

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

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

(State or other jurisdiction of
incorporation or organization)

350 Camino De La Reina, Suite 100
San Diego, California

(Address of principal executive offices)

48-1090909

(IRS Employer
Identification No.)

92108

(Zip code)

(877) 445 - 4581

(Registrant's telephone number, including area code)

3111 Camino Del Rio North, Suite 103, San Diego, California

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, \$0.01 Par Value Per Share | ECPG | The NASDAQ Stock Market LLC |

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 1, 2019 |
|--------------------------------|----------------------------|
| Common Stock, \$0.01 par value | 30,966,649 shares |

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PART I – FINANCIAL INFORMATION
Item 1— Consolidated Financial Statements (Unaudited)
ENCORE CAPITAL GROUP, INC.
Consolidated Statements of Financial Condition
(In Thousands, Except Par Value Amounts)
(Unaudited)

| | March 31, 2019 | December 31, 2018 |
|---|---------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 167,096 | \$ 157,418 |
| Investment in receivable portfolios, net | 3,211,587 | 3,137,893 |
| Deferred court costs, net | 96,207 | 95,918 |
| Property and equipment, net | 117,371 | 115,518 |
| Other assets | 338,462 | 257,002 |
| Goodwill | 882,884 | 868,126 |
| Total assets | <u>\$ 4,813,607</u> | <u>\$ 4,631,875</u> |
| Liabilities and Equity | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 195,686 | \$ 287,945 |
| Debt, net | 3,592,906 | 3,490,633 |
| Other liabilities | 150,458 | 33,609 |
| Total liabilities | <u>3,939,050</u> | <u>3,812,187</u> |
| Commitments and contingencies | | |
| Equity: | | |
| Convertible preferred stock, \$0.01 par value, 5,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock, \$0.01 par value, 50,000 shares authorized, 30,967 shares and 30,884 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | 310 | 309 |
| Additional paid-in capital | 208,374 | 208,498 |
| Accumulated earnings | 769,443 | 720,189 |
| Accumulated other comprehensive loss | (105,864) | (110,987) |
| Total Encore Capital Group, Inc. stockholders' equity | <u>872,263</u> | <u>818,009</u> |
| Noncontrolling interest | 2,294 | 1,679 |
| Total equity | <u>874,557</u> | <u>819,688</u> |
| Total liabilities and equity | <u>\$ 4,813,607</u> | <u>\$ 4,631,875</u> |

The following table presents certain assets and liabilities of consolidated variable interest entities (“VIEs”) included in the consolidated statements of financial condition above. Most assets in the table below include those assets that can only be used to settle obligations of consolidated VIEs. The liabilities exclude amounts where creditors or beneficial interest holders have recourse to the general credit of the Company. See Note 9, “Variable Interest Entities” for additional information on the Company’s VIEs.

| | March 31, 2019 | December 31, 2018 |
|--|-------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 53 | \$ 448 |
| Investment in receivable portfolios, net | 521,971 | 501,489 |
| Other assets | 10,367 | 9,563 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 4,661 | \$ 4,556 |
| Debt, net | 456,204 | 445,837 |
| Other liabilities | 46 | 46 |

See accompanying notes to consolidated financial statements

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

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2019 | 2018 |
| Revenues | | |
| Revenue from receivable portfolios | \$ 311,158 | \$ 281,009 |
| Other revenues | 34,552 | 35,968 |
| Total revenues | 345,710 | 316,977 |
| Allowance reversals on receivable portfolios, net | 1,367 | 9,811 |
| Total revenues, adjusted by net allowances | 347,077 | 326,788 |
| Operating expenses | | |
| Salaries and employee benefits | 91,834 | 89,259 |
| Cost of legal collections | 49,027 | 53,855 |
| Other operating expenses | 29,614 | 33,748 |
| Collection agency commissions | 16,002 | 11,754 |
| General and administrative expenses | 39,547 | 39,284 |
| Depreciation and amortization | 9,995 | 10,436 |
| Total operating expenses | 236,019 | 238,336 |
| Income from operations | 111,058 | 88,452 |
| Other (expense) income | | |
| Interest expense | (54,967) | (57,462) |
| Other (expense) income | (2,976) | 2,193 |
| Total other expense | (57,943) | (55,269) |
| Income from operations before income taxes | 53,115 | 33,183 |
| Provision for income taxes | (3,673) | (9,470) |
| Net income | 49,442 | 23,713 |
| Net income attributable to noncontrolling interest | (188) | (1,886) |
| Net income attributable to Encore Capital Group, Inc. stockholders | \$ 49,254 | \$ 21,827 |
| Earnings per share attributable to Encore Capital Group, Inc.: | | |
| Basic | \$ 1.58 | \$ 0.84 |
| Diluted | \$ 1.57 | \$ 0.83 |
| Weighted average shares outstanding: | | |
| Basic | 31,201 | 26,056 |
| Diluted | 31,359 | 26,416 |

See accompanying notes to consolidated financial statements

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2019 | 2018 |
| Net income | \$ 49,442 | \$ 23,713 |
| Other comprehensive (loss) income, net of tax: | | |
| Change in unrealized gains/losses on derivative instruments: | | |
| Unrealized loss on derivative instruments | (2,202) | (669) |
| Income tax effect | 172 | (160) |
| Unrealized loss on derivative instruments, net of tax | (2,030) | (829) |
| Change in foreign currency translation: | | |
| Unrealized gain on foreign currency translation | 7,580 | 18,505 |
| Other comprehensive income, net of tax | 5,550 | 17,676 |
| Comprehensive income | 54,992 | 41,389 |
| Comprehensive income attributable to noncontrolling interest: | | |
| Net income | (188) | (1,886) |
| Unrealized gain on foreign currency translation | (427) | (1,783) |
| Comprehensive income attributable to noncontrolling interest | (615) | (3,669) |
| Comprehensive income attributable to Encore Capital Group, Inc. stockholders | \$ 54,377 | \$ 37,720 |

See accompanying notes to consolidated financial statements

ENCORE CAPITAL GROUP, INC.
Consolidated Statements of Equity
(In Thousands)

| | Common Stock | | Additional Paid-In Capital | Accumulated Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Equity |
|---|---------------|---------------|----------------------------------|-------------------------|---|----------------------------|-------------------|
| | Shares | Par | | | | | |
| Balance at December 31, 2018 | 30,884 | \$ 309 | \$ 208,498 | \$ 720,189 | \$ (110,987) | \$ 1,679 | \$ 819,688 |
| Net income | — | — | — | 49,254 | — | 188 | 49,442 |
| Other comprehensive income, net of tax | — | — | — | — | 5,123 | 427 | 5,550 |
| Issuance of share-based awards, net of shares withheld for employee taxes | 83 | 1 | (1,950) | — | — | — | (1,949) |
| Stock-based compensation | — | — | 1,826 | — | — | — | 1,826 |
| Balance at March 31, 2019 | <u>30,967</u> | <u>\$ 310</u> | <u>\$ 208,374</u> | <u>\$ 769,443</u> | <u>\$ (105,864)</u> | <u>\$ 2,294</u> | <u>\$ 874,557</u> |

| | Common Stock | | Additional Paid-In Capital | Accumulated Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Equity |
|---|---------------|---------------|----------------------------------|-------------------------|---|----------------------------|-------------------|
| | Shares | Par | | | | | |
| Balance at December 31, 2017 | 25,801 | \$ 258 | \$ 42,646 | \$ 616,314 | \$ (77,356) | \$ (9,929) | \$ 571,933 |
| Net income | — | — | — | 21,827 | — | 702 | 22,529 |
| Other comprehensive income, net of tax | — | — | — | — | 15,893 | 170 | 16,063 |
| Change in fair value of redeemable noncontrolling interest | — | — | — | (12,011) | — | — | (12,011) |
| Purchase of redeemable noncontrolling interest | — | — | 3,424 | — | — | — | 3,424 |
| Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes | 111 | 1 | (2,351) | — | — | — | (2,350) |
| Stock-based compensation | — | — | 2,276 | — | — | — | 2,276 |
| Other | — | — | (89) | — | — | — | (89) |
| Balance at March 31, 2018 | <u>25,912</u> | <u>\$ 259</u> | <u>\$ 45,906</u> | <u>\$ 626,130</u> | <u>\$ (61,463)</u> | <u>\$ (9,057)</u> | <u>\$ 601,775</u> |

See accompanying notes to consolidated financial statements

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

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2019 | 2018 |
| Operating activities: | | |
| Net income | \$ 49,442 | \$ 23,713 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,995 | 10,436 |
| Other non-cash interest expense, net | 6,629 | 11,597 |
| Stock-based compensation expense | 1,826 | 2,276 |
| Deferred income taxes | 19,682 | 5,071 |
| Allowance reversals on receivable portfolios, net | (1,367) | (9,811) |
| Other, net | 4,081 | 1,342 |
| Changes in operating assets and liabilities | | |
| Deferred court costs and other assets | 18,725 | (5,811) |
| Prepaid income tax and income taxes payable | (30,247) | (2,245) |
| Accounts payable, accrued liabilities and other liabilities | (67,775) | (35,539) |
| Net cash provided by operating activities | 10,991 | 1,029 |
| Investing activities: | | |
| Purchases of receivable portfolios, net of put-backs | (258,635) | (280,909) |
| Collections applied to investment in receivable portfolios, net | 201,328 | 206,402 |
| Purchases of property and equipment | (10,227) | (11,220) |
| Other, net | (1,980) | 1,239 |
| Net cash used in investing activities | (69,514) | (84,488) |
| Financing activities: | | |
| Proceeds from credit facilities | 196,263 | 177,449 |
| Repayment of credit facilities | (119,854) | (87,356) |
| Taxes paid related to net share settlement of equity awards | (1,950) | (2,571) |
| Other, net | (2,912) | (2,884) |
| Net cash provided by financing activities | 71,547 | 84,638 |
| Net increase in cash and cash equivalents | 13,024 | 1,179 |
| Effect of exchange rate changes on cash and cash equivalents | (3,346) | 3,820 |
| Cash and cash equivalents, beginning of period | 157,418 | 212,139 |
| Cash and cash equivalents, end of period | \$ 167,096 | \$ 217,138 |

See accompanying notes to consolidated financial statements

ENCORE CAPITAL GROUP, INC.
Notes to Consolidated Financial Statements (Unaudited)

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

Encore Capital Group, Inc. (“Encore”), through its subsidiaries (collectively with Encore, the “Company”), is an international specialty finance company providing debt recovery solutions and other related services for consumers across a broad range of financial assets. The Company purchases portfolios of defaulted consumer receivables at deep discounts to face value and manages them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies and commercial retailers. Defaulted receivables may also include receivables subject to bankruptcy proceedings. The Company also provides debt servicing and other portfolio management services to credit originators for non-performing loans.

