ENCORE CAPITAL GROUP INC
Form 10-Q
May 10, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
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 San Diego, California	92108
(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)

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 x   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 x   No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨   Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes ¨   No x
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 May 3, 2016
Common Stock, $0.01 par value	25,518,443 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)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$144,613	$123,993
Investment in receivable portfolios, net	2,486,978	2,440,669
Property and equipment, net	68,162	72,546
Deferred court costs, net	75,829	75,239
Other assets	157,533	148,762
Goodwill	890,504	924,847
Assets associated with discontinued operations	—	388,763
Total assets	$3,823,619	$4,174,819
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	$238,203	$290,608
Debt	2,893,434	2,944,063
Other liabilities	27,975	59,226
Liabilities associated with discontinued operations	—	232,434
Total liabilities	3,159,612	3,526,331
Commitments and contingencies		
Redeemable noncontrolling interest	39,948	38,624
Redeemable equity component of convertible senior notes	5,359	6,126
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, 25,508 shares and 25,288 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	255	253
Additional paid-in capital	109,228	110,533
Accumulated earnings	569,183	543,489
Accumulated other comprehensive loss	(68,360)	(57,822)
Total Encore Capital Group, Inc. stockholders' equity	610,306	596,453
Noncontrolling interest	8,394	7,285
Total equity	618,700	603,738
Total liabilities, redeemable equity and equity	$3,823,619	$4,174,819

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

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 62,539	$ 50,483
Investment in receivable portfolios, net	1,217,625	1,197,513
Property and equipment, net	18,145	19,767

Deferred court costs, net	35,782	33,296
Other assets	46,804	31,679
Goodwill	680,727	706,812
Assets associated with discontinued operations	—	92,985
Liabilities		
Accounts payable and accrued liabilities	$ 99,010	$ 142,375
Debt	1,739,579	1,665,009
Other liabilities	687	839
Liabilities associated with discontinued operations	—	58,923

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2016	2015
Revenues		
Revenue from receivable portfolios, net	$270,094	$264,110
Other revenues	18,923	13,672
Total revenues	289,017	277,782
Operating expenses		
Salaries and employee benefits	69,642	65,552
Cost of legal collections	54,308	54,998
Other operating expenses	26,343	24,326
Collection agency commissions	10,120	10,685
General and administrative expenses	35,239	31,197
Depreciation and amortization	9,861	8,137
Total operating expenses	205,513	194,895
Income from operations	83,504	82,887
Other (expense) income		
Interest expense	(50,691)	(42,303)
Other income	7,124	2,117
Total other expense	(43,567)	(40,186)
Income before income taxes	39,937	42,701
Provision for income taxes	(10,148)	(14,614)
Income from continuing operations	29,789	28,087
(Loss) income from discontinued operations, net of tax	(3,182)	1,880
Net income	26,607	29,967
Net income attributable to noncontrolling interest	(913)	(542)
Net income attributable to Encore Capital Group, Inc. stockholders	$25,694	$29,425
Amounts attributable to Encore Capital Group, Inc.:		
Income from continuing operations	$28,876	$27,545
(Loss) income from discontinued operations, net of tax	(3,182)	1,880
Net income	$25,694	$29,425
Earnings (loss) per share attributable to Encore Capital Group, Inc.:		
Basic earnings (loss) per share from:		
Continuing operations	$1.13	$1.06
Discontinued operations	$(0.12)	$0.07
Net basic earnings per share	$1.01	$1.13
Diluted earnings (loss) per share from:		
Continuing operations	$1.12	$1.01
Discontinued operations	$(0.13)	$0.07
Net diluted earnings per share	$0.99	$1.08
Weighted average shares outstanding:		
Basic	25,550	26,072
Diluted	25,868	27,315

See accompanying notes to condensed consolidated financial statements

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ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, In Thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	$26,607	$29,967
Other comprehensive income, net of tax:		
Change in unrealized gains/losses on derivative instruments:		
Unrealized gain on derivative instruments	66	860
Income tax effect	(26)	(347)
Unrealized gain on derivative instruments, net of tax	40	513
Change in foreign currency translation:		
Unrealized loss on foreign currency translation	(11,899)	(21,032)
Income tax effect	1,321	(1,617)
Unrealized loss on foreign currency translation, net of tax	(10,578)	(22,649)
Other comprehensive loss, net of tax	(10,538)	(22,136)
Comprehensive income	16,069	7,831
Comprehensive (income) loss attributable to noncontrolling interest:		
Net income	(913)	(542)
Unrealized loss on foreign currency translation	338	1,582
Comprehensive (income) loss attributable to noncontrolling interest	(575)	1,040
Comprehensive income attributable to Encore Capital Group, Inc. stockholders	$15,494	$8,871

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)

	Three Months Ended March 31,	
	2016	2015
Operating activities:		
Net income	$26,607	$29,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (income) from discontinued operations, net of income taxes	1,352	(1,880)
Depreciation and amortization	9,861	8,137
Non-cash interest expense, net	9,533	7,805
Stock-based compensation expense	3,718	5,905
Gain on derivative instruments	(5,399)	—
Deferred income taxes	(21,588)	(4,276)
Excess tax benefit from stock-based payment arrangements	—	(637)
Loss on sale of discontinued operations, net of tax	1,830	—
Reversal of allowances on receivable portfolios, net	(2,191)	(2,859)
Changes in operating assets and liabilities		
Deferred court costs and other assets	1,233	(11,873)
Prepaid income tax and income taxes payable	18,824	4,847
Accounts payable, accrued liabilities and other liabilities	(14,023)	(15,081)
Net cash provided by operating activities from continuing operations	29,757	20,055
Net cash provided by (used in) operating activities from discontinued operations	2,096	(665)
Net cash provided by operating activities	31,853	19,390
Investing activities:		
Cash paid for acquisitions, net of cash acquired	(675)	—
Proceeds from divestiture of business, net of cash divested	106,041	—
Purchases of receivable portfolios, net of put-backs	(280,990)	(143,239)
Collections applied to investment in receivable portfolios, net	180,796	164,217
Purchases of property and equipment	(2,252)	(4,271)
Other, net	1,191	(251)
Net cash provided by investing activities from continuing operations	4,111	16,456
Net cash provided by (used in) used in investing activities from discontinued operations	14,685	(11,965)
Net cash provided by investing activities	18,796	4,491
Financing activities:		
Payment of loan costs	(1,395)	(4,279)
Proceeds from credit facilities	185,883	134,285
Repayment of credit facilities	(235,151)	(124,395)
Repayment of senior secured notes	(3,750)	(3,750)
Repayment of securitized notes	(935)	(6,625)
Taxes paid related to net share settlement of equity awards	(3,354)	(4,554)
Excess tax benefit from stock-based payment arrangements	—	637
Other, net	(2,785)	(3,592)
Net cash used in financing activities	(61,487)	(12,273)
Net (decrease) increase in cash and cash equivalents	(10,838)	11,608
Effect of exchange rate changes on cash and cash equivalents	1,858	438
Cash and cash equivalents, beginning of period	153,593	124,163
Cash and cash equivalents, end of period	144,613	136,209

