial statements and provide a reserve for those costs that we believe will ultimately be uncollectible. We determine the reserve based on an estimated court cost recovery rate based on our analysis of historical court costs recovery data.

During the three months ended June 30, 2017, overall cost of legal collections increased \$6.6 million, or 14.1%, to \$53.4 million, as compared to \$46.8 million during the corresponding period in the prior year. The cost of legal collections in the United States increased by \$7.9 million, or 20.3% and cost of legal collections in Europe decreased by \$0.9 million, or 13.6%, as compared to the corresponding period in the prior year. The cost of legal collections as a percentage of gross collections through this channel was 29.8% during the three months ended June 30, 2017, an increase from 26.4% during the corresponding period in 2016. The cost of legal collections as a percentage of gross collections through this channel in the United States was 32.4% and 27.3% during the three months ended June 30, 2017 and 2016, respectively. The cost of legal collections as a percentage of gross collections through this channel in Europe was 18.5% and 21.9% during the three months ended June 30, 2017 and 2016, respectively.

During the six months ended June 30, 2017, overall cost of legal collections increased \$0.3 million, or 0.2%, to \$101.4 million, as compared to \$101.1 million during the corresponding period in the prior year. Cost of legal collections in the United States increased by \$3.8 million, or 4.5% and cost of legal collections in Europe decreased by \$3.4 million, or 22.4%, as compared to the corresponding period in the prior year. The cost of legal collections as a percentage of gross collections through this channel was 28.7% during the six months ended June 30, 2017, an increase from 27.7% during the corresponding period in 2016. The cost of legal collections as a percentage of gross collections through this channel in the United States was 30.7% and 28.5% during the six months ended June 30, 2017 and 2016, respectively. The cost of legal collections as a percentage of gross collections through this channel in Europe was 19.0% and 23.9%

during the six months ended June 30, 2017 and 2016, respectively.

The increases in the cost of legal collections and the cost of legal collections as a percentage of gross collections in the United States during the periods presented were due to increased placements in the legal channel. During the first three quarters in 2016, we experienced temporary delays in receiving media from issuers required to initiate the legal process for a number of

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accounts, as a result, the volume of accounts placed in our legal channel was reduced during that period. Since those temporary delays subsided in the fourth quarter of 2016, we have increased placement volume in the legal channel and expect increased volume in our legal channel in the near future.

The decreases in the cost of legal collections and the cost of legal collections as a percentage of gross collections in Europe during the periods presented were due to a reduction in upfront court costs as a result of fewer accounts placed in this channel.

**Other Operating Expenses**

Other operating expenses decreased by \$0.9 million, or 3.7%, to \$24.0 million during the three months ended June 30, 2017, from \$24.9 million during the three months ended June 30, 2016. Other operating expenses decreased \$0.9 million, or 1.8%, to \$50.4 million during the six months ended June 30, 2017, from \$51.3 million during the six months ended June 30, 2016. The decreases in other operating expenses for the three and six months ended June 30, 2017, as compared to the prior periods, were primarily due to the strengthening of the U.S. dollar relative to the British Pound during the periods presented, offset by increased costs at our domestic sites.

**Collection Agency Commissions**

During the three months ended June 30, 2017, we incurred \$11.5 million in commissions to third-party collection agencies, or 23.7% of the related gross collections of \$48.4 million. During the period, the commission rate as a percentage of related gross collections was 9.8% and 27.3% for our collection outsourcing channels in the United States and Europe, respectively. During the three months ended June 30, 2016, we incurred \$9.3 million in commissions, or 17.2%, of the related gross collections of \$53.8 million. During the period, the commission rate as a percentage of related gross collections was 9.8% and 19.6% for our collection outsourcing channels in the United States and Europe, respectively.

During the six months ended June 30, 2017, we incurred \$23.1 million in commissions to third-party collection agencies, or 26.6% of the related gross collections of \$86.6 million. During the period, the commission rate as a percentage of related gross collections was 8.7% and 33.3% for our collection outsourcing channels in the United States and Europe, respectively. During the six months ended June 30, 2016, we incurred \$19.4 million in commissions, or 17.8%, of the related gross collections of \$108.8 million. During the period, the commission rate as a percentage of related gross collections was 10.5% and 20.5% 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 \$4.0 million, or 12.1%, to \$36.9 million during the three months ended June 30, 2017, from \$32.9 million during the three months ended June 30, 2016. Excluding acquisition, integration and restructuring related expenses, gain on reversal of contingent consideration and settlement fees and related administrative expenses of \$0.5 million and \$2.3 million during the three months ended June 30, 2017 and 2016, respectively, general and administrative expenses increased by \$5.8 million, or 18.9%, to \$36.4 million during the three months ended June 30, 2017, from \$30.6 million during the three months ended June 30, 2016.

General and administrative expenses increased \$2.1 million, or 3.0%, to \$70.3 million during the six months ended June 30, 2017, from \$68.2 million during the six months ended June 30, 2016. Excluding acquisition, integration and restructuring related expenses, gain on reversal of contingent consideration and settlement fees and related administrative expenses of \$1.1 million and \$7.2 million during the six months ended June 30, 2017 and 2016, respectively, general and administrative expenses increased by \$8.1 million, or 13.3%, to \$69.1 million during the three months ended June 30, 2017, from \$61.0 million during the three months ended June 30, 2016.

The increases during the three and six months ended June 30, 2017 were primarily due to the recording of an accrual for additional infrastructure costs at our domestic sites and increases in general and administrative expenses at our international subsidiaries, offset by the strengthening of the U.S. dollar relative to the British Pound during the periods presented.

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## Depreciation and Amortization

Depreciation and amortization expense increased by \$0.5 million, or 5.3%, to \$8.7 million during the three months ended June 30, 2017, from \$8.2 million during the three months ended June 30, 2016. Depreciation and amortization expense decreased \$0.8 million, or 4.4%, to \$17.3 million during the six months ended June 30, 2017, from \$18.1 million during the six months ended June 30, 2016. During the six months ended June 30, 2016, one of our international subsidiaries wrote-off approximately \$0.9 million of intangible assets, which resulted in the decrease of amortization expense in the six months ended June 30, 2017 as compared to the same period in the prior year.

## Interest Expense

Interest expense remained flat at \$50.5 million during the three months ended June 30, 2017, from \$50.6 million during the three months ended June 30, 2016. Interest expense decreased \$1.6 million to \$99.7 million during the six months ended June 30, 2017, from \$101.3 million during the six months ended June 30, 2016.