Through Midland Credit Management, Inc. and its domestic affiliates (collectively, “MCM”), the Company is a market leader in portfolio purchasing and recovery in the United States. Through Cabot Credit Management Limited (“CCM”) and its subsidiaries and European affiliates (collectively, “Cabot”) the Company is one of the largest credit management services providers in Europe and a market leader in the United Kingdom and Ireland. These are the Company’s primary operations.

Financial Statement Preparation and Presentation

The accompanying interim 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 statements 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 statements. These 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, 2018. 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 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 variable interest entities for which it is the primary beneficiary. The primary beneficiary has both (1) the power to direct the activities of the VIE that most significantly affect the entity’s economic performance, and (2) either the obligation to absorb losses or the right to receive benefits. Refer to Note 9, “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. Translation gains or losses are the material components of accumulated 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 consolidated financial statements to conform to the current year’s presentation.

Change in Accounting Principle

The Company adopted Accounting Standard Codification 842 - Leases ("Topic 842") as of January 1, 2019, using the transition method in accordance with ASU 2018-11, Leases: Targeted Improvements issued in July 2018. Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating leases.

The adoption of this new standard resulted in the recording of lease assets and lease liabilities for the Company's operating leases of approximately \$89.1 million and \$102.7 million, respectively, as of January 1, 2019. The difference between the leased assets and lease liabilities primarily represents lease incentives. All periods prior to January 1, 2019 were presented in accordance with the previous lease accounting standard, and no retrospective adjustments were made to the comparative periods presented. The accounting for finance leases remains substantially unchanged. The adoption of this new standard did not materially impact the Company's consolidated statements of operations or cash flows, or the Company's compliance with debt covenants. Refer to Note 11 "Leases" for detailed information on the Company's leases.

Recent Accounting Pronouncements

Other than the adoption of the standard discussed above, there have been no new accounting pronouncements made effective during the three months ended March 31, 2019 that have significance, or potential significance, to the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Effective

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 applies a current expected credit loss model which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected. ASU 2016-13 eliminates the current accounting model for loans and debt securities acquired with deteriorated credit quality under ASC 310-30, which provides authoritative guidance for the accounting of the Company's investment in receivable portfolios.

ASU 2016-13 is effective for reporting periods beginning after December 15, 2019. The guidance will be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period in which ASU 2016-13 is adopted. However, the FASB has determined that financial assets for which the guidance in Subtopic 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality, has previously been applied should prospectively apply the guidance in ASU 2016-13 for purchased financial assets with credit deterioration.

On April 25, 2019, the FASB issued ASU 2019-04 which amended and clarified application of the new standard. The Company is in the process of determining the effects the adoption of ASU 2016-13, as amended by ASU 2019-04, will have on its consolidated financial statements. The Company expects that the new standard could have a significant impact on how it measures and records income recognized on its receivable portfolios. The Company is evaluating the impact of this pronouncement and is in the process of developing its accounting policy. Additionally, the Company has established a project management team and is researching software resources that can assist with the implementation.

With the exception of the standard discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2019, as compared to the recent accounting pronouncements described in our Annual Report, that have significance, or potential significance, to the Company's consolidated financial statements.

Note 2: Earnings Per Share

Basic earnings per share are calculated by dividing net earnings attributable to Encore by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are calculated based on 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 and exchangeable senior notes, if applicable.

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A reconciliation of shares used in calculating earnings per basic and diluted shares follows (*in thousands, except per share amounts*):

| | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2019 | 2018 |
| Net income attributable to Encore Capital Group, Inc. stockholders | \$ 49,254 | \$ 21,827 |
| Total weighted-average basic shares outstanding | 31,201 | 26,056 |
| Dilutive effect of stock-based awards | 158 | 360 |
| Total effect of dilutive securities | 31,359 | 26,416 |
| Basic earnings per share | \$ 1.58 | \$ 0.84 |
| Diluted earnings per share | \$ 1.57 | \$ 0.83 |

Anti-dilutive employee stock options outstanding were approximately 217,000 and 13,000 during the three months ended March 31, 2019 and 2018, respectively.

Note 3: 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, 2019 | | | |
|-------------------------------------|---|---------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Foreign currency exchange contracts | \$ — | \$ 837 | \$ — | \$ 837 |
| Interest rate cap contracts | — | 451 | — | 451 |
| Liabilities | | | | |
| Foreign currency exchange contracts | — | (38) | — | (38) |
| Interest rate swap agreements | — | (6,967) | — | (6,967) |
| Contingent consideration | — | — | (6,257) | (6,257) |

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| | Fair Value Measurements as of December 31, 2018 | | | |
|-------------------------------------|--|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Interest rate cap contracts | \$ — | \$ 2,023 | \$ — | \$ 2,023 |
| Liabilities | | | | |
| Foreign currency exchange contracts | — | (237) | — | (237) |
| Interest rate swap agreements | — | (4,881) | — | (4,881) |
| Contingent consideration | — | — | (6,198) | (6,198) |

Derivative Contracts:

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

Contingent Consideration:

The Company carries certain contingent liabilities resulting from its mergers and acquisition activities. Certain sellers of the Company's acquired entities could earn additional earn-out payments in cash based on the entities' subsequent operating performance. The Company recorded the acquisition date fair values of these contingent liabilities, based on the likelihood of contingent earn-out payments, as part of the consideration transferred. The earn-out payments are subsequently remeasured to fair value at each reporting date based on actual and forecasted operating performance.

The following table provides a roll forward of the fair value of contingent consideration for the three months ended March 31, 2019 and year ended December 31, 2018 (*in thousands*):

| | Amount |
|---|-----------|
| Balance at December 31, 2017 | \$ 10,612 |
| Issuance of contingent consideration in connection with acquisition | 1,728 |
| Change in fair value of contingent consideration | (5,664) |
| Payment of contingent consideration | (271) |
| Effect of foreign currency translation | (207) |
| Balance at December 31, 2018 | 6,198 |
| Payment of contingent consideration | (85) |
| Effect of foreign currency translation | 144 |
| Balance at March 31, 2019 | \$ 6,257 |

Non-Recurring Fair Value Measurement:

Certain assets are measured at fair value on a nonrecurring basis. These assets include real estate-owned assets classified as held for sale at the lower of their carrying value or fair value less cost to sell. The fair value of the assets held for sale and estimated selling expenses were determined at the time of initial recognition using Level 2 measurements. The fair value estimate of the assets held for sale was approximately \$31.1 million and \$26.7 million as of March 31, 2019 and December 31, 2018, respectively.

Financial Instruments Not Required To Be Carried At Fair Value

In accordance with the disclosure requirements of ASC Topic 825, Financial Instruments, the table below summarizes fair value estimates for the Company's financial instruments that are not required to be carried at fair value. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company. The carrying amounts in the following table are recorded in the consolidated statements of financial condition at March 31, 2019 and December 31, 2018 (*in thousands*):

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| | March 31, 2019 | | December 31, 2018 | |
|--|-----------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial Assets | | | | |
| Investment in receivable portfolios | \$ 3,211,587 | \$ 3,413,480 | \$ 3,137,893 | \$ 3,525,861 |
| Deferred court costs | 96,207 | 96,207 | 95,918 | 95,918 |
| Financial Liabilities | | | | |
| Encore convertible notes and exchangeable notes ⁽¹⁾ | 622,761 | 600,558 | 619,639 | 553,744 |
| Cabot senior secured notes | 1,119,265 | 1,103,966 | 1,109,922 | 1,036,905 |

(1) Carrying amount represents the portion of the convertible and exchangeable notes classified as debt, while estimated fair value pertains to the face amount of the notes.

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 fair value of investment in receivable portfolios was approximately \$3,413.5 million and \$3,525.9 million as of March 31, 2019 and December 31, 2018, respectively, as compared to the carrying value of \$3,211.6 million and \$3,137.9 million as of March 31, 2019 and December 31, 2018, respectively. A 100 basis point increase in the cost to collect and discount rate used would result in a decrease in the fair value of U.S. and European portfolios by approximately \$49.9 million and \$71.5 million, respectively, as of March 31, 2019. 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.

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 was \$96.2 million and \$95.9 million as of March 31, 2019 and December 31, 2018, respectively, and approximated fair value.

Debt:

The majority of the Company's 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 and Cabot's borrowings under its revolving credit facility. The carrying value of the Company's revolving credit and term loan facilities approximates fair value due to the short-term nature of the interest rate periods. The fair value of the Company's senior secured notes was estimated using widely accepted valuation techniques, including discounted cash flow analyses using available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Accordingly, the Company used Level 2 inputs for these debt instrument fair value estimates.

Encore's convertible notes and exchangeable notes are carried at historical cost, adjusted for the debt discount. The carrying value of the convertible notes and exchangeable notes was \$622.8 million and \$619.6 million, net of the debt discount of \$33.2 million and \$36.4 million as of March 31, 2019 and December 31, 2018, respectively. The fair value estimate for these convertible notes and exchangeable notes, which incorporates quoted market prices using Level 2 inputs, was approximately \$600.6 million and \$553.7 million as of March 31, 2019 and December 31, 2018, respectively.