Cash and cash equivalents of discontinued operations, end of period	—	24,183
Cash and cash equivalents of continuing operations, end of period	$144,613	$112,026

See accompanying notes to condensed consolidated financial statements

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 for consumers and property owners across a broad range of financial assets. The Company purchases portfolios of defaulted consumer receivables at deep discounts to face value and manages them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings.
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, 2015. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company’s financial statements and the accompanying notes. Actual results could materially differ from those estimates.
Basis of Consolidation
The condensed consolidated financial statements have been prepared in conformity with GAAP, and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. The Company also consolidates VIEs, for which it is the primary beneficiary. The primary beneficiary has both (a) the power to direct the activities of the VIE that most significantly affect the entity’s economic performance, and (b) either the obligation to absorb losses or the right to receive benefits. Refer to Note 11, “Variable Interest Entities,” for further details. All intercompany transactions and balances have been eliminated in consolidation.
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.
Recent Accounting Pronouncements
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

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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. The Company is currently assessing the impact that adopting this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships ("ASU 2016-05") and ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments ("ASU 2016-06"). ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-06 clarifies the steps required to determine bifurcation of an embedded derivative. ASU 2016-05 and ASU 2016-06 are effective for fiscal years beginning after 15 December 2016, and interim periods within those years. Early adoption is permitted. The Company is currently assessing the impact that adopting this guidance will have on its consolidated financial statements.

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. ASU 2016-02 is effective for the Company in its first quarter of fiscal 2019 on a modified retrospective basis and earlier adoption is permitted. The Company is currently assessing the impact that adopting this guidance will have on its consolidated financial statements.

Change in Accounting Principle

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs". This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective beginning January 1, 2016, with early adoption permitted. The update requires retrospective application and represents a change in accounting principle. The Company adopted this ASU in the first quarter of 2016 and the retrospective application of this change in accounting principle on the consolidated balance sheet as of December 31, 2015 reclassified debt issuance costs of $41.7 million, which were previously presented as other assets, as a reduction to the carrying value of the debt by the same amount. The adoption did not have an impact on the Company's condensed consolidated statements of operations or statements of cash flows in any period.

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.

During the three months ended March 31, 2016, the Company recognized a loss of $3.0 million related to the sale of Propel. 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 operations. Certain immaterial costs that may be eliminated as a result of the sale remained in continuing operations.

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

	Three Months Ended March 31,	
	2016	2015
Revenue	$4,950	$7,881
Salaries and employee benefits	(2,860)	(2,196)
Other operating expenses	(1,473)	(908)
General and administrative expenses	(1,551)	(1,415)
Depreciation and amortization	(127)	(213)
(Loss) income from discontinued operations, before income taxes	(1,061)	3,149
Loss on sale of discontinued operations, before income taxes	(3,000)	—
Total (loss) income on discontinued operations, before income taxes	(4,061)	3,149
Income tax benefit (provision)	879	(1,269)
Total (loss) income from discontinued operations, net of tax	$(3,182)	$1,880

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 Ended March 31,	
	2016	2015
Weighted average common shares outstanding—basic	25,550	26,072
Dilutive effect of stock-based awards	318	369
Dilutive effect of convertible senior notes	—	874
Weighted average common shares outstanding—diluted	25,868	27,315

Anti-dilutive employee stock options outstanding were negligible during the three months ended March 31, 2016. There were no anti-dilutive employee stock options outstanding during the three months ended March 31, 2015.

Note 4: Business Combinations

dlc Acquisition

On June 1, 2015, Encore’s U.K.-based subsidiary Cabot Credit Management Limited and its subsidiaries (collectively, “Cabot”) acquired Hillesden Securities Ltd and its subsidiaries (“dlc”), a U.K.-based acquirer and collector of non-performing unsecured consumer debt for approximately £180.6 million (approximately $274.7 million), (the “dlc Acquisition”).

The dlc Acquisition was accounted for using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the acquisition. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the respective assets and liabilities.

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

Purchase price:	
Cash paid at acquisition	$268,391
Deferred consideration	6,306
Total purchase price	$274,697

Allocation of purchase price:	
Cash	$30,518
Investment in receivable portfolios	215,988
Deferred court costs	760
Property and equipment	1,327
Other assets	2,384
Liabilities assumed	(46,435)
Identifiable intangible assets	3,669
Goodwill	66,486
Total net assets acquired	$274,697

The goodwill recognized is primarily attributable to synergies that are expected to be achieved by combining dlc and Cabot's existing contingent collections operations. The entire goodwill of $66.5 million related to the dlc Acquisition is not deductible for income tax purposes.

Other Acquisitions

In addition to the dlc Acquisition discussed above, the Company, through its subsidiaries, completed certain other acquisitions in 2016 and 2015. These acquisitions were immaterial to the Company’s financial statements individually and in the aggregate.

Refer to Note 2, “Business Combinations” as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, for a complete description of the Company’s acquisition activities in 2015.