The following tables summarize our interest expense (in thousands):

|   | Three Months Ended June 30, |           |           |
|---|-----------------------------|-----------|-----------|
|   | 2017                        | 2016      | \$ Change |
| Stated interest on debt obligations               | \$39,301                    | \$41,124  | \$(1,823) |
| Interest expense on preferred equity certificates | 6,412                       | 6,452     | (40)      |
| Amortization of loan fees and other loan costs    | 3,353                       | 3,020     | 333       |
| Amortization of debt discount                     | 2,531                       | 2,695     | (164)     |
| Accretion of debt premium                         | (1,081)                     | (2,694)   | 1,613     |
| Total interest expense                            | \$50,516                    | \$50,597  | \$(81)    |
|   | Six Months Ended June 30,   |           |           |
|   | 2017                        | 2016      | \$ Change |
| Stated interest on debt obligations               | \$77,172                    | \$82,510  | \$(5,338) |
| Interest expense on preferred equity certificates | 12,551                      | 12,781    | (230)     |
| Amortization of loan fees and other loan costs    | 6,961                       | 6,060     | 901       |
| Amortization of debt discount                     | 5,127                       | 5,249     | (122)     |
| Accretion of debt premium                         | (2,097)                     | (5,312)   | 3,215     |
| Total interest expense                            | \$99,714                    | \$101,288 | \$(1,574) |

The payment of the accumulated interest on the preferred equity certificates issued in connection with the acquisition of a controlling interest in Cabot will only be required in connection with the disposition of the noncontrolling interests of J.C. Flowers and management.

The decreases in interest expense during the three and six months ended June 30, 2017 as compared to the corresponding periods in 2016 were primarily attributable to lower interest at Cabot resulting from its recent refinancing transactions and favorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar, offset by increased interest expense in the United States related to our recent issuance of convertible debt and higher weighted interest rates.

## Other Income

Other income or expense consists primarily of foreign currency exchange gains or losses and interest income. Other income was \$2.5 million during the three months ended June 30, 2017, down from other income of \$3.1 million during the three months ended June 30, 2016. Other income was \$3.1 million during the six months ended June 30, 2017, down from other income of \$10.3 million during the six months ended June 30, 2016. The decrease during the six months ended June 30, 2017 was primarily due to a higher net gain recognized on foreign exchange contracts in the prior period.



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## Provision for Income Taxes

We recorded income tax expense for income from continuing operations of \$13.5 million, during each of the three months ended June 30, 2017 and 2016. Income tax expense for income from continuing operations was \$25.6 million and \$23.6 million during the six months ended June 30, 2017 and 2016, respectively.

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

|  | Three Months |         | Six Months |          |
|--|--------------|---------|------------|----------|
|  | Ended        |         | Ended      |          |
|  | June 30,     |         | June 30,   |          |
|  | 2017         | 2016    | 2017       | 2016     |
| Federal provision                                | 35.0%        | 35.0 %  | 35.0%      | 35.0 %   |
| State provision                                  | 3.2 %        | 4.0 %   | 3.2 %      | 4.0 %    |
| International provision (benefit) <sup>(1)</sup> | 2.9 %        | (9.1 )% | 3.7 %      | (10.1 )% |
| Permanent items                                  | 0.3 %        | 0.4 %   | 0.4 %      | 0.5 %    |
| Other <sup>(2)</sup>                             | 0.1 %        | 0.1 %   | 0.5 %      | (1.4 )%  |
| Effective rate                                   | 41.5%        | 30.4 %  | 42.8%      | 28.0 %   |

Relates primarily to lower tax rates on income or loss attributable to international operations. Effective January 1, (1)2017, there was a change to U.K. tax law that resulted in an unfavorable deductibility on interest expenses as compared to the prior period.

(2)Includes the effect of discrete items.

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 tax rates and higher than anticipated in countries that have higher statutory tax rates.

The effective tax rates fluctuated significantly during the periods presented due to the following factors.

In accordance with the authoritative guidance for income taxes, each interim period is considered an integral part of the annual period and tax expense or benefit is measured using an estimated annual effective income tax rate. The estimated annual effective income tax rate for the full year is applied to the respective interim period, taking into account year-to-date amounts and projected amounts for the year. Since we operate in foreign countries with varying tax rates that are much lower than the tax rate in the United States, the magnitude of the impact of the results from the international operations have on our quarterly effective tax rate is dependent on the level of income or loss from the international operations in the period.

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, 2017 and 2016 was immaterial.

## Cost per Dollar Collected

We utilize adjusted operating expenses in order to facilitate a comparison of approximate cash costs to cash collections for our portfolio purchasing and recovery business. The calculation of adjusted operating expenses is illustrated in detail in the “Non-GAAP Disclosure” section. The following table summarizes our overall cost per dollar collected by geographic location during the periods presented:

|                                   | Three Months |       | Six Months |       |
|-----------------------------------|--------------|-------|------------|-------|
|                                   | Ended        |       | Ended      |       |
|                                   | June 30,     |       | June 30,   |       |
|                                   | 2017         | 2016  | 2017       | 2016  |
| United States                     | 44.5%        | 39.0% | 42.5%      | 39.1% |
| Europe                            | 29.7%        | 31.1% | 29.1%      | 32.4% |
| Other geographies                 | 48.1%        | 42.9% | 49.6%      | 41.6% |
| Overall cost per dollar collected | 40.3%        | 36.9% | 39.0%      | 37.3% |

Our overall cost per dollar collected (or “cost-to-collect”) for the three months ended June 30, 2017 was 40.3%, up 340 basis points from 36.9% during the corresponding period in the prior year. Overall cost-to-collect increased to 39.0% during the six months ended June 30, 2017, from 37.3% during the corresponding period in the prior year. The increases in overall cost-to-

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collect during the periods presented were due to increased cost-to-collect in the United States offset by improved cost-to-collect in Europe. Cost-to-collect in the United States increased due to a combination of (a) increased legal spending resulting from increased placements in the legal channel due to the ceasing of prior temporary delays in receiving media from issuers required to initiate the legal process and (b) the acquisition of an increased volume of accounts, which generates increased near-term expenses from account manager hiring, legal placements, and letter volumes.

We expect to incur upfront costs in building collection channels in connection with any growth in our presence in the Latin American and Asia Pacific markets. As a result, cost-to-collect in other geographies may become elevated in the near term and may fluctuate over time.

Over time, we expect our cost-to-collect to remain competitive, but also to fluctuate from quarter to quarter based on seasonality, acquisitions, the cost of investments in new operating initiatives, and the changing regulatory and legislative environment.

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 From Continuing Operations Per Share. Management uses non-GAAP adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations 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 from continuing operations attributable to Encore excludes non-cash interest and issuance cost amortization relating to our convertible notes, acquisition, integration and restructuring related expenses, settlement fees and related administrative expenses, amortization of certain acquired intangible assets and other charges or gains that are not indicative of ongoing operations.

The following table provides a reconciliation between income from continuing operations and diluted income from continuing operations per share attributable to Encore calculated in accordance with GAAP to adjusted income from continuing operations and adjusted income from continuing operations per share attributable to Encore, respectively. GAAP diluted earnings per share for the three and six months ended June 30, 2017, includes the effect of approximately 0.2 million, and 0.1 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 9, “Debt —Encore Convertible Notes,” in the notes to our 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 common shares that are issuable upon conversion of the notes are included in our diluted earnings per share, the hedge transactions will offset the impact of this dilution and 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. There was no dilutive effect relating to our convertible senior notes during the three and six month ended June 30, 2016.