Cabot's senior secured notes are carried at historical cost, adjusted for the debt discount. The carrying value of Cabot's senior secured notes was \$1,119.3 million and \$1,109.9 million, net of the debt discount of \$1.4 million and \$1.5 million as of

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March 31, 2019 and December 31, 2018, respectively. The fair value estimate for these senior notes, which incorporates quoted market prices using Level 2 inputs, was \$1,104.0 million and \$1,036.9 million as of March 31, 2019 and December 31, 2018, respectively.

Note 4: Derivatives and Hedging Instruments

The Company may periodically enter into derivative financial instruments to manage risks related to interest rates and foreign currency. The Company's derivative financial instruments qualify for hedge accounting treatment under the authoritative guidance for derivatives and hedging.

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

| | March 31, 2019 | | December 31, 2018 | |
|-------------------------------------|------------------------|------------|------------------------|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign currency exchange contracts | Other assets | \$ 837 | Other assets | \$ — |
| Interest rate cap contracts | Other assets | 451 | Other assets | 2,023 |
| Foreign currency exchange contracts | Other liabilities | (38) | Other liabilities | (237) |
| Interest rate swap agreements | Other liabilities | (6,967) | Other liabilities | (4,881) |

Derivatives Designated as Hedging Instruments

The Company has operations in foreign countries which expose the Company to foreign currency exchange rate fluctuations due to transactions denominated in foreign currencies. To mitigate a portion of this risk, the Company enters into derivative financial instruments, principally foreign currency forward contracts with financial counterparties. The Company adjusts the level and use of derivatives as soon as practicable after learning that an exposure has changed and reviews all exposures and derivative positions on an ongoing basis.

The Company's foreign currency forward contracts are designated as cash flow hedging instruments and qualify for hedge accounting treatment. Gains and losses arising from 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, the accumulated gains or losses in OCI would be reclassified into earnings.

As of March 31, 2019, the total notional amount of the forward contracts that were designated as cash flow hedging instruments was \$37.4 million. 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, 2019 and 2018.

The Company may periodically enter into interest rate swap agreements to reduce its exposure to fluctuations in interest rates on variable interest rate debt and their impact on earnings and cash flows. Under the swap agreements, the Company receives floating interest rate payments and makes interest payments based on fixed interest rates. In accordance with authoritative guidance relating to derivatives and hedging transactions, the Company designates its interest rate swap instruments as cash flow hedges. As of March 31, 2019, there were six interest rate swap agreements outstanding with a total notional amount of \$368.3 million.

As of March 31, 2019, the Company also held two interest rate cap contracts (the "2018 Caps") with a notional amount of £350.0 million (approximately \$456.2 million) that are used to manage its risk related to interest rate fluctuations on the Company's variable interest rate debt. The 2018 Caps mature in 2021 and are structured as a series of European call options ("Caplets") such that if exercised, the Company will receive a payment equal to 3-months GBP-LIBOR on a notional amount equal to the hedged notional amount net of a fixed strike price. Each interest rate reset date, the Company will elect to exercise the Caplet or let it expire. The potential cash flows from each Caplet are expected to offset any variability in the cash flows of the interest payments to the extent GBP-LIBOR exceeds the strike price of the Caplets. The Company expects the hedge relationship to be highly effective and designates the 2018 Caps as cash flow hedge instruments.

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The following table summarizes the effects of derivatives in cash flow hedging relationships designated as hedging instruments on the Company's consolidated statements of operations for the three months ended March 31, 2019 and 2018 (*in thousands*):

| Derivatives Designated as Hedging Instruments | Gain (Loss) Recognized in OCI | | Location of Gain (Loss) Reclassified from OCI into Income | Gain (Loss) Reclassified from OCI into Income | |
|---|----------------------------------|----------|--|--|--------|
| | Three Months Ended March 31, | | | Three Months Ended March 31, | |
| | 2019 | 2018 | | 2019 | 2018 |
| Foreign currency exchange contracts | \$ 935 | \$ (107) | Salaries and employee benefits | \$ (95) | \$ 549 |
| Foreign currency exchange contracts | (78) | — | General and administrative expenses | (84) | — |
| Interest rate swap agreements | (2,086) | 9 | Interest expense | (420) | — |
| Interest rate cap contracts | (1,572) | — | Interest expense | — | — |

Derivatives Not Designated as Hedging Instruments

Beginning in 2016 and through the first quarter of 2018, the Company held currency exchange forward contracts to reduce the effect of currency exchange rate fluctuations between the British Pound and Euro. These derivative contracts matured within one to three months and were not designated as hedge instruments for accounting purposes. The gains or losses on these derivative contracts were recognized in other income or expense based on fair value changes. The Company recognized a loss of \$0.8 million on these derivative contracts during the three months ended March 31, 2018.

As of March 31, 2019, the Company does not have any derivative contracts that are not designated as hedging instruments for accounting purposes. The Company continues to monitor the level of exposure of the foreign currency exchange risk and may enter into additional short-term forward contracts on an ongoing basis.

Note 5: Investment in Receivable Portfolios, Net

In accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality, discrete receivable portfolio purchases during the same fiscal quarter are aggregated into pools based on common risk characteristics. Common risk characteristics include risk ratings (e.g. FICO or similar scores), financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. The Company's static pools are typically grouped into credit card, purchased consumer bankruptcy, and mortgage portfolios. The Company further groups these static pools by geographic region or location. Portfolios acquired in business combinations are also grouped into these pools. During any fiscal quarter in which the Company has an acquisition of an entity that has portfolio, the entire historical portfolio of the acquired company is aggregated into the pool groups for that quarter, based on common characteristics, resulting in pools for that quarter that may consist of several different vintages of portfolio. Once a static pool is established, the portfolios are permanently assigned to the pool. The discount (i.e. the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded because the Company expects to collect a relatively small percentage of each static pool's contractual receivable balance. As a result, receivable portfolios are recorded at cost at the time of acquisition. The 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 a significant 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. Due to the discounting of future cashflows using monthly IRRs, an allowance charge could still result even if substantially higher collections occurring later in the collection curve offset lower collections in the near term.

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

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basis. The cost basis of each pool is increased by revenue earned and portfolio allowance reversals and decreased by gross collections and portfolio allowances.

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

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

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

| | Accretable Yield | Estimate of Zero Basis Cash Flows | Total |
|---|---------------------|---|---------------------|
| Balance at December 31, 2018 | \$ 3,773,171 | \$ 253,035 | \$ 4,026,206 |
| Revenue from receivable portfolios | (285,255) | (25,903) | (311,158) |
| Allowance (reversals) on receivable portfolios, net | 900 | (2,267) | (1,367) |
| Additions (reductions) on existing portfolios, net | 38,512 | (199) | 38,313 |
| Additions for current purchases | 285,637 | — | 285,637 |
| Effect of foreign currency translation | 26,244 | 217 | 26,461 |
| Balance at March 31, 2019 | <u>\$ 3,839,209</u> | <u>\$ 224,883</u> | <u>\$ 4,064,092</u> |

| | Accretable Yield | Estimate of Zero Basis Cash Flows | Total |
|---|---------------------|---|---------------------|
| Balance at December 31, 2017 | \$ 3,695,069 | \$ 369,632 | \$ 4,064,701 |
| Revenue from receivable portfolios | (249,821) | (31,188) | (281,009) |
| Allowance reversals on receivable portfolios, net | (8,082) | (1,729) | (9,811) |
| Reductions on existing portfolios, net | (24,945) | (39,529) | (64,474) |
| Additions for current purchases | 285,172 | — | 285,172 |
| Effect of foreign currency translation | 57,577 | 643 | 58,220 |
| Balance at March 31, 2018 | <u>\$ 3,754,970</u> | <u>\$ 297,829</u> | <u>\$ 4,052,799</u> |

During the three months ended March 31, 2019, the Company purchased receivable portfolios with a face value of \$1.7 billion for \$262.3 million, or a purchase price of 15.1% of face value. The estimated future collections at acquisition for all portfolios purchased during the three months ended March 31, 2019 amounted to \$548.0 million. During the three months ended March 31, 2018, the Company purchased receivable portfolios with a face value of \$1.8 billion for \$276.8 million, or a purchase price of 15.4% of face value. The estimated future collections at acquisition for all portfolios purchased during the three months ended March 31, 2018 amounted to \$556.2 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, 2019 and 2018, Zero Basis Revenue was approximately \$25.9 million and \$31.2 million, respectively. During the three months ended March 31, 2019 and 2018, allowance reversals on Zero Basis Portfolios were \$2.3 million and \$1.7 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, 2019 | | | |
|---|-----------------------------------|--------------------------|-----------------------|--------------|
| | Accrual Basis Portfolios | Cost Recovery Portfolios | Zero Basis Portfolios | Total |
| Balance, beginning of period | \$ 3,129,502 | \$ 8,391 | \$ — | \$ 3,137,893 |
| Purchases of receivable portfolios | 262,335 | — | — | 262,335 |
| Disposals or transfers to assets held for sale | (3,145) | (444) | — | (3,589) |
| Gross collections ⁽¹⁾ | (485,598) | (91) | (28,164) | (513,853) |
| Put-Backs and Recalls ⁽²⁾ | (3,694) | — | (6) | (3,700) |
| Foreign currency adjustments | 20,137 | (161) | — | 19,976 |
| Revenue recognized | 285,255 | — | 25,903 | 311,158 |
| Portfolio (allowance) reversals, net | (900) | — | 2,267 | 1,367 |
| Balance, end of period | \$ 3,203,892 | \$ 7,695 | \$ — | \$ 3,211,587 |
| Revenue as a percentage of collections ⁽³⁾ | 58.7% | —% | 92.0% | 60.6% |

| | Three Months Ended March 31, 2018 | | | |
|---|-----------------------------------|--------------------------|-----------------------|--------------|
| | Accrual Basis Portfolios | Cost Recovery Portfolios | Zero Basis Portfolios | Total |
| Balance, beginning of period | \$ 2,879,170 | \$ 11,443 | \$ — | \$ 2,890,613 |
| Purchases of receivable portfolios | 276,762 | — | — | 276,762 |
| Disposals or transfers to assets held for sale | (3,072) | — | — | (3,072) |
| Gross collections ⁽¹⁾ | (455,143) | (1,171) | (32,788) | (489,102) |
| Put-Backs and Recalls ⁽²⁾ | (3,691) | — | (129) | (3,820) |
| Foreign currency adjustments | 61,590 | 350 | — | 61,940 |
| Revenue recognized | 249,821 | — | 31,188 | 281,009 |
| Portfolio allowance reversals, net | 8,082 | — | 1,729 | 9,811 |
| Balance, end of period | \$ 3,013,519 | \$ 10,622 | \$ — | \$ 3,024,141 |
| Revenue as a percentage of collections ⁽³⁾ | 54.9% | —% | 95.1% | 57.5% |

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

(2) Put-backs (“Put-Backs”) and recalls (“Recalls”) represent ineligible accounts that are returned by us or recalled by the seller pursuant to specific guidelines as set forth in the respective purchase agreements.