Note 5: 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 of March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$ —	$ 4,436	$ —	$ 4,436
Liabilities				
Foreign currency exchange contracts	—	(342)	—	(342)
Interest rate swap agreements	—	(307)	—	(307)
Temporary Equity				
Redeemable noncontrolling interests	—	—	(39,948)	(39,948)

	Fair Value Measurements as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$ —	$ 718	$ —	$ 718
Liabilities				
Foreign currency exchange contracts	—	(601)	—	(601)
Interest rate swap agreements	—	(352)	—	(352)
Temporary Equity				
Redeemable noncontrolling interests	—	—	(38,624)	(38,624)

Derivative Contracts:

The Company uses derivative instruments to minimize 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.

Redeemable Noncontrolling Interests:

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

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The components of the change in the redeemable noncontrolling interests for the periods ended March 31, 2016 and December 31, 2015 are presented in the following table (in thousands):

	Amount
Balance at December 31, 2014	$28,885
Initial redeemable noncontrolling interest related to business combinations	9,409
Net income attributable to redeemable noncontrolling interests	1,371
Adjustment of the redeemable noncontrolling interests to fair value	2,349
Effect of foreign currency translation attributable to redeemable noncontrolling interests	(3,390)
Balance at December 31, 2015	38,624
Net income attributable to redeemable noncontrolling interests	578
Adjustment of the redeemable noncontrolling interests to fair value	408
Effect of foreign currency translation attributable to redeemable noncontrolling interests	338
Balance at March 31, 2016	$39,948

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

In the Company's current analysis, the estimated blended market participant cost to collect and discount rate is approximately 50.3% and 10.5%, respectively, for U.S. portfolios, approximately 30.0% and 12.3%, respectively, for Europe portfolios and approximately 32.4% and 11.0%, respectively for other geographies. Using this method, the fair value of investment in receivable portfolios approximates the carrying value as of March 31, 2016 and December 31, 2015. A 100 basis point fluctuation in the cost to collect and discount rate used would result in an increase or decrease in the fair value of United States and Europe portfolios by approximately $40.6 million and $54.2 million, respectively, as of March 31, 2016. This fair value calculation does not represent, and should not be construed to represent, the underlying value of the Company or the amount which could be realized if its investment in receivable portfolios were sold. The carrying value of the investment in receivable portfolios was $2.5 billion and $2.4 billion as of March 31, 2016 and December 31, 2015, respectively.

Deferred Court Costs:

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

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 revolving credit facility, and other borrowing under 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 $409.1 million and $406.6 million as of March 31, 2016 and December 31, 2015, respectively. The fair value estimate for these convertible senior notes, which incorporates quoted market prices using Level 2 inputs, was approximately $361.2 million and $372.2 million as of March 31, 2016 and December 31, 2015, 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 $1,391.2 million and $1,410.3 million, as of March 31, 2016 and December 31,

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2015, respectively. The fair value estimate for these senior notes, which incorporates quoted market prices using Level 2 inputs, was $1,363.0 million and $1,403.5 million as of March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015.

Note 6: 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.

Foreign Currency Exchange Contracts

The Company has operations in foreign countries, which exposes the Company to foreign currency exchange rate fluctuations due to transactions denominated in foreign currencies. To mitigate 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 March 31, 2016, the total notional amount of the forward contracts that are designated as cash flow hedging instruments was $35.0 million. All of these outstanding contracts qualified for hedge accounting treatment. The Company estimates that approximately $0.5 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 three months ended March 31, 2016 and 2015.
In January 2016, the Company's Cabot subsidiary began entering into currency exchange forward contracts to reduce the short-term effects of currency exchange rate fluctuations between British Pounds and Euro resulting from the net asset or liability positions within its Euro functional currency entities. These derivative contracts generally mature within one to three months and are not designated as hedge instruments. Cabot continues to monitor the level of exposure of the foreign currency exchange risk and enters into these short-term forward contracts on an ongoing basis. The gains or losses on these foreign currency exchange contracts are recognized in other income or other expense based on the changes in fair value. During the three months ended March 31, 2016, the total gain recognized in the Company's condensed consolidated statements of operations was $5.4 million.
The Company does not enter into derivative instruments for trading or speculative purposes.

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

	March 31, 2016		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign currency exchange contracts	Other assets	$ 526	Other assets	$ 718
Foreign currency exchange contracts	Other liabilities	(342)	Other liabilities	(601)
Derivatives not designated as hedging instruments:				
Foreign currency exchange contracts	Other assets	3,910	Other assets	—
Interest rate swap agreements	Other liabilities	(307)	Other liabilities	(352)

The following table summarizes the effects of derivatives in cash flow hedging relationships on the Company's condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015 (in thousands):

	Gain or (Loss) Recognized in OCI-Effective Portion		Location of Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion		Location of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Three Months Ended March 31,			Three Months Ended March 31,			Three Months Ended March 31,	
	2016	2015		2016	2015		2016	2015
Foreign currency exchange contracts	$ 502	$ 472	Salaries and employee benefits	$258	$(151)	Other (expense) income	$ —	$ —
Foreign currency exchange contracts	(154)	220	General and administrative expenses	23	(16)	Other (expense) income	—	—

Note 7: Investment in Receivable Portfolios, Net

In accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality, discrete receivable portfolio purchases during the same fiscal quarter are aggregated into pools based on common risk characteristics. Common risk characteristics include risk ratings (e.g. FICO or similar scores), financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. The Company's static pools are typically grouped into credit card and telecom, purchased consumer bankruptcy, and mortgage portfolios. We further group these static pools by geographic region or location. Once a static pool is established, the portfolios are permanently assigned to the pool. The discount (i.e., the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded because the Company expects to collect a relatively small percentage of each static pool's contractual receivable 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.
The Company utilizes its proprietary forecasting models to continuously evaluate the economic life of each pool. For purposes of calculating IRRs, the collection forecast of each pool is estimated to be up to 120 months.