We have presented the following metrics both including and excluding the dilutive effect of the convertible senior notes to better illustrate the economic impact of the notes and the related hedging transactions to shareholders, with

the GAAP diluted share calculation under the “Per Diluted Share-Accounting” column and the non-GAAP calculation under the “Per Diluted Share-Economic” column (in thousands, except per share data):

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|  | Three Months Ended June 30, |             |          |          |             |          |
|--|-----------------------------|-------------|----------|----------|-------------|----------|
|  | 2017                        | Per Diluted |          | 2016     | Per Diluted |          |
|  | \$                          | Share—      | Share—   | \$       | Share—      | Share—   |
|  |                             | Accounting  | Economic |          | Accounting  | Economic |
| GAAP net income attributable to Encore, as reported                        | \$20,255                    | \$ 0.77     | \$ 0.77  | \$29,588 | \$ 1.14     | \$ 1.14  |
| Adjustments:   |                             |             |          |          |             |          |
| Convertible notes non-cash interest and issuance cost amortization         | 3,078                       | 0.12        | 0.12     | 2,921    | 0.11        | 0.11     |
| Acquisition, integration and restructuring related expenses <sup>(1)</sup> | 3,520                       | 0.13        | 0.14     | 3,271    | 0.13        | 0.13     |
| Gain on reversal of contingent consideration <sup>(2)</sup>                | (2,773 )                    | (0.10 )     | (0.10 )  | —        | —           | —        |
| Settlement fees and related administrative expenses <sup>(3)</sup>         | —                           | —           | —        | 698      | 0.03        | 0.03     |
| Amortization of certain acquired intangible assets <sup>(4)</sup>          | 588                         | 0.02        | 0.02     | 575      | 0.02        | 0.02     |
| Income tax effect of the adjustments <sup>(5)</sup>                        | (943 )                      | (0.04 )     | (0.04 )  | (2,338 ) | (0.09 )     | (0.09 )  |
| Adjustments attributable to noncontrolling interest <sup>(6)</sup>         | (812 )                      | (0.03 )     | (0.03 )  | (1,273 ) | (0.05 )     | (0.05 )  |
| Adjusted income attributable to Encore                                     | \$22,913                    | \$ 0.87     | \$ 0.88  | \$33,442 | \$ 1.29     | \$ 1.29  |

Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because (1) we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Amount represents a gain recognized as a result of reversing a liability for contingent consideration that was established when we acquired a debt solution service provider in Europe. We have adjusted for this amount (2) because we do not believe this is indicative of ongoing operations. Refer to Note 4, "Fair Value Measurement - Contingent Consideration," in the notes to our consolidated financial statements for further details.

Amount represents litigation and government settlement fees and related administrative expenses. For the three months ended June 30, 2016, amount consists of settlement and administrative fees related to certain TCPA (3) settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

As we continue to acquire debt solution service providers around the world, the acquired intangible assets, such as trade names and customer relationships, have grown substantially. These intangible assets are valued at the time of the acquisition and amortized over their estimated lives. We believe that amortization of acquisition-related (4) intangible assets, especially the amortization of an acquired company's trade names and customer relationships, is the result of pre-acquisition activities. In addition, the amortization of these acquired intangibles is a non-cash static expense that is not affected by operations during any reporting period. As a result, the amortization of certain acquired intangible assets is excluded from our adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations per share.

Amount represents the total income tax effect of the adjustments, which is generally calculated based on the (5) applicable marginal tax rate of the jurisdiction in which the portion of the adjustment occurred.

Certain of the above pre-tax adjustments include expenses recognized by our partially-owned subsidiaries. This (6) adjustment represents the portion of the non-GAAP adjustments that are attributable to noncontrolling interest.

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|  | Six Months Ended June 30, |             | 2016        |          | 2016        |             |
|--|---------------------------|-------------|-------------|----------|-------------|-------------|
|  | 2017                      | Per Diluted | Per Diluted | \$       | Per Diluted | Per Diluted |
|  | \$                        | Share—      | Share—      | \$       | Share—      | Share—      |
|  |                           | Accounting  | Economic    |          | Accounting  | Economic    |
| GAAP net income from continuing operations attributable to Encore, as reported | \$42,552                  | \$ 1.62     | \$ 1.63     | \$58,464 | \$ 2.26     | \$ 2.26     |
| Adjustments:   |                           |             |             |          |             |             |
| Convertible notes non-cash interest and issuance cost amortization             | 6,092                     | 0.23        | 0.23        | 5,830    | 0.23        | 0.23        |
| Acquisition, integration and restructuring related expenses <sup>(1)</sup>     | 4,375                     | 0.17        | 0.17        | 6,330    | 0.24        | 0.24        |
| Gain on reversal of contingent consideration <sup>(2)</sup>                    | (2,773 )                  | (0.10 )     | (0.10 )     | —        | —           | —           |
| Settlement fees and related administrative expenses <sup>(3)</sup>             | —                         | —           | —           | 3,686    | 0.14        | 0.14        |
| Amortization of certain acquired intangible assets <sup>(4)</sup>              | 1,148                     | 0.04        | 0.04        | 1,649    | 0.06        | 0.06        |
| Income tax effect of the adjustments <sup>(5)</sup>                            | (2,432 )                  | (0.09 )     | (0.09 )     | (5,621 ) | (0.22 )     | (0.22 )     |
| Adjustments attributable to noncontrolling interest <sup>(6)</sup>             | (1,294 )                  | (0.05 )     | (0.05 )     | (2,491 ) | (0.09 )     | (0.09 )     |
| Adjusted income from continuing operations attributable to Encore              | \$47,668                  | \$ 1.82     | \$ 1.83     | \$67,847 | \$ 2.62     | \$ 2.62     |

Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because (1) we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Amount represents a gain recognized as a result of reversing a liability for contingent consideration that was established when we acquired a debt solution service provider in Europe. We have adjusted for this amount (2) because we do not believe this is indicative of ongoing operations. Refer to Note 4, "Fair Value Measurement - Contingent Consideration," in the notes to our consolidated financial statements for further details.

Amount represents litigation and government settlement fees and related administrative expenses. For the six months ended June 30, 2016 amount consists of settlement and administrative fees related to certain TCPA (3) settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

As we continue to acquire debt solution service providers around the world, the acquired intangible assets, such as trade names and customer relationships, have grown substantially. These intangible assets are valued at the time of the acquisition and amortized over their estimated lives. We believe that amortization of acquisition-related (4) intangible assets, especially the amortization of an acquired company's trade names and customer relationships, is the result of pre-acquisition activities. In addition, the amortization of these acquired intangibles is a non-cash static expense that is not affected by operations during any reporting period. As a result, the amortization of certain acquired intangible assets is excluded from our adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations per share.

Amount represents the total income tax effect of the adjustments, which is generally calculated based on the (5) applicable marginal tax rate of the jurisdiction in which the portion of the adjustment occurred.

Certain of the above pre-tax adjustments include expenses recognized by our partially-owned subsidiaries. This (6) adjustment represents the portion of the non-GAAP adjustments that are attributable to noncontrolling interest.