(3) Revenue as a percentage of collections excludes the effect 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, | |
| | 2019 | 2018 |
| Balance at beginning of period | \$ 60,631 | \$ 102,576 |
| Provision for portfolio allowances | 2,626 | 940 |
| Reversal of prior allowances | (3,993) | (10,751) |
| Effect of foreign currency translation | 164 | 1,552 |
| Balance at end of period | \$ 59,428 | \$ 94,317 |

Note 6: Deferred Court Costs, Net

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

The Company capitalizes Deferred Court Costs in its consolidated financial statements and provides a reserve for those costs that it believes will ultimately be uncollectible. The Company determines the reserve based on an estimated court cost recovery rate established based on its analysis of historical court costs recovery data. The Company estimates deferral periods for Deferred Court Costs based on jurisdiction and nature of litigation and writes off any Deferred Court Costs not recovered within the respective deferral period. Collections received from debtors are first applied against related court costs with the balance applied to the debtors’ account balance.

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

| | March 31, 2019 | December 31, 2018 |
|-----------------------|-------------------|----------------------|
| Court costs advanced | \$ 840,721 | \$ 828,713 |
| Court costs recovered | (344,523) | (336,335) |
| Court costs reserve | (399,991) | (396,460) |
| Deferred court costs | <u>\$ 96,207</u> | <u>\$ 95,918</u> |

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

| | Court Cost Reserve | |
|---|---------------------------------|---------------------|
| | Three Months Ended March 31, | |
| | 2019 | 2018 |
| Balance at beginning of period | \$ (396,460) | \$ (364,015) |
| Provision for court costs | (15,713) | (25,067) |
| Net down of reserve after deferral period | 13,779 | 12,952 |
| Effect of foreign currency translation | (1,597) | (2,060) |
| Balance at end of period | <u>\$ (399,991)</u> | <u>\$ (378,190)</u> |

Note 7: Other Assets

Other assets consist of the following (*in thousands*):

| | March 31, 2019 | December 31, 2018 |
|-------------------------------------|-------------------|----------------------|
| Operating lease right-of-use asset | \$ 91,045 | \$ — |
| Identifiable intangible assets, net | 59,383 | 60,581 |
| Service fee receivables | 35,841 | 28,035 |
| Assets held for sale | 31,088 | 26,664 |
| Other financial receivables | 26,691 | 47,363 |
| Prepaid expenses | 22,379 | 24,989 |
| Income tax receivable | 11,773 | — |
| Deferred tax assets | 10,849 | 24,910 |
| Other | 49,413 | 44,460 |
| Total | <u>\$ 338,462</u> | <u>\$ 257,002</u> |

Note 8: Debt, Net

The Company is in compliance with all covenants under its financing arrangements as of March 31, 2019. The components of the Company's consolidated debt and capital lease obligations were as follows (*in thousands*):

| | March 31, 2019 | December 31, 2018 |
|---|---------------------|----------------------|
| Encore revolving credit facility | \$ 500,000 | \$ 429,000 |
| Encore term loan facility | 183,142 | 195,056 |
| Encore senior secured notes | 325,000 | 325,000 |
| Encore convertible notes and exchangeable notes | 656,000 | 656,000 |
| Less: debt discount | (33,239) | (36,361) |
| Cabot senior secured notes | 1,120,657 | 1,111,399 |
| Less: debt discount | (1,392) | (1,477) |
| Cabot senior revolving credit facility | 319,760 | 298,005 |
| Cabot securitisation senior facilities | 456,204 | 445,837 |
| Other credit facilities | 43,794 | 43,354 |
| Other | 61,583 | 64,566 |
| Finance lease liabilities | 5,904 | 7,563 |
| | <u>3,637,413</u> | <u>3,537,942</u> |
| Less: debt issuance costs, net of amortization | (44,507) | (47,309) |
| Total | <u>\$ 3,592,906</u> | <u>\$ 3,490,633</u> |

Encore Revolving Credit Facility and Term Loan Facility

The Company has a revolving credit facility (the "Revolving Credit Facility") and term loan facility (the "Term Loan Facility", and together with the Revolving Credit Facility, the "Senior Secured Credit Facilities") pursuant to a Third Amended and Restated Credit Agreement dated December 20, 2016 (as amended, the "Restated Credit Agreement").

Provisions of the Restated Credit Agreement as of March 31, 2019 include, but are not limited to:

- Revolving Credit Facility commitments of \$884.2 million that expire in December 2021 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 as defined in the Restated Credit Agreement; 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 and (iv) zero;
- A \$194.6 million term loan maturing in December 2021, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. Principal amortizes \$15.3 million in each of 2019 and 2020 with the remaining principal due in 2021;
- A borrowing base under the Revolving Credit Facility equal to 35% of all eligible non-bankruptcy estimated remaining collections plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy;
- A maximum cash flow leverage ratio permitted of 3.00:1.00;
- A maximum cash flow first-lien leverage ratio of 2.00:1.00;
- A minimum interest coverage ratio of 1.75:1.00;
- The allowance of indebtedness in the form of senior secured notes not to exceed \$350.0 million;

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- The allowance of additional unsecured or subordinated indebtedness not to exceed \$1.1 billion, including junior lien indebtedness not to exceed \$400.0 million;
- Restrictions and covenants, which limit the payment of dividends and the incurrence of additional indebtedness and liens, among other limitations;
- Repurchases of up to \$150.0 million of Encore's common stock after July 9, 2015, subject to compliance with certain covenants and available borrowing capacity;
- A change of control definition, that excludes acquisitions of stock by Red Mountain Capital Partners LLC, JCF FPK I, LP and their respective affiliates of up to 50% of the outstanding shares of Encore's voting stock;
- Events of default which, upon occurrence, may permit the lenders to terminate the facility and declare all amounts outstanding to be immediately due and payable;
- A pre-approved acquisition limit of \$225.0 million per fiscal year;
- A basket to allow for investments not to exceed the greater of (1) 200% of the consolidated net worth of Encore and its restricted subsidiaries; and (2) an unlimited amount such that after giving effect to the making of any investment, the cash flow leverage ratio is less than 1.25:1:00;
- A basket to allow for investments in persons organized under the laws of Canada in the amount of \$50.0 million;
- 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, 2019, the outstanding balance under the Revolving Credit Facility was \$500.0 million, which bore a weighted average interest rate of 5.50% and 4.62% for the three months ended March 31, 2019 and 2018, respectively. Available capacity under the Revolving Credit Facility, after taking into account borrowing base and applicable debt covenants, was \$138.8 million as of March 31, 2019. At March 31, 2019, the outstanding balance under the Term Loan Facility was \$183.1 million.

Encore Senior Secured Notes

In August 2017, Encore entered into \$325.0 million in senior secured notes with a group of insurance companies (the "Senior Secured Notes"). The Senior Secured Notes bear an annual interest rate of 5.625%, mature in 2024 and beginning in November 2019 will require quarterly principal payments of \$16.3 million. As of March 31, 2019, \$325.0 million of the Senior Secured Notes remained outstanding.

The Senior Secured Notes are guaranteed in full by certain of Encore's subsidiaries. The Senior Secured Notes are *pari passu* with, and are collateralized by the same collateral as, the Senior Secured Credit Facilities. The Senior Secured Notes may be accelerated and become automatically and immediately due and payable upon certain events of default, including certain events related to insolvency, bankruptcy, or liquidation. Additionally, any series of the Senior Secured Notes may be accelerated at the election of the holder or holders of a majority in principal amount of such series of Senior Secured Notes upon certain events of default by Encore, including the breach of affirmative covenants regarding guarantors, collateral, minimum revolving credit facility commitment or the breach of any negative covenant. Encore may prepay the Senior Secured Notes at any time for any reason. If Encore prepays the Senior Secured Notes, 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 and material terms in the purchase agreement for the Senior Secured Notes are substantially similar to those in the Restated Credit Agreement. The holders of the Senior Secured Notes 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.

Encore Convertible Notes and Exchangeable Notes

In June and July 2013, Encore issued \$172.5 million aggregate principal amount of 3.000% 2020 Convertible Notes that mature on July 1, 2020 in private placement transactions (the "2020 Convertible Notes"). In March 2014, Encore issued \$161.0 million aggregate principal amount of 2.875% 2021 Convertible Notes that mature on March 15, 2021 in private placement transactions (the "2021 Convertible Notes"). In March 2017, Encore issued \$150.0 million aggregate principal amount of 3.250% 2022 Convertible Senior Notes that mature on March 15, 2022 in private placement transactions (the "2022 Convertible Notes" and together with the 2020 Convertible Notes and the 2021 Convertible Notes, the "Convertible Notes"). The interest on the Convertible Notes is payable semi-annually.

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In July 2018, Encore Finance (defined below), a 100% owned finance subsidiary of Encore, issued \$172.5 million aggregate principal amount of exchangeable senior notes due 2023 (the “Exchangeable Notes”) which are fully and unconditionally guaranteed by Encore. The Exchangeable Notes mature on September 1, 2023 and bear interest at a rate of 4.500% per year, payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2019.

Unless otherwise indicated in connection with a particular offering of debt securities, Encore will fully and unconditionally guarantee any debt securities issued by Encore Capital Europe Finance Limited (“Encore Finance”), a 100% owned finance subsidiary of Encore. Amounts related to Encore Finance are included in the consolidated financial statements of Encore subsequent to April 30, 2018, the date of the incorporation of Encore Finance.