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

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

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

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

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
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

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Balance at December 31, 2014	$2,993,321	$ 66,392	$3,059,713
Revenue recognized, net	(248,539)	(15,571)	(264,110)
Net additions on existing portfolios	228,560	39,661	268,221
Additions for current purchases, net	85,907	—	85,907
Effect of foreign currency translation	(108,046)	(54)	(108,100)
Balance at March 31, 2015	$2,951,203	$ 90,428	$3,041,631

During the three months ended March 31, 2016, the Company purchased receivable portfolios with a face value of $3.5 billion for $256.8 million, or a purchase cost of 7.2% of face value. The estimated future collections at acquisition for all portfolios purchased during the quarter amounted to $458.6 million. During the three months ended March 31, 2015, the Company purchased receivable portfolios with a face value of $1.0 billion for $125.2 million, or a purchase cost of 12.0% of face value. The estimated future collections at acquisition for all portfolios purchased during the quarter amounted to $197.5 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 March 31, 2016 and 2015, Zero Basis Revenue was approximately $31.5 million and $15.6 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 March 31, 2016			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$2,436,054	$ 4,615	$ —	$2,440,669
Purchases of receivable portfolios	256,753	—	—	256,753
Gross collections[1]	(415,727)	(633)	(31,445)	(447,805)
Put-backs and Recalls[2]	(12,885)	(6)	(102)	(12,993)
Foreign currency adjustments	(19,887)	147	—	(19,740)
Revenue recognized	238,078	—	29,825	267,903
Portfolio allowance reversals, net	469	—	1,722	2,191
Balance, end of period	$2,482,855	$ 4,123	$ —	$2,486,978
Revenue as a percentage of collections[3]	57.3 %	0.0 %	94.8 %	59.8 %

	Three Months Ended March 31, 2015			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$2,131,084	$ 12,476	$ —	$2,143,560
Purchases of receivable portfolios	125,154	—	—	125,154
Gross collections[1]	(407,556)	(1,972)	(15,543)	(425,071)
Put-backs and Recalls[2]	(2,517)	(18)	(28)	(2,563)
Foreign currency adjustments	(65,369)	(1,414)	—	(66,783)
Revenue recognized	248,539	—	12,712	261,251
Portfolio allowance reversals, net	—	—	2,859	2,859
Balance, end of period	$2,029,335	$ 9,072	$ —	$2,038,407
Revenue as a percentage of collections[3]	61.0 %	0.0 %	81.8 %	61.5 %

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

(2) Put-backs represent accounts that are returned to the seller in accordance with the respective purchase agreement ("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 March 31,	
	2016	2015
Balance at beginning of period	$60,588	$75,673
Reversal of prior allowances	(2,191)	(2,859)
Balance at end of period	$58,397	$72,814

Note 8: Deferred Court Costs, Net

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

from the consumer (“Deferred Court Costs”).

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

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

	March 31, 2016	December 31, 2015
Court costs advanced	$648,723	$ 636,922
Court costs recovered	(248,869)	(242,899)
Court costs reserve	(324,025)	(318,784)
Deferred court costs	$75,829	$ 75,239

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

	Court Cost Reserve Three Months Ended March 31,	
	2016	2015
Balance at beginning of period	$(318,784)	$(279,572)
Provision for court costs	(18,898)	(19,179)
Net down of reserve after 60 months	12,978	7,925
Effect of foreign currency translation	679	443
Balance at end of period	$(324,025)	$(290,383)

Note 9: Other Assets

Other assets consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Identifiable intangible assets, net	$35,691	$ 15,712
Prepaid expenses	21,768	21,872
Deferred tax assets	15,334	12,695
Other financial receivables	15,076	11,275
Service fee receivables	13,634	13,708
Prepaid income taxes	7,544	25,839
Receivable from seller	5,388	8,605
Derivative instruments	4,436	718
Security deposits	2,537	2,368
Other	36,125	35,970
Total	$157,533	$ 148,762

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Note 10: Debt

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

	March 31, 2016	December 31, 2015
Encore revolving credit facility	$497,000	$627,000
Encore term loan facility	140,063	143,078
Encore senior secured notes	25,000	28,750
Encore convertible notes	448,500	448,500
Less: Debt discount	(39,440)	(41,867)
Cabot senior secured notes	1,345,014	1,360,000
Add: Debt premium	49,220	53,440
Less: Debt discount	(3,045)	(3,184)
Cabot senior revolving credit facility	144,499	54,089
Preferred equity certificates	221,283	221,516
Capital lease obligations	8,374	11,054
Other	95,346	83,342
	2,931,814	2,985,718
Less: debt issuance costs, net of amortization	(38,380)	(41,655)
Total	$2,893,434	$2,944,063

Encore Revolving Credit Facility and Term Loan Facility

On March 24, 2016, the Company amended its revolving credit facility and term loan facility pursuant to Amendment No. 3 to the Second Amended and Restated Credit Agreement (as amended, the "Restated Credit Agreement"). The Restated Credit Agreement includes a revolving credit facility of $742.6 million (the "Revolving Credit Facility"), a term loan facility of $158.8 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 ($55.0 million of which was exercised in November 2015). Including the accordion feature, the maximum amount that can be borrowed under the Restated Credit Agreement is $1.1 billion. The Restated Credit Agreement expires in February 2019, except with respect to two subtranches of the Term Loan Facility of $60.0 million and $6.3 million, maturing in February 2017 and November 2017, respectively. Provisions of the Restated Credit Agreement include, but are not limited to:

- The Revolving Credit Facility of $742.6 million that expires in February 2019, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted London Interbank Offered Rate ("LIBOR"), plus a spread that ranges from 250 to 300 basis points depending on the 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. "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 or (iv) zero;
- A $92.5 million term loan maturing on February 25, 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 $6.9 million in 2016, $9.3 million in 2017, and $9.3 million in 2018 with the remaining principal due at the end of the term;
- A $60.0 million term loan maturing on February 25, 2017, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 200 to 250 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate,

plus a spread that ranges

from 100 to 150 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. Principal amortizes $4.5 million in 2016 with the remaining principal due at the end of the term;