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Adjusted EBITDA. Management utilizes adjusted EBITDA (defined as net income before discontinued operations, interest income and expense, taxes, depreciation and amortization, stock-based compensation expenses, acquisition, integration and restructuring related expenses, settlement fees and related administrative expenses and other charges or gains that are not indicative of ongoing operations), in the evaluation of our operating performance. Adjusted EBITDA for the periods presented is as follows (in thousands):

|  | Three Months Ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,           |           | June 30,         |           |
|  | 2017               | 2016      | 2017             | 2016      |
| GAAP net income, as reported   | \$19,076           | \$30,833  | \$34,055         | \$57,440  |
| Adjustments:   |                    |           |                  |           |
| Loss from discontinued operations, net of tax                              | —                  | —         | 199              | 3,182     |
| Interest expense   | 50,516             | 50,597    | 99,714           | 101,288   |
| Interest income <sup>(1)</sup>   | (919 )             | (620 )    | (1,698 )         | (1,119 )  |
| Provision for income taxes   | 13,531             | 13,451    | 25,598           | 23,599    |
| Depreciation and amortization  | 8,672              | 8,235     | 17,297           | 18,096    |
| Stock-based compensation expense   | 2,760              | 5,151     | 3,510            | 8,869     |
| Acquisition, integration and restructuring related expenses <sup>(2)</sup> | 3,520              | 3,271     | 4,375            | 5,412     |
| Gain on reversal of contingent consideration <sup>(3)</sup>                | (2,773 )           | —         | (2,773 )         | —         |
| Settlement fees and related administrative expenses <sup>(4)</sup>         | —                  | 698       | —                | 3,686     |
| Adjusted EBITDA  | \$94,383           | \$111,616 | \$180,277        | \$220,453 |
| Collections applied to principal balance <sup>(5)</sup>                    | \$173,946          | \$166,648 | 362,839          | 344,359   |

In the fourth quarter of 2016, we made a change to our presentation of adjusted EBITDA to adjust for interest (1) income. In previous years we did not include interest income as an adjustment because it was immaterial. We have updated prior periods for comparability.

Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because (2) we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Amount represents a gain recognized as a result of reversing a liability for contingent consideration that was (3) established when we acquired a debt solution service provider in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 4, "Fair Value Measurement - Contingent Consideration," in the notes to our consolidated financial statements for further details.

Amount represents litigation and government settlement fees and related administrative expenses. For the three and (4) six months ended June 30, 2016, amount consists of settlement and administrative fees related to certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Collections applied to principal balance represents (a) gross collections from receivable portfolios less (b) revenue (5) from receivable portfolios, net.

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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 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, acquisition, integration and restructuring related operating expenses, settlement fees and related administrative expenses and other charges or gains that are not indicative of ongoing operations. 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, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2017                           | 2016      | 2017                         | 2016      |
| GAAP total operating expenses, as reported  | \$210,323                      | \$197,695 | \$406,423                    | \$403,208 |
| Adjustments:  |                                |           |                              |           |
| Stock-based compensation expense  | (2,760 )                       | (5,151 )  | (3,510 )                     | (8,869 )  |
| Operating expenses related to non-portfolio purchasing and recovery business <sup>(1)</sup> | (26,984 )                      | (28,253 ) | (54,930 )                    | (55,138 ) |
| Acquisition, integration and restructuring related expenses <sup>(2)</sup>                  | (3,520 )                       | (3,271 )  | (4,375 )                     | (6,330 )  |
| Gain on reversal of contingent consideration <sup>(3)</sup>                                 | 2,773                          | —         | 2,773                        | —         |
| Settlement fees and related administrative expenses <sup>(4)</sup>                          | —                              | (698 )    | —                            | (3,686 )  |
| Adjusted operating expenses related to portfolio purchasing and recovery business           | \$179,832                      | \$160,322 | \$346,381                    | \$329,185 |

Operating expenses related to non-portfolio purchasing and recovery business include operating expenses from (1) other operating segments that primarily engage in fee-based business, as well as corporate overhead not related to our portfolio purchasing and recovery business.

Amount represents acquisition, integration and restructuring related operating expenses. We adjust for this amount (2) because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Amount represents a gain recognized as a result of reversing a liability for contingent consideration that was established when we acquired a debt solution service provider in Europe. We have adjusted for this amount (3) because we do not believe this is indicative of ongoing operations. Refer to Note 4, "Fair Value Measurement - Contingent Consideration," in the notes to our consolidated financial statements for further details.

Amount represents litigation and government settlement fees and related administrative expenses. For the three and six months ended June 30, 2016, amount consists of settlement and administrative fees related to certain TCPA (4) settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Supplemental Performance Data

The tables included in this supplemental performance data section include detail for purchases, collections and estimated remaining collections ("ERC") by year of purchase. During any fiscal quarter in which we acquire an entity that has portfolio, the entire historical portfolio of the acquired company is aggregated into static pools for the quarter of acquisition based on common characteristics, resulting in pools for that quarter that may consist of several different vintages of portfolio. These quarterly pools are included in the tables in this section by year of purchase. For example, with the acquisition of Cabot in July 2013, all of Cabot's historical portfolio to the date of the acquisition (which includes several years of historical purchases at various stages of maturity) is included in 2013 for Europe.

Our collection expectations are based on demographic data, account characteristics, and economic variables. Additional adjustments are made to account for qualitative factors that may affect the payment behavior of our consumers and servicing related adjustments to ensure our collection expectations are aligned with our operations. We continue to refine our process of forecasting collections both domestically and internationally with a focus on operational enhancements. Our collection expectations vary between types of portfolio and geographic location. For



example, in the U.K., due to the higher concentration of payment plans, as compared to the U.S. and other locations in Europe, we expect to receive streams of collections over longer periods of time. As a result, past performance of pools in certain geographic locations or of certain types of portfolio are not necessarily a suitable indicator of future results in other locations or for other types of portfolio.

The supplemental performance data presented in this section is impacted by foreign currency translation, which represents the effect of translating financial results where the functional currency of our foreign subsidiary is different than our U.S. dollar reporting currency. For example, the strengthening of the U.S. dollar relative to other foreign currencies has an unfavorable reporting impact on our international purchases, collections, and ERC, and the weakening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international purchases, collections, and ERC.

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We utilize proprietary forecasting models to continuously evaluate the economic life of each pool. During the quarter ended September 30, 2016, we revised the forecasting methodology we use to value and calculate IRRs on certain portfolios in Europe and extended the collection forecast from 120 months to 180 months. The increase in the collection forecast from 120 months to 180 months was applied effective July 1, 2016, to certain portfolios in Europe for which we could accurately forecast through such term. For portfolios in Europe that were not extended to 180 months, we continue to include the collection forecast to 120 months in calculating accretion revenue and in our estimated remaining collection disclosures. In the United States, we include the collection forecast to 120 months in calculating accretion revenue. Expected collections beyond the 120 month collection forecast in the United States are included in our estimated remaining collection disclosures but are not included in the calculation of accretion revenue.