Prior to the close of business on the business day immediately preceding their respective conversion or exchange date (listed below), holders may convert or exchange their Convertible Notes or Exchangeable Notes under certain circumstances set forth in the applicable indentures. On or after their respective conversion or exchange dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert or exchange their notes at any time. Certain key terms related to the convertible and exchangeable features as of March 31, 2019 are listed below.

| | 2020 Convertible Notes | 2021 Convertible Notes | 2022 Convertible Notes | 2023 Exchangeable Notes |
|---|------------------------|------------------------|------------------------|-------------------------|
| Initial conversion or exchange price | \$ 45.72 | \$ 59.39 | \$ 45.57 | \$ 44.62 |
| Closing stock price at date of issuance | \$ 33.35 | \$ 47.51 | \$ 35.05 | \$ 36.45 |
| Closing stock price date | June 24, 2013 | March 5, 2014 | February 27, 2017 | July 20, 2018 |
| Conversion or exchange rate (shares per \$1,000 principal amount) | 21.8718 | 16.8386 | 21.9467 | 22.4090 |
| Conversion or exchange date | January 1, 2020 | September 15, 2020 | September 15, 2021 | March 1, 2023 |

In the event of conversion or exchange, holders of the Company’s Convertible Notes or Exchangeable 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 and exchanges through combination settlement (*i.e.*, convertible or exchangeable 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 and subject to certain restrictions contained in each of the indentures governing the Convertible Notes and Exchangeable Notes, for the remainder). As a result, and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion or exchange spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion or exchange spread has a dilutive effect when, during any quarter, the average share price of the Company’s common stock exceeds the initial conversion or exchange prices listed in the above table.

Authoritative guidance requires that issuers of convertible or exchangeable debt instruments which, upon conversion or exchange, 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 or nonexchangeable 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.

As discussed above, upon exchange of the Exchangeable Notes, the Company will pay or deliver, as the case may be, 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 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 and Exchangeable Notes are listed below (*in thousands, except percentages*):

| | 2020 Convertible Notes | 2021 Convertible Notes | 2022 Convertible Notes | 2023 Exchangeable Notes |
|-------------------------|------------------------|------------------------|------------------------|-------------------------|
| Debt component | \$ 140,247 | \$ 143,645 | \$ 137,266 | \$ 157,971 |
| Equity component | \$ 32,253 | \$ 17,355 | \$ 12,734 | \$ 14,009 |
| Equity issuance cost | \$ 1,106 | \$ 581 | \$ 398 | \$ — |
| Stated interest rate | 3.000% | 2.875% | 3.250% | 4.500% |
| Effective interest rate | 6.350% | 4.700% | 5.200% | 6.500% |

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

| | March 31, 2019 | December 31, 2018 |
|---|-------------------|----------------------|
| Liability component—principal amount | \$ 656,000 | \$ 656,000 |
| Unamortized debt discount | (33,239) | (36,361) |
| Liability component—net carrying amount | \$ 622,761 | \$ 619,639 |
| Equity component | \$ 76,351 | \$ 76,351 |

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2019 | 2018 |
| Interest expense—stated coupon rate | \$ 5,337 | \$ 3,642 |
| Interest expense—amortization of debt discount | 3,121 | 2,428 |
| Total interest expense—Convertible Notes and Exchangeable Notes | \$ 8,458 | \$ 6,070 |

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 or exchange prices of the Convertible Notes and the Exchangeable Notes, the Company maintains a hedge program that increases the effective conversion or exchange price for the 2020 Convertible Notes, the 2021 Convertible Notes and the Exchangeable Notes. The Company did not hedge the 2022 Convertible Notes.

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

| | 2020 Convertible Notes | | 2021 Convertible Notes | | 2023 Exchangeable Notes | |
|--|------------------------|-----------|------------------------|--|-------------------------|--|
| Cost of the hedge transaction(s) | \$ 18,113 | \$ 19,545 | \$ 17,785 | | | |
| Initial conversion or exchange price | \$ 45.72 | \$ 59.39 | \$ 44.62 | | | |
| Effective conversion or exchange price | \$ 61.55 | \$ 83.14 | \$ 62.48 | | | |

Cabot Senior Secured Notes

In March 2014, Cabot Financial (Luxembourg) S.A. (“Cabot Financial”) issued £175.0 million (approximately \$291.8 million) in aggregate principal amount of 6.500% Senior Secured Notes due 2021 (the “Cabot 2021 Notes”). Interest on the Cabot 2021 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year. In July 2018, Cabot Financial completed an exchange offer for a portion of these outstanding notes, as further discussed below.

In October 2016, Cabot Financial issued £350.0 million (approximately \$442.6 million) in aggregate principal amount of 7.500% Senior Secured Notes due 2023 (the “Cabot 2023 Notes”). Interest on the Cabot 2023 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year. The Cabot 2023 Notes were issued at a price equal to 100% of their face value.

In July 2018, Cabot Financial completed an exchange offer whereby certain holders of Senior Secured Notes due 2020 (the “Cabot 2020 Notes”) and holders of the Cabot 2021 Notes exchanged their notes for additional Cabot 2023 Notes (the “Exchange Notes”). Pursuant to the exchange offer, Cabot Financial exchanged £32.2 million (approximately \$42.4 million) in aggregate principal amount of the Cabot 2020 Notes and £95.0 million (approximately \$125.2 million) in aggregate principal amount of the Cabot 2021 Notes, at a premium, for a total of £128.4 million (approximately \$169.2 million) aggregate principal amount of the Exchange Notes. In July 2018, Cabot Financial also issued £34.5 million (approximately \$45.5 million) aggregate principal amount of 7.500% additional notes (the “Additional Notes”) at 99.0% plus accrued interest from and

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including April 1, 2018. Both the Exchange Notes and the Additional Notes were issued as additional notes under the indenture entered into by Cabot Financial, among others, dated October 6, 2016, governing the Cabot 2023 Notes and are part of the same series as the currently outstanding £350.0 million 7.500% Cabot 2023 Notes issued under that indenture.

The Cabot 2021 Notes and the Cabot 2023 Notes (together the “Cabot 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 and Marlin Intermediate Holdings plc). The Cabot Notes are secured by a first ranking security interest in all the outstanding shares of Cabot Financial and the guarantors (other than CCM and Marlin Midway Limited) and substantially all the assets of Cabot Financial and the guarantors (other than CCM). Subject to the Intercreditor Agreement described below under “Cabot Senior Revolving Credit Facility”, the guarantees provided in respect of the Cabot Notes are *pari passu* with each such guarantee given in respect of the Cabot Floating Rate Notes, Marlin Bonds and the Cabot Credit Facility described below.

In November 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. The Cabot Floating Rate Notes will mature on November 15, 2021.

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

Interest expense related to the Cabot senior secured notes was as follows (*in thousands*):

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2019 | 2018 |
| Interest expense—stated coupon rate | \$ 23,655 | \$ 21,600 |
| Interest expense—amortization of debt discount | 119 | (116) |
| Total interest expense—Cabot senior secured notes | \$ 23,774 | \$ 21,484 |

At March 31, 2019, the outstanding balance of the Cabot senior secured notes was \$1.1 billion.

Cabot Senior Revolving Credit Facilities

On December 12, 2017, Cabot Financial (UK) Limited (“Cabot Financial UK”) entered into an amended and restated senior secured revolving credit facility agreement (as amended and restated, the “Cabot Credit Facility”). As of March 31, 2019, the Cabot Credit Facility provides for a total committed facility of £385.0 million of which £375.0 million expires in September 2022 and £10.0 million that expires in September 2021, and included the following key provisions:

- Interest at LIBOR (or EURIBOR for any loan drawn in euro) plus 3.00% per annum, which may decrease to 2.75% upon certain specified conditions;
- A restrictive covenant that limits the loan to value ratio to 0.75 in the event that the Cabot Credit Facility is more than 20% utilized;
- A restrictive covenant that limits the super senior loan (i.e. the Cabot Credit Facility and any super priority hedging liabilities) to value ratio to 0.275 in the event that the Cabot Credit Facility is more than 20% utilized;
- Additional restrictions and covenants which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens; and
- Events of default which, upon occurrence, may permit the lenders to terminate the Cabot Credit Facility and declare all amounts outstanding to be immediately due and payable.

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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, 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 will receive priority with respect to any proceeds received upon any enforcement action over any such assets.

At March 31, 2019, the outstanding borrowings under the Cabot Credit Facilities were approximately \$319.8 million. The weighted average interest rate was 3.37% and 3.75% for the three months ended March 31, 2019 and 2018, respectively. Available capacity under the Cabot Credit Facility, after taking into account borrowing base and applicable debt covenants, was £139.8 million (approximately \$182.2 million) as of March 31, 2019.

Cabot Securitisation Senior Facility

Cabot's wholly owned subsidiary Cabot Securitisation UK Ltd ("Cabot Securitisation") entered into a senior facility agreement (the "Senior Facility Agreement") for a committed amount of £300.0 million, of which £300.0 million was drawn as of March 31, 2019. The Senior Facility Agreement matures in September 2023. The obligations of Cabot Securitisation under the Senior Facility Agreement are secured by first ranking security interests over all of Cabot Securitisation's property, assets and rights (including receivables purchased from Cabot Financial UK from time to time), the book value of which was approximately £332.7 million (approximately \$433.7 million) as of March 31, 2019. Funds drawn under the Senior Facility Agreement will bear interest at a rate per annum equal to LIBOR plus a margin of 2.85%.

In November 2018, Cabot's wholly owned subsidiary Cabot Securitisation UK II Ltd ("Cabot Securitisation II") entered into a new non-recourse asset backed senior facility of £50.0 million, with a maturity date in September 2023. The facility is secured by first ranking security interests over all of Cabot Securitisation II's property, assets and rights (including receivables purchased from Cabot Financial UK from time to time), the book value of which was approximately £55.9 million (approximately \$72.8 million) as of March 31, 2019. Funds drawn under this facility will bear interest at a rate per annum equal to LIBOR plus a margin of 4.075%.