- A $6.3 million term loan maturing on November 3, 2017, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the 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 $0.6 million in 2016 and $0.5 million in 2017 with the remaining principal due at the end of the term;
- A borrowing base equal to (1) the lesser of (i) 30%-35% (depending on the trailing 12-month cost per dollar collected of Encore and its restricted subsidiaries) of all eligible non-bankruptcy estimated remaining collections, currently 33%, plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy, and (ii) the product of the net book value of all receivable portfolios acquired on or after January 1, 2005 multiplied by 95%, minus (2) the sum of the aggregate principal amount outstanding of Encore's Senior Secured Notes (as defined below) plus the aggregate principal amount outstanding under the term loans;
- a maximum cash flow leverage ratio permitted of 2.50:1.00;
- a maximum cash flow secured leverage ratio of 2.00:1.00;
- The allowance of additional unsecured or subordinated indebtedness not to exceed $1.1 billion;
- Restrictions and covenants, which limit the payment of dividends and the incurrence of additional indebtedness and liens, among other limitations;
- Repurchases of up to $150.0 million of Encore's common stock after July 9, 2015, subject to compliance with certain covenants and available borrowing capacity;
- A change of control definition 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;
- 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 March 31, 2016, the outstanding balance under the Restated Credit Agreement was $637.1 million, which bore a weighted average interest rate of 3.49% and 2.95% for the three months ended March 31, 2016 and 2015, respectively. Available capacity under the Restated Credit Agreement, subject to borrowing base and applicable debt covenants, was $228.2 million as of March 31, 2016, not including the $195.0 million additional capacity provided by the facility's remaining accordion feature.

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 March 31, 2016, $10.0 million of the 7.375% Senior Secured Notes and $15.0 million of the 7.75% Senior Secured Notes, for an aggregate of $25.0 million, remained outstanding.

The Senior Secured Notes are guaranteed in full by certain of Encore's subsidiaries. Similar to, and pari passu with, the Senior Secured Credit Facilities, the Senior Secured Notes are collateralized by the same collateral as our Revolving Credit Facility. 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,

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collateral, most favored lender treatment, minimum revolving credit facility commitment or the breach of any negative covenant. If Encore prepays the Senior Secured Notes at any time for any reason, payment will be at the higher of par or the present value of the remaining scheduled payments of principal and interest on the portion being prepaid. The discount rate used to determine the present value is 50 basis points over the then current Treasury Rate corresponding to the remaining average life of the senior secured notes. The covenants are substantially similar to those in the Restated Credit Agreement. Prudential Capital Group and the administrative agent for the lenders of the Restated Credit Agreement have an intercreditor agreement related to their pro rata rights to the collateral, actionable default, powers and duties and remedies, among other topics. The terms of the Senior Secured Notes were amended in connection with the Restated Credit Agreement in order to properly align certain provisions between the two agreements.

Encore Convertible Notes

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

Prior to the close of business on the business day immediately preceding their respective conversion date (listed below), holders may convert their Convertible Notes under certain circumstances set forth in the applicable Convertible Notes indentures. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert their Convertible Notes at any time. Certain key terms related to the convertible features for each of the Convertible Notes as of March 31, 2016 are listed below.

	2017 Convertible Notes	2020 Convertible Notes	2021 Convertible Notes
Initial conversion price	$ 31.56	$ 45.72	$ 59.39
Closing stock price at date of issuance	$ 25.66	$ 33.35	$ 47.51
Closing stock price date	November 27, 2012	June 24, 2013	March 5, 2014
Conversion rate (shares per $1,000 principal amount)	31.6832	21.8718	16.8386
Conversion date[(1)]	May 27, 2017	January 1, 2020	September 15, 2020

(1) 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 and 2021 Convertible Notes will receive cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election. The Company’s current intent is to settle conversions through combination settlement (i.e., convertible into cash up to 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.

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

	2017 Convertible Notes	2020 Convertible Notes	2021 Convertible Notes
Debt component	$100,298	$140,247	$143,645
Equity component	$14,702	$32,253	$17,355
Equity issuance cost	$788	$1,106	$581
Stated interest rate	3.000 %	3.000 %	2.875 %
Effective interest rate	6.000 %	6.350 %	4.700 %

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

	March 31, 2016	December 31, 2015
Liability component—principal amount	$448,500	$ 448,500
Unamortized debt discount	(39,440)	(41,867)
Liability component—net carrying amount	$409,060	$ 406,633
Equity component	$58,950	$ 58,184

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 March 31, 2016	2015
Interest expense—stated coupon rate	$3,311	$3,292
Interest expense—amortization of debt discount	2,427	2,278
Total interest expense—convertible notes	$5,738	$5,570

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 price of the Convertible Notes, the Company maintains a hedge program that increases the effective conversion price for each of the Convertible Notes. All of the hedge instruments related to the Convertible Notes have been determined to be indexed to the Company's own stock and meet the criteria for equity classification. In accordance with authoritative guidance, the Company recorded the cost of the hedge instruments as a reduction in additional paid-in capital, and will not recognize subsequent changes in fair value of these financial instruments in its consolidated financial statements.

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

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

Conversion and Earnings Per Share Impact

During the quarter ending December 31, 2013, the closing price of the Company's common stock exceeded 130% of the conversion price of the 2017 Convertible Notes for more than 20 trading days during a 30 consecutive trading day period, thereby satisfying one of the early conversion events. As a result, the 2017 Convertible Notes became convertible on demand effective January 2, 2014, and the holders were notified that they could elect to submit their

2017 Convertible Notes for

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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 $115.1 million as of March 31, 2016. 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 $5.4 million of the equity component to temporary equity as of March 31, 2016. If a conversion event takes place, this temporary equity balance will be recalculated based on the difference between the 2017 Convertible Notes principal and the debt carrying value. If the 2017 Convertible Notes are settled, an amount equal to the fair value of the liability component, immediately prior to the settlement, will be deducted from the fair value of the total settlement consideration transferred and allocated to the liability component. Any difference between the amount allocated to the liability and the net carrying amount of the 2017 Convertible Notes (including any unamortized debt issue costs and discount) will be recognized in earnings as a gain or loss on debt extinguishment. Any remaining consideration is allocated to the reacquisition of the equity component and will be recognized as a reduction in stockholders' equity.