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## Cumulative Collections to Purchase Price Multiple

The following table summarizes our receivable 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, 2017 |           |           |           |           |           |             |             |             |             |
|--------------------|-------------------------------|--|-----------|-----------|-----------|-----------|-----------|-------------|-------------|-------------|-------------|
|                    |                               | <2008  | 2008      | 2009      | 2010      | 2011      | 2012      | 2013        | 2014        | 2015        | 2016        |
| United States:     |                               |  |           |           |           |           |           |             |             |             |             |
| <2008              | \$923,144                     | \$1,732,000                                  | \$329,254 | \$225,765 | \$143,969 | \$96,172  | \$66,574  | \$49,054    | \$36,443    | \$30,837    | \$23,247    |
| 2008               | 227,751                       | —  | 69,049    | 165,164   | 127,799   | 87,850    | 59,507    | 41,773      | 29,776      | 23,247      | 16,511      |
| 2009               | 252,979                       | —  | —         | 96,529    | 206,773   | 164,605   | 111,569   | 80,443      | 58,345      | 42,960      | 30,837      |
| 2010               | 357,362                       | —  | —         | —         | 125,853   | 288,788   | 220,686   | 156,806     | 111,993     | 83,578      | 59,507      |
| 2011               | 383,911                       | —  | —         | —         | —         | 123,596   | 301,949   | 226,521     | 155,180     | 112,906     | 79,413      |
| 2012               | 548,984                       | —  | —         | —         | —         | —         | 187,721   | 350,134     | 259,252     | 176,914     | 112,906     |
| 2013               | 552,310                       | —  | —         | —         | —         | —         | —         | 230,051     | 397,646     | 298,068     | 206,773     |
| 2014               | 518,979                       | —  | —         | —         | —         | —         | —         | —           | 144,178     | 307,814     | 206,773     |
| 2015               | 500,877                       | —  | —         | —         | —         | —         | —         | —           | —           | 105,610     | 112,906     |
| 2016               | 557,235                       | —  | —         | —         | —         | —         | —         | —           | —           | —           | 83,578      |
| 2017               | 254,707                       | —  | —         | —         | —         | —         | —         | —           | —           | —           | 59,507      |
| Subtotal           | 5,078,239                     | 1,732,000                                    | 398,303   | 487,458   | 604,394   | 761,011   | 948,006   | 1,134,782   | 1,192,813   | 1,181,934   | 1,181,934   |
| Europe:            |                               |  |           |           |           |           |           |             |             |             |             |
| 2013               | 619,079                       | —  | —         | —         | —         | —         | —         | 134,259     | 249,307     | 212,129     | 165,164     |
| 2014               | 630,342                       | —  | —         | —         | —         | —         | —         | —           | 135,549     | 198,127     | 165,164     |
| 2015               | 423,348                       | —  | —         | —         | —         | —         | —         | —           | —           | 65,870      | 165,164     |
| 2016               | 259,480                       | —  | —         | —         | —         | —         | —         | —           | —           | —           | 165,164     |
| 2017               | 177,370                       | —  | —         | —         | —         | —         | —         | —           | —           | —           | 165,164     |
| Subtotal           | 2,109,619                     | —  | —         | —         | —         | —         | —         | 134,259     | 384,856     | 476,126     | 476,126     |
| Other geographies: |                               |  |           |           |           |           |           |             |             |             |             |
| 2012               | 6,706                         | —  | —         | —         | —         | —         | —         | 3,848       | 2,561       | 1,208       | 595,000     |
| 2013               | 29,568                        | —  | —         | —         | —         | —         | —         | 6,617       | 17,615      | 10,334      | 495,000     |
| 2014               | 86,989                        | —  | —         | —         | —         | —         | —         | —           | 9,652       | 16,062      | 195,000     |
| 2015               | 91,133                        | —  | —         | —         | —         | —         | —         | —           | —           | 15,061      | 595,000     |
| 2016               | 79,826                        | —  | —         | —         | —         | —         | —         | —           | —           | —           | 295,000     |
| 2017               | 31,762                        | —  | —         | —         | —         | —         | —         | —           | —           | —           | 595,000     |
| Subtotal           | 325,984                       | —  | —         | —         | —         | —         | —         | 10,465      | 29,828      | 42,665      | 1,980,000   |
| Total              | \$7,513,842                   | \$1,732,000                                  | \$398,303 | \$487,458 | \$604,394 | \$761,011 | \$948,006 | \$1,279,506 | \$1,607,497 | \$1,700,725 | \$1,700,725 |

(1) Adjusted for Put-Backs and Recalls. Recalls represent accounts that are recalled by the seller in accordance with the respective purchase agreement (“Recalls”).

(2) Cumulative collections from inception through June 30, 2017, excluding collections on behalf of others.

(3) Cumulative Collections Multiple (“CCM”) through June 30, 2017 refers to collections as a multiple of purchase price.

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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 for purchased receivables, by year of purchase (in thousands, except multiples):

|                     | Purchase Price <sup>(1)</sup> | Historical Collections <sup>(2)</sup> | Estimated Remaining Collections | Total Estimated Gross Collections | Total Estimated Gross Collections to Purchase Price |
|---------------------|-------------------------------|---------------------------------------|---------------------------------|-----------------------------------|---|
| United States:      |                               |                                       |                                 |                                   |   |
| <2008               | \$923,144                     | \$2,746,997                           | \$43,436                        | \$2,790,433                       | 3.0   |
| 2008                | 227,751                       | 630,815                               | 39,280                          | 670,095                           | 2.9   |
| 2009                | 252,979                       | 804,085                               | 63,261                          | 867,346                           | 3.4   |
| 2010                | 357,362                       | 1,065,604                             | 105,695                         | 1,171,299                         | 3.3   |
| 2011                | 383,911                       | 1,029,151                             | 148,359                         | 1,177,510                         | 3.1   |
| 2012                | 548,984                       | 1,130,084                             | 163,923                         | 1,294,007                         | 2.4   |
| 2013 <sup>(3)</sup> | 552,310                       | 1,211,389                             | 290,476                         | 1,501,865                         | 2.7   |
| 2014 <sup>(3)</sup> | 518,979                       | 750,455                               | 356,985                         | 1,107,440                         | 2.1   |
| 2015                | 500,877                       | 443,190                               | 445,153                         | 888,343                           | 1.8   |
| 2016                | 557,235                       | 259,733                               | 804,873                         | 1,064,606                         | 1.9   |
| 2017 <sup>(4)</sup> | 254,707                       | 24,858                                | 470,943                         | 495,801                           | 1.9   |
| Subtotal            | 5,078,239                     | 10,096,361                            | 2,932,384                       | 13,028,745                        | 2.6   |
| Europe:             |                               |                                       |                                 |                                   |   |
| 2013 <sup>(3)</sup> | 619,079                       | 837,185                               | 799,501                         | 1,636,686                         | 2.6   |
| 2014 <sup>(3)</sup> | 630,342                       | 560,076                               | 780,386                         | 1,340,462                         | 2.1   |
| 2015 <sup>(3)</sup> | 423,348                       | 247,580                               | 524,188                         | 771,768                           | 1.8   |
| 2016                | 259,480                       | 91,910                                | 471,239                         | 563,149                           | 2.2   |
| 2017                | 177,370                       | 11,136                                | 368,224                         | 379,360                           | 2.1   |
| Subtotal            | 2,109,619                     | 1,747,887                             | 2,943,538                       | 4,691,425                         | 2.2   |
| Other geographies:  |                               |                                       |                                 |                                   |   |
| 2012                | 6,706                         | 8,417                                 | 1,586                           | 10,003                            | 1.5   |
| 2013                | 29,568                        | 40,921                                | 3,972                           | 44,893                            | 1.5   |
| 2014                | 86,989                        | 49,388                                | 124,821                         | 174,209                           | 2.0   |
| 2015 <sup>(3)</sup> | 91,133                        | 94,493                                | 106,738                         | 201,231                           | 2.2   |
| 2016                | 79,826                        | 50,442                                | 97,776                          | 148,218                           | 1.9   |
| 2017                | 31,762                        | 3,640                                 | 45,397                          | 49,037                            | 1.5   |
| Subtotal            | 325,984                       | 247,301                               | 380,290                         | 627,591                           | 1.9   |
| Total               | \$7,513,842                   | \$12,091,549                          | \$6,256,212                     | \$18,347,761                      | 2.4   |

(1) Adjusted for Put-Backs and Recalls.