At March 31, 2019, the outstanding borrowings under the Cabot Securitisation Senior Facility were approximately \$456.2 million. The weighted average interest rate was 3.76% and 3.35% for the three months ended March 31, 2019 and 2018, respectively.

Cabot Securitisation and Cabot Securitisation II are securitized financing vehicles and are VIEs for consolidation purposes. Refer to Note 9, "Variable Interest Entities," for further details.

Finance Lease Liabilities

The Company has finance lease liabilities primarily for computer equipment. As of March 31, 2019, the Company's finance lease liabilities were approximately \$5.9 million. These finance lease liabilities require monthly, quarterly or annual payments through 2023 and have implicit interest rates that range from 3.0% to approximately 5.7%.

Note 9: 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 expected losses, or the right to receive expected residual returns of the entity. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the VIE that most significantly affect the entity's economic performance and the obligation to absorb expected losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The Company consolidates VIEs when it is the primary beneficiary.

The Company evaluates its relationships with its VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. A reconsideration event is significant if it changes the design of the entity or the entity's equity investment at risk. Prior to the purchase of all of the outstanding equity of CCM not owned by the Company, CCM's indirect holding Company Janus Holdings S.a.r.l. ("Janus Holdings") was a VIE. Upon completion of the Cabot Transaction on July 24, 2018 and the subsequent change in organizational structure, Janus Holdings no longer qualified as a VIE and CCM is consolidated via the voting interest model.

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As of March 31, 2019, the Company's VIEs include certain securitized financing vehicles and other immaterial special purpose entities that were created to purchase receivable portfolios in certain geographies. The Company is the primary beneficiary of these VIEs.

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

Note 10: Income Taxes

Income tax expense was \$3.7 million and \$9.5 million during the three months ended March 31, 2019 and 2018, respectively. The decrease in income tax expense for the three months ended March 31, 2019 as compared to the corresponding period in 2018 was primarily due to the recording of a tax benefit of approximately \$9.1 million related to a tax accounting method change for revenue reporting approved by the Internal Revenue Service ("IRS") during the three months ended March 31, 2019.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2019 | 2018 |
| Federal provision | 21.0 % | 21.0 % |
| State provision | 2.5 % | 1.4 % |
| Change in valuation allowance | 1.9 % | 14.2 % |
| Foreign income taxed at different rates ⁽¹⁾ | (0.9)% | (7.2)% |
| Change in tax accounting method ⁽²⁾ | (17.1)% | — % |
| Other | (0.5)% | (0.9)% |
| Effective rate | 6.9 % | 28.5 % |

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

(2) During the first quarter of 2019, the Company received IRS approval for a tax accounting method change related to revenue reporting. The revised tax accounting method more closely aligns with the Company's book accounting method for revenue reporting.

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

The Company's subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2026 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, 2019 and 2018, was immaterial.

The Company had gross unrecognized tax benefits, inclusive of penalties and interest, of \$19.9 million at March 31, 2019. These unrecognized tax benefits, if recognized, would result in a net tax benefit of \$13.0 million as of March 31, 2019. There were no material changes in gross unrecognized tax benefits from December 31, 2018.

Of the \$167.1 million of cash and cash equivalents as of March 31, 2019, \$127.5 million was held outside of the United States. Following the enactment of the Tax Reform Act and the associated transition tax, in general, repatriation of cash to the United States can be completed with no incremental U.S. tax. However, repatriation of cash could subject the Company to non-U.S. jurisdictional taxes on distributions. The Company maintains non-U.S. funds in its foreign operations to (1) provide adequate working capital, (2) satisfy various regulatory requirements, and (3) take advantage of business expansion opportunities as they arise. The non-U.S. jurisdictional taxes applicable to foreign earnings are not readily determinable or practicable. The Company continues to evaluate the impact of the Tax Reform Act on its election to indefinitely reinvest certain of its non-U.S. earnings. As of March 31, 2019, management believes that it has sufficient liquidity to satisfy its cash needs, including its cash needs in the United States.

Note 11: Leases

Effective January 1, 2019, the Company adopted Topic 842 using the modified retrospective method. As such, the Company recognized operating lease right-of-use (“ROU”) assets and operating lease liabilities in the consolidated statements of financial condition. Prior period financial statements were not adjusted under the new standard and therefore, those amounts are not presented below. The Company elected not to apply the recognition requirements to short-term leases, not to separate non-lease components from lease components, and elected the transition provisions available for existing contracts, which allowed the Company to carryforward its historical assessments of (1) whether contracts are or contain a lease, (2) lease classification, and (3) initial direct costs.

ROU assets represent the Company’s right to use an underlying asset during the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the net present value of fixed lease payments over the lease term. The Company’s lease term includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option. ROU assets also include any advance lease payments made and are net of any lease incentives. As most of the Company’s operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

The majority of the Company’s leases are for corporate offices, various facilities and information technology equipment. The components of lease expense for the three months ended March 31, 2019 were as follows (*in thousands*):

| | Three Months Ended March 31, 2019 |
|--------------------------------------|--|
| Operating lease costs ⁽¹⁾ | \$ 4,778 |
| Finance lease costs | |
| Amortization of right-of-use assets | 437 |
| Interest on lease liabilities | 174 |
| Total lease costs | <u>\$ 5,389</u> |

(1) Operating lease expenses are included in general and administrative expenses in the Company’s consolidated statements of operations.

The following table provides supplemental consolidated balance sheet information related to leases as of March 31, 2019 (*in thousands*):

| | Classification | March 31, 2019 |
|-------------------------------------|-----------------------------|---------------------------|
| Assets | | |
| Operating lease right-of-use assets | Other assets | \$ 91,045 |
| Finance lease right-of-use assets | Property and equipment, net | 5,074 |
| Total lease right-of-use assets | | <u>\$ 96,119</u> |
| Liabilities | | |
| Operating lease liabilities | Other liabilities | \$ 106,010 |
| Finance lease liabilities | Debt, net | 5,904 |
| Total lease liabilities | | <u>\$ 111,914</u> |

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Supplemental lease information is summarized below (*in thousands, except rate and lease term*):

| | Three Months Ended March 31, 2019 |
|--|--|
| Right-of-use assets obtained in exchange for new operating lease obligations | \$ 109,597 |
| Right-of-use assets obtained in exchange for new finance lease obligations | — |
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating leases - operating cash flows | 4,189 |
| Finance leases - operating cash flows | 174 |
| Finance leases - financing cash flows | 418 |
| | March 31, 2019 |
| Weighted-average remaining lease term (in years) | |
| Operating leases | 8.3 |
| Finance leases | 3.7 |
| Weighted-average discount rate | |
| Operating leases ⁽¹⁾ | 5.6% |
| Finance leases | 4.4% |

(1) Upon adoption of the new lease standard, discount rates used for existing operating leases were established at January 1, 2019.

Minimum future payments on noncancelable operating leases as of March 31, 2019 are summarized as follows (*in thousands*):

| | Finance Leases | Operating Leases | Total |
|--|---------------------------|-----------------------------|--------------|
| 2019 ⁽¹⁾ | \$ 1,356 | \$ 11,917 | \$ 13,273 |
| 2020 | 1,808 | 17,688 | 19,496 |
| 2021 | 1,650 | 17,787 | 19,437 |
| 2022 | 1,419 | 16,252 | 17,671 |
| 2023 | 156 | 14,558 | 14,714 |
| Thereafter | — | 60,862 | 60,862 |
| Total undiscounted lease payments | 6,389 | 139,064 | 145,453 |
| Less: imputed interest | (485) | (33,054) | (33,539) |
| Lease obligations under operating leases | \$ 5,904 | \$ 106,010 | \$ 111,914 |

(1) 2019 amount consists of nine months data from April 1, 2019 to December 31, 2019.

As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and under the previous lease accounting standard, minimum future payments on noncancelable operating leases as of December 31, 2018 are summarized as follows (*in thousands*):

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| | Finance Leases | Operating Leases | Total |
|---|---------------------------|-----------------------------|--------------|
| 2019 | \$ 2,507 | \$ 16,538 | \$ 19,045 |
| 2020 | 1,983 | 13,850 | 15,833 |
| 2021 | 1,844 | 13,044 | 14,888 |
| 2022 | 1,630 | 11,737 | 13,367 |
| 2023 | 204 | 9,741 | 9,945 |
| Thereafter | — | 37,997 | 37,997 |
| Total minimal leases payments | 8,168 | \$ 102,907 | \$ 111,075 |
| Less: Interest | (605) | | |
| Present value of minimal lease payments | \$ 7,563 | | |

Note 12: Commitments and Contingencies***Litigation and Regulatory***

The Company is involved in disputes, legal actions, regulatory investigations, inquiries, and other actions from time to time in the ordinary course of business. The Company, along with others in its industry, is routinely subject to legal 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, 2019, there were no material developments in any of the legal proceedings disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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. The Company’s legal costs are recorded to expense as incurred. As of March 31, 2019, the Company has no material reserves for legal matters.

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, 2019, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately \$2.8 billion for a purchase price of approximately \$358.0 million. Most purchase commitments do not extend past one year.

Note 13: Segment and Geographic Information

The Company conducts business through several operating segments that have similar economic and other qualitative characteristics and have been aggregated in accordance with authoritative guidance into one reportable segment, portfolio purchasing and recovery. Since the Company operates in one reportable segment, all required segment information can be found in the consolidated financial statements.

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The Company has operations in the United States, Europe and other foreign countries. The following table presents the Company's total revenues, adjusted by net allowances by geographic areas in which the Company operates (*in thousands*):

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2019 | 2018 |
| Revenues, adjusted by net allowances ⁽¹⁾ : | | |
| United States | \$ 189,372 | \$ 171,944 |
| International | | |
| Europe ⁽²⁾ | 135,276 | 130,614 |
| Other geographies | 22,429 | 24,230 |
| | 157,705 | 154,844 |
| Total | \$ 347,077 | \$ 326,788 |

(1) Revenues, adjusted by net allowances, are attributed to countries based on consumer location. Revenues primarily include portfolio revenues and fee-based income earned on accounts collected on behalf of others.