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

In accordance with authoritative guidance related to derivatives and hedging and earnings per share calculation, only the conversion spread of the Convertible Notes is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when the average share price of the Company's common stock during any quarter exceeds the respective conversion price of each of the Convertible Notes.

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

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

The 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). 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 operations. 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-

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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"), an indirect 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.

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. 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 March 31,	
	2016	2015
Interest expense—stated coupon rate	$27,643	$23,850
Interest income—accretion of debt premium	(2,618)	(2,547)
Interest expense—amortization of debt discount	127	—
Total interest expense—Cabot senior secured notes	$25,152	$21,303

At March 31, 2016, the outstanding balance on the Cabot Notes, Cabot Floating Rate Notes and Marlin Bonds was $1.3 billion.

Cabot Senior Revolving Credit Facility

On September 20, 2012, Cabot Financial UK entered into an agreement for a senior committed revolving credit facility of £50.0 million (approximately $82.7 million) (the "Cabot Credit Agreement"). Since such date there have been a number of amendments made, including, but not limited to, increases in the lenders' total commitments thereunder. On November 11, 2015, Cabot Financial UK amended and restated its existing senior secured revolving credit facility agreement to, among other things, increase the total committed amount of the facility to £200.0 million (approximately $304.0 million) and extend the termination date to September 24, 2018 (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 has a six-year term expiring in September 2018, and includes the following key provisions:

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

The Cabot Credit Facility is unconditionally guaranteed by 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 March 31, 2016, the outstanding borrowings under the Cabot Credit Facility were approximately $144.5 million. The weighted average interest rate was 4.01% and 3.94% for the three months ended March 31, 2016 and 2015, respectively.

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

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

On June 20, 2014, Encore Europe converted all of its E Bridge PECs into E Shares and E PECs, and J.C. Flowers converted all of its J Bridge PECs into J Shares and J PECs 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 March 31, 2016, the outstanding balance of the PECs, including accrued interest, was approximately $221.3 million.

Capital Lease Obligations

The Company has capital lease obligations primarily for computer equipment. As of March 31, 2016, the Company’s combined obligations for capital leases were approximately $8.4 million. These capital lease obligations require monthly, quarterly or annual payments through 2020 and have implicit interest rates that range from zero to approximately 5.9%.

Note 11: Variable Interest Entities

A VIE is defined as a legal entity whose equity owners do not have sufficient equity at risk, or, as a group, the holders of the equity investment at risk lack any of the following three characteristics: decision-making rights, the obligation to absorb losses, or the right to receive the expected residual returns of the entity. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the VIE that most significantly affect the entity’s economic performance and the obligation to absorb expected losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

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 immediate parent company of Cabot. The Company has determined that Janus Holdings is a VIE and the Company is the primary beneficiary of the VIE. The key activities that affect Cabot's economic performance include,

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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.

Assets recognized as a result of consolidating the VIE 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 the VIE 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 VIE on an ongoing basis to ensure that it continues to be the primary beneficiary.

Note 12: Income Taxes

Income tax provisions for income from continuing operations were $10.1 million and $14.6 million during the three months ended March 31, 2016 and 2015, respectively.

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

	Three Months Ended March 31,	
	2016	2015
Federal provision	35.0 %	35.0 %
State provision	6.2 %	8.2 %
State benefit	(2.2)%	(2.9)%
Tax reserves	0.0 %	0.1 %
International benefit[1]	(9.8)%	(6.0)%
Permanent items[2]	0.8 %	0.2 %
Other[3]	(4.6)%	0.0 %
Effective rate	25.4 %	34.6 %

(1) Relates primarily to lower tax rates on income attributable to international operations.
(2) Represents a provision for nondeductible items.
(3) Includes the effect of discrete items and an IRS audit settlement.

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 months ended March 31, 2016 and 2015, was immaterial.

The Company had gross unrecognized tax benefits, inclusive of penalties and interest, of $24.2 million and $58.5 million at March 31, 2016 and December 31, 2015, respectively. These unrecognized tax benefits, if recognized, would result in a net tax benefit of $10.6 million and $14.9 million as of March 31, 2016 and December 31, 2015, respectively. The reduction in gross unrecognized tax benefits was due to an IRS audit settlement.

During the three months ended March 31, 2016, 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 during the three months ended March 31, 2016, was approximately $17.1 million.

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Note 13: Commitments and Contingencies

Litigation and Regulatory

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

At March 31, 2016, there have been no material developments in any of the legal proceedings disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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 March 31, 2016, other than reserves for the Consumer Finance Protection Bureau ("CFPB") and ancillary state regulatory matters discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, the Company has no material reserves for legal matters. Additionally, based on the current status of litigation and regulatory matters, either the estimate of exposure is immaterial to the Company's financial statements or an estimate cannot yet be determined. The Company's legal costs are recorded to expense as incurred.

Purchase Commitments

In the normal course of business, the Company enters into forward flow purchase agreements and other purchase commitment agreements. As of March 31, 2016, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately $1.4 billion for a purchase price of approximately $212.1 million. Most purchase commitments do not extend past one year.

Note 14: 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 operations and comprehensive income. Beginning in the first quarter 2016, the Company has one reportable segment, portfolio purchasing and recovery.

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

	Three Months Ended March 31,	
	2016	2015
Revenues[(1)]:		
United States	$170,731	$182,631
Europe	97,360	86,724
Other geographies	20,926	8,427
Total	$289,017	$277,782

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

Note 15: Goodwill and Identifiable Intangible Assets

In accordance with authoritative guidance, goodwill is tested for impairment at the reporting unit level annually and in interim periods if indicators of impairment exist or if a decision is made to sell or exit a business. 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.

In connection with the divestiture of Propel as discussed in Note 2, “Discontinued Operations,” the Company wrote-down the entire goodwill balance of $49.3 million carried at Propel that represented the entire tax lien business reporting unit as of December 31, 2015.