(2) Cumulative collections from inception through June 30, 2017, excluding collections on behalf of others.

(3) Includes portfolios acquired in connection with certain business combinations.

(4) Amounts represent the combined results of consumer credit card receivable and consumer bankruptcy receivable purchases. For the six months ended June 30, 2017, the consumer credit card receivable estimated gross collections to purchase price multiple was 2.0 and the consumer bankruptcy estimated gross collections to purchase price multiple was 1.2.

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## Estimated Remaining Gross Collections by Year of Purchase

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

|                     | Estimated Remaining Gross Collections by Year of Purchase <sup>(1), (2)</sup> |             |             |           |           |           |           |           |           |           |             |
|---------------------|---|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
|                     | 2017 <sup>(3)</sup>   | 2018        | 2019        | 2020      | 2021      | 2022      | 2023      | 2024      | 2025      | >2025     | Total       |
| United States:      |   |             |             |           |           |           |           |           |           |           |             |
| <2008               | \$9,760   | \$16,079    | \$9,573     | \$4,992   | \$2,337   | \$695     | \$—       | \$—       | \$—       | \$—       | \$43,436    |
| 2008                | 7,078   | 12,203      | 8,175       | 5,302     | 3,434     | 2,227     | 861       | —         | —         | —         | 39,280      |
| 2009                | 11,374  | 19,418      | 12,588      | 8,163     | 5,285     | 3,428     | 2,228     | 777       | —         | —         | 63,261      |
| 2010                | 19,283  | 31,538      | 20,444      | 13,383    | 8,585     | 5,570     | 3,621     | 2,354     | 917       | —         | 105,695     |
| 2011                | 27,007  | 43,339      | 28,495      | 18,463    | 12,109    | 7,734     | 5,027     | 3,267     | 2,124     | 794       | 148,359     |
| 2012                | 31,626  | 46,570      | 30,456      | 19,690    | 12,741    | 9,079     | 5,677     | 3,690     | 2,398     | 1,996     | 163,923     |
| 2013 <sup>(4)</sup> | 52,678  | 80,209      | 56,435      | 36,520    | 23,675    | 15,367    | 10,440    | 6,220     | 4,043     | 4,889     | 290,476     |
| 2014 <sup>(4)</sup> | 64,813  | 94,090      | 66,902      | 44,429    | 29,627    | 19,861    | 13,374    | 8,902     | 5,834     | 9,153     | 356,985     |
| 2015                | 77,795  | 127,650     | 89,388      | 55,503    | 33,609    | 21,644    | 14,257    | 9,399     | 6,180     | 9,728     | 445,153     |
| 2016                | 126,466   | 226,005     | 163,976     | 106,630   | 68,961    | 40,220    | 26,171    | 17,697    | 12,014    | 16,733    | 804,873     |
| 2017                | 54,630  | 135,140     | 106,255     | 67,206    | 43,881    | 26,222    | 14,843    | 9,931     | 6,813     | 6,022     | 470,943     |
| Subtotal            | 482,510   | 832,241     | 592,687     | 380,281   | 244,244   | 152,047   | 96,499    | 62,237    | 40,323    | 49,315    | 2,932,336   |
| Europe:             |   |             |             |           |           |           |           |           |           |           |             |
| 2013 <sup>(4)</sup> | 49,036  | 102,403     | 105,069     | 95,099    | 84,680    | 74,243    | 64,760    | 56,946    | 50,874    | 116,391   | 799,501     |
| 2014 <sup>(4)</sup> | 51,082  | 105,609     | 105,223     | 92,398    | 80,166    | 69,116    | 60,140    | 52,067    | 44,716    | 119,869   | 780,386     |
| 2015 <sup>(4)</sup> | 39,583  | 77,770      | 73,110      | 61,399    | 51,762    | 43,660    | 36,963    | 31,196    | 26,371    | 82,374    | 524,188     |
| 2016                | 29,216  | 64,209      | 62,767      | 59,055    | 49,716    | 39,307    | 31,750    | 28,700    | 22,367    | 84,152    | 471,239     |
| 2017                | 18,109  | 62,526      | 49,571      | 39,031    | 31,682    | 27,427    | 22,754    | 19,419    | 17,041    | 80,664    | 368,224     |
| Subtotal            | 187,026   | 412,517     | 395,740     | 346,982   | 298,006   | 253,753   | 216,367   | 188,328   | 161,369   | 483,450   | 2,943,550   |
| Other geographies:  |   |             |             |           |           |           |           |           |           |           |             |
| 2012                | 300   | 464         | 301         | 222       | 187       | 112       | —         | —         | —         | —         | 1,586       |
| 2013                | 1,079   | 1,581       | 733         | 332       | 189       | 58        | —         | —         | —         | —         | 3,972       |
| 2014                | 5,779   | 14,753      | 36,792      | 41,713    | 23,238    | 1,217     | 134       | 134       | 134       | 927       | 124,821     |
| 2015 <sup>(4)</sup> | 13,840  | 25,969      | 22,285      | 16,034    | 9,877     | 6,209     | 4,460     | 2,995     | 2,122     | 2,947     | 106,738     |
| 2016                | 12,875  | 25,015      | 21,269      | 15,293    | 10,172    | 5,455     | 3,111     | 2,191     | 1,613     | 782       | 97,776      |
| 2017                | 3,880   | 9,748       | 9,798       | 7,724     | 5,488     | 3,719     | 2,305     | 1,118     | 857       | 760       | 45,397      |
| Subtotal            | 37,753  | 77,530      | 91,178      | 81,318    | 49,151    | 16,770    | 10,010    | 6,438     | 4,726     | 5,416     | 380,290     |
| Total               | \$707,289   | \$1,322,288 | \$1,079,605 | \$808,581 | \$591,401 | \$422,570 | \$322,876 | \$257,003 | \$206,418 | \$538,181 | \$6,256,600 |

ERC for Zero Basis Portfolios can extend beyond our collection forecasts. As of June 30, 2017, ERC for Zero (1)Basis Portfolios include approximately \$329.8 million for purchased consumer and bankruptcy receivables in the United States. ERC for Zero Basis Portfolios in Europe and other geographies were immaterial.

The collection forecast of each pool is generally estimated up to 120 months in the United States and up to (2) 180 months in Europe. Expected collections beyond the 120 month collection forecast in the United States are included in ERC but are not included in the calculation of IRRs.

(3)2017 amount consists of six months data from July 1, 2017 to December 31, 2017.