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

Note 14: Goodwill and Identifiable Intangible Assets

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

The annual goodwill testing date for the reporting units that are included in the portfolio purchasing and recovery reportable segment is October 1st. There have been no events or circumstances during the three months ended March 31, 2019 that have required the Company to perform an interim assessment of goodwill carried at these reporting units. Management continues to evaluate and monitor all key factors impacting the carrying value of the Company's recorded goodwill and long-lived assets. Adverse changes in the Company's actual or expected operating results, market capitalization, business climate, economic factors or other negative events that may be outside the control of management could result in a material non-cash impairment charge in the future.

The Company's goodwill is attributable to reporting units included in its portfolio purchasing and recovery segment. The following table summarizes the activity in the Company's goodwill balance (*in thousands*):

| | Total |
|--|------------|
| Balance, December 31, 2018 | \$ 868,126 |
| Effect of foreign currency translation | 14,758 |
| Balance, March 31, 2019 | \$ 882,884 |

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

| | As of March 31, 2019 | | | As of December 31, 2018 | | |
|-------------------------|-----------------------|--------------------------|---------------------|-------------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | \$ 68,767 | \$ (13,309) | \$ 55,458 | \$ 73,458 | \$ (17,025) | \$ 56,433 |
| Developed technologies | 6,752 | (5,870) | 882 | 7,461 | (6,446) | 1,015 |
| Trade name and other | 8,079 | (5,036) | 3,043 | 8,346 | (5,213) | 3,133 |
| Total intangible assets | \$ 83,598 | \$ (24,215) | \$ 59,383 | \$ 89,265 | \$ (28,684) | \$ 60,581 |

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

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

Our Business

We are an international specialty finance company providing debt recovery solutions and other related services for consumers across a broad range of financial assets. We primarily 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 and commercial retailers. Defaulted receivables may also include receivables subject to bankruptcy proceedings. We also provide debt servicing and other portfolio management services to credit originators for non-performing loans.

Encore Capital Group, Inc. (“Encore”) has three primary business units: MCM, which consists of Midland Credit Management, Inc. and its subsidiaries and domestic affiliates; Cabot, which consists of Cabot Credit Management Limited (“CCM”) and its subsidiaries and European affiliates, and LAAP, which is comprised of our investments and operations in Latin America and Asia-Pacific.

MCM (United States)

Through MCM we are a market leader in portfolio purchasing and recovery in the United States, including Puerto Rico.

Cabot (Europe)

Through Cabot we are one of the largest credit management services providers in Europe and a market leader in the United Kingdom and Ireland. Cabot, in addition to its primary business of portfolio purchasing and recovery, also provides a range of debt servicing offerings such as early stage collections, business process outsourcing (“BPO”), contingent collections, trace services and litigation activities. Cabot strengthened its debt servicing offerings with the acquisition of Wescot Credit Services Limited (“Wescot”), a leading U.K. contingency debt collection and BPO services company in November 2017. Previously we controlled CCM via our majority ownership interest in an indirect holding company of CCM. In July 2018, we completed the purchase of all of the outstanding equity of CCM not owned by us (the “Cabot Transaction”). As a result, CCM became a wholly owned subsidiary of Encore.

LAAP (Latin America and Asia-Pacific)

We have non-performing loans in Colombia, Peru, Mexico and Brazil. Our subsidiary Baycorp Holdings Pty Limited (together with its subsidiaries, “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. Additionally, we have invested in Encore Asset Reconstruction Company (“EARC”) in India.

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To date, operating results from LAAP have not been significant to our total consolidated operating results. Our long-term growth strategy is focused on continuing to invest in our core portfolio purchasing and recovery business through MCM and strengthening and developing our Cabot business.

Government Regulation

MCM (United States)

As discussed in more detail under “Part I - Item 1 - Business - Government Regulation” contained 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.

On May 7, 2019, the Consumer Financial Protection Bureau (“CFPB”) issued a Notice of Proposed Rulemaking (“NPRM”) regarding debt collection. The NPRM proposes rules related to, among other things: disclosures by debt collectors to consumers; requirements for debt validation; use of newer technologies (text, voicemail and email) to communicate with consumers; and limits relating to telephonic communications. The industry and public have a 90-day period to comment on the proposed rules. The CFPB will then evaluate any comments and issue the final rules. It is anticipated that the final rules will be issued in late 2019 or early 2020, with an effective date one year after the final rules are issued.

Cabot (Europe)

As discussed in more detail under “Part I - Item 1 - Business - Government Regulation” contained in our Annual Report on Form 10-K, our operations in Europe 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.

Portfolio Purchasing and Recovery

MCM (United States)

In the United States, the defaulted consumer receivable portfolios we purchase are primarily charged-off credit card debt portfolios. A small percentage of our capital deployment in the United States comprises of receivable portfolios subject to Chapter 13 and Chapter 7 bankruptcy proceedings.

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 strategies 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.

Cabot (Europe)

In Europe, our purchased under-performing debt portfolios primarily consist of paying and non-paying consumer loan accounts. We also purchase certain secured mortgage portfolios and portfolios that are in insolvency status, in particular, individual voluntary arrangements.

We purchase paying and non-paying receivable portfolios using a proprietary pricing model that utilizes account-level statistical and behavioral data. This model allows us to value portfolios with a high degree of accuracy and quantify portfolio performance in order to maximize future collections. As a result, we have been able to realize significant returns from the assets we have acquired. We maintain strong relationships with many of the largest financial services providers in the United Kingdom and continue to expand in the United Kingdom and the rest of Europe with our acquisitions of portfolios and other credit management services providers.

Purchases and Collections***Portfolio Pricing, Supply and Demand******MCM (United States)***

Industry delinquency and charge-off rates have continued to increase, creating higher volumes of charged-off accounts that are sold. In addition, issuers have continued to sell predominantly fresh portfolios. Fresh portfolios are portfolios that are generally sold within six months of the consumer's account being charged-off by the financial institution. Meanwhile pricing remains favorable. In addition to selling a higher volume of charged-off accounts, issuers continued to sell their volume in mostly forward flow arrangements that are often committed early in the calendar year.

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. We believe this favors larger participants, such as Encore, because the larger market participants are better able to adapt to these pressures and commit to larger forward flow agreements.

Cabot (Europe)

The U.K. market for charged-off portfolios continues to grow, despite an on-going historic low level of charge-off rates, as creditors choose to both sell more of their debt and sell at earlier stages. The near record levels of consumer indebtedness suggests that charged-off debt will increase over time and, together with recent commitments by major debt purchasers to deliver a deleveraging profile, cause us to believe that pricing pressure will soften in the future.

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

Although pricing has been elevated, we believe that as our European businesses increase in scale and continue to improve liquidation and collection efficiencies, our margins will remain competitive. Additionally, our continuing investment in our litigation liquidation channel has enabled us to collect from consumers who have the ability to pay but have so far been unwilling to do so. This also enables us to mitigate some of the impact of elevated pricing.

Purchases by Geographic Location

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

| | Three Months Ended March 31, | |
|---------------------|---|-------------------|
| | 2019 | 2018 |
| MCM (United States) | \$ 174,227 | \$ 179,038 |
| Cabot (Europe) | 83,640 | 87,315 |
| Other geographies | 4,468 | 10,409 |
| Total purchases | <u>\$ 262,335</u> | <u>\$ 276,762</u> |

During the three months ended March 31, 2019, we invested \$262.3 million to acquire receivable portfolios, with face values aggregating \$1.7 billion, for an average purchase price of 15.1% of face value. The amount invested in receivable portfolios decreased \$14.5 million, or 5.2%, compared with the \$276.8 million invested during the three months ended March 31, 2018, to acquire receivable portfolios with face values aggregating \$1.8 billion, for an average purchase price of 15.4% of face value.

In the United States, capital deployment slightly decreased for the three months ended March 31, 2019, as compared to the corresponding period in the prior year. Capital deployment for the three months ended March 31, 2018 was elevated due to timing differences which shifted higher-than-expected volumes to the period from the period before.

In Europe, capital deployment for the three months ended March 31, 2019 decreased as compared to the corresponding period in the prior year. The decrease was primarily the result of a more selective purchasing process employed in conjunction with a plan to reduce European debt leverage over time.

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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.

Collections by Channel and Geographic Location

We utilize three channels for the collection of our receivables: call center and digital collections; legal collections; and collection agencies. The call center and digital collections channel consists of collections that result from our call centers, direct mail program and online collections. The legal collections channel consists of collections that result from our internal legal channel or from our network of retained law firms. The collection agencies channel consists of collections from third-party collection agencies that we utilize when we believe they can liquidate better or less expensively than we can or to supplement capacity in our internal call centers. The collection agencies channel also includes collections on accounts purchased where we maintain the collection agency servicing until the accounts can be recalled and placed in our collection channels. The following table summarizes the total collections by collection channel and geographic area (*in thousands*):

| | Three Months Ended March 31, | |
|--------------------------------------|---------------------------------|-------------------|
| | 2019 | 2018 |
| MCM (United States) ⁽¹⁾ : | | |
| Call center and digital collections | \$ 185,255 | \$ 161,493 |
| Legal collections | 141,036 | 132,642 |
| Collection agencies | 3,303 | 4,832 |
| Subtotal | <u>329,594</u> | <u>298,967</u> |
| Cabot (Europe): | | |
| Call center and digital collections | 62,665 | 82,011 |
| Legal collections | 50,658 | 31,380 |
| Collection agencies | 47,477 | 48,786 |
| Subtotal | <u>160,800</u> | <u>162,177</u> |
| Other geographies ⁽²⁾ : | | |
| Call center and digital collections | 10,200 | 22,171 |
| Legal collections | 1,530 | 2,107 |
| Collection agencies | 11,729 | 3,680 |
| Subtotal | <u>23,459</u> | <u>27,958</u> |
| Total collections | <u>\$ 513,853</u> | <u>\$ 489,102</u> |

(1) Certain reclassifications have been made between collection agencies and call center and digital collections for prior periods.