As of March 31, 2016, the Company has five reporting units for goodwill impairment testing purposes. The annual goodwill testing date for the five 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 three months ended March 31, 2016 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. Further 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 as of March 31, 2016 and December 31, 2015. A summary of changes in the carrying amounts of goodwill were as follows (in thousands):

	Total
Balance, December 31, 2015	$924,847
Goodwill acquired	623
Goodwill adjustments[(1)]	(15,662)
Effect of foreign currency translation	(19,304)
Balance, March 31, 2016	$890,504

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(1) Represent adjustments made to preliminary purchase price allocations as a result of obtaining fair value of intangible assets acquired associated with prior year business combinations.

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

	As of March 31, 2016			As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$24,779	$ (1,881)	$22,898	$5,356	$ (903)	$4,453
Developed technologies	8,522	(3,106)	5,416	8,141	(3,793)	4,348
Trade name and other	11,120	(3,743)	7,377	10,324	(3,413)	6,911
Total intangible assets	$44,421	$ (8,730)	$35,691	$23,821	$ (8,109)	$15,712

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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 s expressions often characterize forward-looking statements. These statements may include, but are not limited to, projections of collections, revenues, income or loss, estimates of capital expenditures, plans for future operations, products or services and financing needs or plans, as well as assumptions relating to these matters. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we caution that these expectations or predictions may not prove to be correct or we may not achieve the financial results, savings, or other benefits anticipated in the forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties, some of which may be beyond our control or cannot be predicted or quantified, that could cause actual results to differ materially from those suggested by the forward-looking statements. Many factors, including but not limited to those set forth in our Annual Report on Form 10-K under "Part I, Item 1A. Risk Factors," could cause our actual results, performance, achievements, or industry results to be very different from the results, performance, achievements or industry results expressed or implied by these forward-looking statements. Our business, financial condition, or results of operations could also be materially and adversely affected by other factors besides those listed. Forward-looking statements speak only as of the date the statements were made. We do not undertake any obligation to update or revise any forward-looking statements to reflect new information or future events, or for any other reason, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized. In addition, it is generally our policy not to make any specific projections as to future earnings, and we do not endorse projections regarding future performance that may be made by third parties.

Our Business and Operating Segments

We are an international specialty finance company providing debt recovery solutions for consumers and property owners across a broad range of financial assets. We purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers' unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings. Through certain subsidiaries, we are a market leader in portfolio purchasing and recovery in the United States, including Puerto Rico. Our subsidiary, Janus Holdings Luxembourg S.a.r.l. ("Janus Holdings"), through its indirectly held U.K.-based subsidiary Cabot Credit Management Limited and its subsidiaries (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). Cabot expanded in the United Kingdom with its consolidating acquisition of Hillesden Securities Ltd and its subsidiaries ("dlc") in June 2015. Our majority-owned subsidiary, Grove Holdings ("Grove"), is a U.K.-based leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or "IVAs") in the United Kingdom and bank and non-bank receivables in Spain. Our majority-owned subsidiary, Refinancia S.A. ("Refinancia"), through its subsidiaries, is a market leader in debt collection and management in Colombia and Peru. In October 2015, we completed the acquisition of a controlling stake in Baycorp Holdings Pty Limited ("Baycorp"), one of Australasia's leading debt resolution specialists.

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 operations and comprehensive income. Beginning in the first quarter 2016, we conduct business through one reportable segment, portfolio purchasing and recovery.

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

As discussed in more detail under "Part I - Item1 - 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 addition, 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.

For example, the Consumer Finance Protection Bureau ("CFPB") may adopt new regulations that may affect our industry and our business. Additionally, the CFPB has supervisory, examination and enforcement authority over our business and is currently examining the collection practices of participants in the consumer debt buying industry. The CFPB has recently engaged in enforcement activity in sectors adjacent to our industry, impacting credit originators, collection firms, and payment processors, among others. The CFPB's enforcement activity in these sectors, especially in the absence of clear rules or regulatory expectations, can be disruptive as industry participants attempt to define appropriate business practices. As a result of the current regulatory environment, certain current practices or commercial relationships we maintain may be disrupted or impacted by changes in our or third-parties' business practices or perceptions of elevated risk.

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 portfolio purchasing and recovery 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.

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 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

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

Latin America

In December 2013, we acquired a majority ownership interest in Refinancia, a market leader in 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 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 Australia'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.

Purchases and Collections

Portfolio Pricing, Supply and Demand

United States

Prices for portfolios offered for sale directly from credit issuers continued to remain elevated during the first quarter of 2016, especially for fresh portfolios. Fresh portfolios are portfolios that are generally transacted within six months of the consumer's account being charged-off by the financial institution. We believe this elevated pricing is due to a reduction in the supply of charged-off accounts and continued demand in the marketplace. We believe that the reduction in supply is partially due to shifts in underwriting standards by financial institutions, which have resulted in lower volumes of charged-off accounts. We believe that this reduction in supply is also the result of certain financial institutions temporarily halting their sales of charged-off accounts. Although we have seen moderation in certain instances, we expect pricing will remain at elevated levels for some period of time.

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

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.

The U.K. insolvency market saw historically low sales volumes from banks in the prior year. We expect there will be increased purchasing opportunities once large retail banks start to sell their insolvency portfolios.

The Spanish consumer and small and medium enterprise non-performing loan market remains significant, with most of the major banks selling portfolios. Competition remains strong in large banking trades, but there remains an opportunity for

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incumbent buyers. Recently there have been multiple complex sales from consolidated regional banks trading at more favorable returns, as portfolio sale sizes and asset nuances reduce competition.

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 liquidation channel through litigation has enabled them to collect from consumers who have the ability to pay, but have so far been unwilling to do so.