(4)Includes portfolios acquired in connection with certain business combinations.

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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<br>of<br>June 30,<br>2017 | 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 |   |
|---------------------|---|----------------------------------|--|---|---|---|
| United States:      |   |                                  |  |   |   |   |
| 2007                | \$ 122  | \$204,063                        | 0.1  | % | 0.0   | % |
| 2008                | 2,931   | 227,751                          | 1.3  | % | 0.2   | % |
| 2009                | —   | 252,979                          | 0.0  | % | 0.0   | % |
| 2010                | —   | 357,362                          | 0.0  | % | 0.0   | % |
| 2011                | 5,634   | 383,911                          | 1.5  | % | 0.5   | % |
| 2012                | 25,461  | 548,984                          | 4.6  | % | 2.2   | % |
| 2013 <sup>(2)</sup> | 63,270  | 552,310                          | 11.5   | % | 5.4   | % |
| 2014 <sup>(2)</sup> | 147,907   | 518,979                          | 28.5   | % | 12.5  | % |
| 2015                | 247,554   | 500,877                          | 49.4   | % | 21.0  | % |
| 2016                | 440,502   | 557,235                          | 79.1   | % | 37.3  | % |
| 2017                | 246,557   | 254,707                          | 96.8   | % | 20.9  | % |
| Subtotal            | 1,179,938   | 4,359,158                        | 27.1   | % | 100.0   | % |
| Europe:             |   |                                  |  |   |   |   |
| 2013 <sup>(2)</sup> | 248,243   | 619,079                          | 40.1   | % | 20.9  | % |
| 2014 <sup>(2)</sup> | 297,606   | 630,342                          | 47.2   | % | 25.1  | % |
| 2015 <sup>(2)</sup> | 243,826   | 423,348                          | 57.6   | % | 20.6  | % |
| 2016                | 220,573   | 259,480                          | 85.0   | % | 18.6  | % |
| 2017                | 175,883   | 177,370                          | 99.2   | % | 14.8  | % |
| Subtotal            | 1,186,131   | 2,109,619                        | 56.2   | % | 100.0   | % |
| Other geographies:  |   |                                  |  |   |   |   |
| 2013                | 466   | 29,568                           | 1.6  | % | 0.2   | % |
| 2014                | 61,315  | 86,989                           | 70.5   | % | 32.3  | % |
| 2015 <sup>(2)</sup> | 44,015  | 91,133                           | 48.3   | % | 23.2  | % |
| 2016                | 54,154  | 79,826                           | 67.8   | % | 28.5  | % |
| 2017                | 29,906  | 31,762                           | 94.2   | % | 15.8  | % |
| Subtotal            | 189,856   | 319,278                          | 59.5   | % | 100.0   | % |
| Total               | \$ 2,555,925  | \$ 6,788,055                     | 37.7   | % | 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) Includes portfolios acquired in connection with certain business combinations.

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## Estimated Future Amortization of Portfolios

As of June 30, 2017, we had \$2.6 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, | United States | Europe       | Other Geographies | Total Amortization |
|---------------------------|---------------|--------------|-------------------|--------------------|
| 2017 <sup>(1)</sup>       | \$ 146,706    | \$ 39,389    | \$ 6,427          | \$ 192,522         |
| 2018                      | 321,457       | 125,445      | 20,432            | 467,334            |
| 2019                      | 260,145       | 149,029      | 47,145            | 456,319            |
| 2020                      | 168,452       | 128,285      | 53,100            | 349,837            |
| 2021                      | 112,300       | 110,492      | 36,169            | 258,961            |
| 2022                      | 70,064        | 96,103       | 9,619             | 175,786            |
| 2023                      | 45,234        | 84,728       | 6,516             | 136,478            |
| 2024                      | 28,413        | 74,783       | 4,705             | 107,901            |
| 2025                      | 14,220        | 69,632       | 3,732             | 87,584             |
| 2026                      | 7,313         | 77,346       | 1,912             | 86,571             |
| 2027                      | 5,634         | 73,881       | 99                | 79,614             |
| 2028                      | —             | 75,174       | —                 | 75,174             |
| 2029                      | —             | 38,300       | —                 | 38,300             |
| 2030                      | —             | 24,740       | —                 | 24,740             |
| 2031                      | —             | 15,809       | —                 | 15,809             |
| 2032                      | —             | 2,995        | —                 | 2,995              |
| Total                     | \$ 1,179,938  | \$ 1,186,131 | \$ 189,856        | \$ 2,555,925       |

(1)2017 amount consists of six months data from July 1, 2017 to December 31, 2017.

## Headcount by Function by Geographic Location

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

|                          | Headcount as of June 30, |               |       |               |
|--------------------------|--------------------------|---------------|-------|---------------|
|                          | 2017                     |               | 2016  |               |
|                          | Domes                    | International | Domes | International |
| General & Administrative | 880                      | 2,253         | 923   | 2,200         |
| Account Manager          | 322                      | 3,391         | 265   | 3,326         |
| Total                    | 1,202                    | 5,644         | 1,188 | 5,526         |

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## Purchases by Quarter

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

| Quarter                | # of Accounts | Face Value  | Purchase Price |
|------------------------|---------------|-------------|----------------|
| Q1 2015                | 734           | \$1,041,011 | \$125,154      |
| Q2 2015 <sup>(1)</sup> | 2,970         | 5,544,885   | 418,780        |
| Q3 2015                | 1,267         | 2,085,381   | 187,180        |
| Q4 2015 <sup>(1)</sup> | 2,363         | 4,068,252   | 292,608        |
| Q1 2016                | 1,450         | 3,544,338   | 256,753        |
| Q2 2016                | 946           | 2,841,527   | 233,116        |
| Q3 2016                | 874           | 1,475,381   | 206,359        |
| Q4 2016                | 1,159         | 1,943,775   | 210,491        |
| Q1 2017                | 807           | 1,657,393   | 218,727        |
| Q2 2017                | 1,347         | 2,441,909   | 246,415        |

(1)Includes portfolios acquired in connection with certain business combinations.

## Liquidity and Capital Resources

## Liquidity

The following table summarizes our cash flow activity, including the cash flows from discontinued operations, for the periods presented (in thousands):

|   | Six Months Ended<br>June 30, |          |
|---|------------------------------|----------|
|   | 2017                         | 2016     |
|   | (Unaudited)                  |          |
| Net cash provided by operating activities           | \$71,290                     | \$49,080 |
| Net cash used in investing activities               | (115,075)                    | (52,987) |
| Net cash provided by (used in) financing activities | 35,849                       | (11,222) |

## Operating Cash Flows

Cash flows from operating activities represent the cash receipts and disbursements related to all of our activities other than investing and financing activities. Operating cash flows are derived by adjusting net income for non-cash operating items such as depreciation and amortization, allowance charges and stock-based compensation charges, and changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in results of operations.

Net cash provided by operating activities was \$71.3 million and \$49.1 million during the six months ended June 30, 2017 and 2016, respectively. Cash provided by operating activities during the six months ended June 30, 2017 was primarily related to net income of \$34.1 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, 2016 was primarily related to net income of \$57.4 million, adjustments for discontinued operations, 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 \$115.1 million and \$53.0 million during the six months ended June 30, 2017 and 2016, respectively.

The cash flows used in investing activities during the six months ended June 30, 2017 were primarily related to receivable portfolio purchases of \$464.5 million, offset by collection proceeds applied to the principal of our receivable portfolios in the amount of \$371.3 million. The cash flows used in investing activities during the six months ended June 30, 2016 were





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primarily related to receivable portfolio purchases of \$517.7 million, offset by collection proceeds applied to the principal of our receivable portfolios in the amount of \$351.2 million and \$106.0 million of proceeds from divestiture of Propel, net of cash divested.

Capital expenditures for fixed assets acquired with internal cash flows were \$12.0 million and \$10.1 million for six months ended June 30, 2017 and 2016, respectively.

### Financing Cash Flows

Net cash provided by financing activities was \$35.8 million during the six months ended June 30, 2017. Net cash used in financing activities was \$11.2 million during the six months ended June 30, 2016. Net cash used in financing activities from discontinued operations was \$15.5 million during the six months ended June 30, 2016.

The cash provided by financing activities during the six months ended June 30, 2017 primarily reflects \$331.0 million in borrowings under our credit facilities and \$150.0 million of proceeds from the issuance of Encore's convertible senior notes due 2022, offset by \$373.3 million in repayments of amounts outstanding under our credit facilities and \$60.4 million in repayments of Encore's convertible notes due 2017. The cash used in financing activities during the six months ended June 30, 2016 primarily reflects \$307.9 million in repayments of amounts outstanding under our credit facilities, offset by \$288.8 million in borrowings under our credit facilities.

### Capital Resources

Historically, we have met our cash requirements by utilizing our cash flows from operations, bank borrowings, convertible debt offerings, and equity offerings. From time to time, depending on the capital markets, we consider additional financings to fund our operations and acquisitions. 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.

We have a revolving credit facility and term loan facility pursuant to a Third Amended and Restated Credit Agreement dated December 20, 2016 (as amended, the "Restated Credit Agreement"). The Restated Credit Agreement includes a revolving credit facility of \$801.7 million (the "Revolving Credit Facility"), a term loan facility of \$120.4 million (the "Term Loan Facility", and together with the Revolving Credit Facility, the "Senior Secured Credit Facilities"), and an accordion feature that allows the Company to increase the Senior Secured Credit Facilities by an additional \$250.0 million (approximately \$25.3 million of which has been exercised). The Senior Secured Credit Facilities have a five year maturity expiring in December 2021, except with respect to (1) revolving commitments under the Revolving Credit Facility of \$32.1 million and \$168.6 million expiring in November 2017 and February 2019, respectively, and (2) two subtranches of the Term Loan Facility of \$4.8 million and \$18.0 million, expiring in November 2017 and February 2019, respectively. As of June 30, 2017, we had \$539.0 million outstanding and \$262.7 million of availability under the Revolving Credit Facility and \$116.7 million outstanding under the Term Loan Facility.

Through Cabot Financial (UK) Limited ("Cabot Financial UK"), an indirect subsidiary, we have a revolving credit facility of £250.0 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 £50.0 million, subject to obtaining the requisite commitments and compliance with the terms of Cabot Financial UK's other indebtedness. As of June 30, 2017, we had £62.5 million (approximately \$81.2 million) outstanding and £187.5 million (approximately \$243.6 million) of availability under the Cabot Credit Facility.

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

We are in compliance with all covenants under our financing arrangements. See Note 9, "Debt" to our condensed consolidated financial statements for a further discussion of our debt.

In March 2017, we sold \$150.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2022 (the "2022 Convertible Notes") that mature on March 15, 2022 in private placement transactions. The 2022 Convertible Notes bear interest at a rate of 3.25% per year, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2017.

The net proceeds from the sale of the \$150.0 million aggregate principal amount of the 2022 Convertible Notes were approximately \$145.3 million, after deducting the initial purchasers' discounts and the estimated offering expenses. We

used approximately \$60.4 million of the net proceeds from the offering to repurchase, in separate transactions, \$50.0 million

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aggregate principal amount of our 3.0% 2017 convertible senior notes (the “2017 Convertible Notes”). As of March 31, 2017, the remaining principal amount of the 2017 Convertible Notes was \$65.0 million and will mature on November 27, 2017.

In 2010 and 2011 we sold an aggregate of \$75.0 million of senior secured notes with certain affiliates of Prudential Capital Group (the “Senior Secured Notes”). As of June 30, 2017, \$5.1 million of the Senior Secured Notes were outstanding and due in 2017 and 2018.

Our cash and cash equivalents at June 30, 2017 consisted of \$30.0 million held by U.S.-based entities and \$116.6 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 U.S. 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, including payments for the maturing debt discussed above, 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.

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Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rates. At June 30, 2017, 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, 2016.

Interest Rates. At June 30, 2017, 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, 2016.

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

No changes in our internal control over financial reporting occurred during the quarter ended June 30, 2017 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 12, “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, 2016.

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Item 6 – Exhibits

| Number | Description  |
|--------|--|
| 3.1    | Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Company’s Registration Statement on Form S-1/A filed on June 14, 1999, File No. 333-77483)   |
| 3.2    | Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on April 4, 2002)   |
| 3.3    | Bylaws, as amended through February 8, 2011 (incorporated by reference to Exhibit 3.3 to the Company’s Annual Report on Form 10-K filed on February 14, 2011)  |
| 10.1   | Amendment No.1 to Third Amended and Restated Credit Agreement, dated June 13, 2017, 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)  |
| 10.2+  | Letter, dated June 15, 2017, from Encore Capital Group, Inc. to Ashish Masih (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on June 20, 2017)  |
| 10.3+  | Letter, dated June 15, 2017, from Encore Capital Group, Inc. to Paul Grinberg (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on June 20, 2017)   |
| 10.4+  | The Encore Capital Group, Inc. 2017 Incentive Award Plan (incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K filed on June 20, 2017)  |
| 10.5+  | Form of Restricted Stock Unit Grant Notice and Award Agreement under the Encore Capital Group, Inc. 2017 Incentive Award Plan (incorporated by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K filed on June 20, 2017)   |
| 10.6+  | Form of Restricted Stock Unit Grant Notice and Award Agreement under the Encore Capital Group, Inc. 2017 Incentive Award Plan (for Executive Separation Plan Participants) (incorporated by reference to Exhibit 10.5 to the Company’s Current Report on Form 8-K filed on June 20, 2017)  |
| 10.7+  | Form of Restricted Stock Award Grant Notice and Award Agreement under the Encore Capital Group, Inc. 2017 Incentive Award Plan (incorporated by reference to Exhibit 10.6 to the Company’s Current Report on Form 8-K filed on June 20, 2017)  |
| 10.8+  | Form of Stock Option Grant Notice and Award Agreement under the Encore Capital Group, Inc. 2017 Incentive Award Plan (incorporated by reference to Exhibit 10.7 to the Company’s Current Report on Form 8-K filed on June 20, 2017)  |
| 10.9   | Amendment No. 2 to Third Amended and Restated Credit Agreement, dated June 29, 2017, 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) |
| 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)
- + Management contract or compensation plan or arrangement.



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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 3, 2017