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 March 31,	
	2016	2015
United States:		
Credit card	$131,395	$98,987
Consumer bankruptcy receivables	11,075	—
Subtotal	142,470	98,987
Europe:		
Credit card	93,400	19,995
IVA	99	1,637
Subtotal	93,499	21,632
Other geographies:		
Credit card	20,784	4,535
Total purchases	$256,753	$125,154

During the three months ended March 31, 2016, we invested $256.8 million to acquire portfolios of charged-off credit card portfolios and consumer bankruptcy receivables, with face values aggregating $3.5 billion, for an average purchase price of 7.2% of face value. This is a $131.6 million, or 105.1%, increase in the amount invested, compared with the $125.2 million invested during the three months ended March 31, 2015, to acquire portfolios of charged-off credit card with face values aggregating $1.0 billion, for an average purchase price of 12.0% of face value. In the United States, our capital deployment increased during the three months ended March 31, 2016 as compared to the prior period partially as the result of entering into several forward flow commitments at the turn of the year, which established a strong base for our first quarter capital deployment. In Europe, the increase in capital deployment was primarily driven by Cabot's continued investment in Spain and France as part of its European expansion strategy.

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

	Three Months Ended March 31,	
	2016	2015
United States:		
Legal collections	$154,050	$158,959
Collection sites	128,390	135,929
Collection agencies(1)	14,673	18,101
Subtotal	297,113	312,989
Europe:		
Collection sites	58,831	46,398
Collection agencies	36,825	40,124
Legal collections	31,478	18,103
Subtotal	127,134	104,625
Other geographies:		
Collection sites	17,629	7,444
Legal collections	2,418	—
Collection agencies	3,511	13
Subtotal	23,558	7,457
Total collections	$447,805	$425,071

(1) 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 $22.7 million, or 5.3%, to $447.8 million during the three months ended March 31, 2016, from $425.1 million during the three months ended March 31, 2015, primarily due to increased collections in Europe and other geographies, offset by a slight decrease of collections in the United States.

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Results of Operations

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

	Three Months Ended March 31,			
	2016		2015	
Revenues				
Revenue from receivable portfolios, net	$270,094	93.5 %	$264,110	95.1 %
Other revenues	18,923	6.5 %	13,672	4.9 %
Total revenues	289,017	100.0 %	277,782	100.0 %
Operating expenses				
Salaries and employee benefits	69,642	24.1 %	65,552	23.6 %
Cost of legal collections	54,308	18.8 %	54,998	19.8 %
Other operating expenses	26,343	9.1 %	24,326	8.9 %
Collection agency commissions	10,120	3.5 %	10,685	3.8 %
General and administrative expenses	35,239	12.2 %	31,197	11.2 %
Depreciation and amortization	9,861	3.4 %	8,137	2.9 %
Total operating expenses	205,513	71.1 %	194,895	70.2 %
Income from operations	83,504	28.9 %	82,887	29.8 %
Other (expense) income				
Interest expense	(50,691)	(17.5)%	(42,303)	(15.1)%
Other income	7,124	2.4 %	2,117	0.7 %
Total other expense	(43,567)	(15.1)%	(40,186)	(14.4)%
Income before income taxes	39,937	13.8 %	42,701	15.4 %
Provision for income taxes	(10,148)	(3.5)%	(14,614)	(5.3)%
Income from continuing operations	29,789	10.3 %	28,087	10.1 %
(Loss) income from discontinued operations, net of tax	(3,182)	(1.1)%	1,880	0.7 %
Net income	26,607	9.2 %	29,967	10.8 %
Net income attributable to noncontrolling interest	(913)	(0.3)%	(542)	(0.2)%
Net income attributable to Encore Capital Group, Inc. stockholders	$25,694	8.9 %	$29,425	10.6 %

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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 March 31, 2016			Three Months Ended March 31, 2015		
	Janus Holdings	Encore Europe[1]	Consolidated	Janus Holdings	Encore Europe[1]	Consolidated
Total revenues	$89,533	$—	$ 89,533	$79,777	$—	$ 79,777
Total operating expenses	(50,830)	—	(50,830)	(40,782)	—	(40,782)
Income from operations	38,703	—	38,703	38,995	—	38,995
Interest expense-non-PEC	(28,272)	—	(28,272)	(23,297)	—	(23,297)
PEC interest (expense) income	(12,411)	6,082	(6,329)	(11,731)	5,749	(5,982)
Other expense	5,966	—	5,966	758	—	758
Income before income taxes	3,986	6,082	10,068	4,725	5,749	10,474
Provision for income taxes	(1,687)	—	(1,687)	(2,121)	—	(2,121)
Net income	2,299	6,082	8,381	2,604	5,749	8,353
Net income attributable to noncontrolling interest	(322)	(987)	(1,309)	(365)	(1,117)	(1,482)
Net income attributable to Encore Capital Group, Inc. stockholders	$1,977	$ 5,095	$ 7,072	$2,239	$ 4,632	$ 6,871

(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.

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, one-time charges, acquisition, integration and restructuring related expenses, and settlement fees and related administrative expenses, all net of tax. 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 months ended March 31, 2015, includes the effect of approximately 0.9 million common shares that are issuable upon conversion of certain convertible senior notes because the average stock price during the period exceeded the conversion price of these notes. However, as described in Note 10, “Debt—Encore Convertible Notes,” in the notes to our condensed consolidated financial statements, we have certain hedging transactions in place that have the effect of increasing the effective conversion price of these notes. Accordingly, while these

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common shares 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. We have presented the following metrics both including and excluding the dilutive effect of these convertible senior notes to better illustrate the economic impact of those notes and the related hedging transactions to shareholders, with the GAAP item under the "Per Diluted Share-Accounting" and "Per Diluted Share-Economic" (non-GAAP) columns, respectively (in thousands, except per share data):

	Three Months Ended March 31,					
	2016			2015		
	$	Per Diluted Share— Accounting	Per Diluted Share— Economic	$	Per Diluted Share— Accounting	Per Diluted Share— Economic
GAAP net income from continuing operations attributable to Encore, as reported	$28,876	$ 1.12	$ 1.12	$27,545	$ 1.01	$ 1.04
Adjustments:						
Convertible notes non-cash interest and issuance cost amortization, net of tax	1,804	0.07	0.07	1,666	0.06	0.07
Acquisition, integration and restructuring related expenses, net of tax	1,329	0.05	0.05			