(2) In December 2018, we completed the sale of all our interests in Refinancia S.A. ("Refinancia"), which remains the servicer for the non-performing loans we own in Colombia and Peru. As such, subsequent to December 2018 collections for these non-performing loans are classified as collection agency collections instead of call center and digital collections.

Gross collections increased by \$24.8 million, or 5.1%, to \$513.9 million during the three months ended March 31, 2019, from \$489.1 million during the three months ended March 31, 2018.

The increase of collections in the United States during the three months ended March 31, 2019 as compared to the corresponding periods in the prior year was primarily due to the acquisition of portfolios with higher returns in recent periods, the increase in our collection capacity, and our continued effort in improving liquidation. The decrease in collections in Europe during the three months ended March 31, 2019 as compared to the corresponding period in the prior year was primarily the result of the unfavorable impact of foreign currency translation, which was primarily the result of the strengthening of the U.S. dollar against the British Pound partially offset by certain liquidation improvement initiatives.

Results of Operations

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

| | Three Months Ended March 31, | | | |
|--|------------------------------|---------|------------|---------|
| | 2019 | | 2018 | |
| Revenues | | | | |
| Revenue from receivable portfolios | \$ 311,158 | 89.7 % | \$ 281,009 | 86.0 % |
| Other revenues | 34,552 | 9.9 % | 35,968 | 11.0 % |
| Total revenues | 345,710 | 99.6 % | 316,977 | 97.0 % |
| Allowance reversals on receivable portfolios, net | 1,367 | 0.4 % | 9,811 | 3.0 % |
| Total revenues, adjusted by net allowances | 347,077 | 100.0 % | 326,788 | 100.0 % |
| Operating expenses | | | | |
| Salaries and employee benefits | 91,834 | 26.5 % | 89,259 | 27.3 % |
| Cost of legal collections | 49,027 | 14.1 % | 53,855 | 16.5 % |
| Other operating expenses | 29,614 | 8.5 % | 33,748 | 10.3 % |
| Collection agency commissions | 16,002 | 4.6 % | 11,754 | 3.6 % |
| General and administrative expenses | 39,547 | 11.4 % | 39,284 | 12.0 % |
| Depreciation and amortization | 9,995 | 2.9 % | 10,436 | 3.2 % |
| Total operating expenses | 236,019 | 68.0 % | 238,336 | 72.9 % |
| Income from operations | 111,058 | 32.0 % | 88,452 | 27.1 % |
| Other (expense) income | | | | |
| Interest expense | (54,967) | (15.8)% | (57,462) | (17.6)% |
| Other (expense) income | (2,976) | (0.9)% | 2,193 | 0.7 % |
| Total other expense | (57,943) | (16.7)% | (55,269) | (16.9)% |
| Income from operations before income taxes | 53,115 | 15.3 % | 33,183 | 10.2 % |
| Provision for income taxes | (3,673) | (1.1)% | (9,470) | (2.9)% |
| Net income | 49,442 | 14.2 % | 23,713 | 7.3 % |
| Net income attributable to noncontrolling interest | (188) | (0.1)% | (1,886) | (0.6)% |
| Net income attributable to Encore Capital Group, Inc. stockholders | \$ 49,254 | 14.1 % | \$ 21,827 | 6.7 % |

Results of Operations—Cabot Credit Management Limited

The following table summarizes the operating results contributed by CCM (which does not consolidate the results of its European affiliate Grove Europe S.á r.l.) during the periods presented (*in thousands*):

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2019 | 2018 |
| Total revenues, adjusted by net allowances | \$ 129,012 | \$ 122,225 |
| Total operating expenses | (70,499) | (71,219) |
| Income from operations | 58,513 | 51,006 |
| Interest expense-non-PEC | (28,955) | (28,746) |
| PEC interest expense | — | (7,721) |
| Other (expense) income | (302) | 778 |
| Income before income taxes | 29,256 | 15,317 |
| Provision for income taxes | (5,431) | (4,779) |
| Net income | 23,825 | 10,538 |
| Net income attributable to noncontrolling interest | (188) | (1,909) |
| Net income attributable to Encore Capital Group, Inc. stockholders | \$ 23,637 | \$ 8,629 |

Comparison of Results of Operations

Revenues

Our revenues consist of revenue from receivable portfolios and other revenues.

Revenue from receivable portfolios consists of accretion revenue and zero basis revenue. Accretion revenue represents revenue derived from pools (quarterly groupings of purchased receivable portfolios) with a cost basis that has not been fully amortized. Revenue from pools with a remaining unamortized cost basis is accrued based on each pool's effective interest rate applied to each pool's remaining unamortized cost basis. The cost basis of each pool is increased by revenue earned and decreased by gross collections and portfolio allowances. The effective interest rate is the internal rate of return ("IRR") derived from the timing and amounts of actual cash received and anticipated future cash flow projections for each pool. All collections realized after the net book value of a portfolio has been fully recovered, or Zero Basis Portfolios ("ZBA"), are recorded as revenue, or ZBA revenue. We account for our investment in receivable portfolios utilizing the interest method in accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality.

Other revenues consist primarily of fee-based income earned on accounts collected on behalf of others, primarily credit originators. Certain of our foreign subsidiaries earn fee-based income by providing debt servicing (such as early stage collections, BPO, contingent collections, trace services and litigation activities) to credit originators for non-performing loans.

We may incur allowance charges when actual cash flows from our receivable portfolios underperform compared to our expectations or when there is a change in the timing of cash flows. Factors that may contribute to underperformance and to the recording of valuation allowances may include both internal as well as external factors. Internal factors that may have an impact on our collections include operational activities, such as capacity and the productivity of our collection staff. External factors that may have an impact on our collections include new laws or regulations, new interpretations of existing laws or regulations, and the overall condition of the economy. We record allowance reversals on pool groups that have historic allowance reserves when actual cash flows from these receivable portfolios outperform our expectations.

Total revenues, adjusted by net allowances, were \$347.1 million during the three months ended March 31, 2019, an increase of \$20.3 million, or 6.2%, compared to total revenues, adjusted by net allowances of \$326.8 million during the three months ended March 31, 2018.

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the U.S. dollar relative to other foreign currencies has an unfavorable impact on our international revenues, and the weakening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international revenues. Our revenues were unfavorably impacted by foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound by 6.9% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Revenue from receivable portfolios was \$311.2 million during the three months ended March 31, 2019, an increase of \$30.2 million, or 10.7%, compared to \$281.0 million during the three months ended March 31, 2018. The increase in portfolio revenue during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was due to increased purchase volume and sustained improvements in portfolio collections driven by liquidation improvement initiatives.

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

| | Three Months Ended March 31, 2019 | | | | | As of March 31, 2019 | |
|---------------------------|-----------------------------------|------------------------------|---|------------------------------------|----------------------------------|-------------------------|-------------|
| | Collections ⁽¹⁾ | Gross Revenue ⁽²⁾ | Revenue Recognition Rate ⁽³⁾ | Net Reversal (Portfolio Allowance) | Gross Revenue % of Total Revenue | Unamortized Balances | Monthly IRR |
| United States: | | | | | | | |
| ZBA ⁽⁴⁾ | \$ 25,531 | \$ 23,270 | 91.1% | \$ 2,267 | 7.5% | \$ — | — |
| 2011 | 2,764 | 2,280 | 82.5% | — | 0.7% | 2,422 | 27.4% |
| 2012 | 7,336 | 6,096 | 83.1% | 273 | 2.0% | 8,994 | 20.2% |
| 2013 | 22,034 | 19,179 | 87.0% | (52) | 6.2% | 22,838 | 25.6% |
| 2014 | 19,667 | 10,822 | 55.0% | 1,090 | 3.5% | 65,813 | 5.0% |
| 2015 | 24,968 | 10,196 | 40.8% | — | 3.3% | 109,436 | 2.8% |
| 2016 | 47,454 | 20,653 | 43.5% | (896) | 6.6% | 208,176 | 3.0% |
| 2017 | 77,294 | 35,626 | 46.1% | — | 11.4% | 279,667 | 3.8% |
| 2018 | 94,281 | 52,674 | 55.9% | — | 16.9% | 527,432 | 3.1% |
| 2019 | 8,265 | 5,892 | 71.3% | — | 1.9% | 171,684 | 3.2% |
| Subtotal | 329,594 | 186,688 | 56.6% | 2,682 | 60.0% | 1,396,462 | 3.8% |
| Europe: | | | | | | | |
| ZBA ⁽⁴⁾ | 91 | 91 | 100.0% | — | 0.0% | — | — |
| 2013 | 30,110 | 23,297 | 77.4% | — | 7.5% | 247,509 | 3.1% |
| 2014 | 28,120 | 19,679 | 70.0% | (175) | 6.3% | 228,433 | 2.7% |
| 2015 | 19,509 | 11,147 | 57.1% | (256) | 3.6% | 177,460 | 2.0% |
| 2016 | 16,823 | 11,279 | 67.0% | (29) | 3.6% | 157,254 | 2.4% |
| 2017 | 32,302 | 17,366 | 53.8% | — | 5.6% | 333,760 | 1.7% |
| 2018 | 30,079 | 18,991 | 63.1% | — | 6.1% | 418,012 | 1.5% |
| 2019 | 3,766 | 2,993 | 79.5% | — | 1.0% | 83,741 | 1.6% |
| Subtotal | 160,800 | 104,843 | 65.2% | (460) | 33.7% | 1,646,169 | 2.1% |
| Other geographies: | | | | | | | |
| ZBA ⁽⁴⁾ | 2,542 | 2,542 | 100.0% | — | 0.8% | — | — |
| 2014 | 945 | 4,654 | 492.5% | — | 1.5% | 64,928 | 2.4% |
| 2015 | 5,410 | 4,418 | 81.7% | — | 1.4% | 18,667 | 7.3% |
| 2016 | 4,239 | 2,067 | 48.8% | 12 | 0.7% | 24,867 | 2.6% |
| 2017 | 4,757 | 2,927 | 61.5% | — | 0.9% | 30,071 | 3.2% |
| 2018 | 5,131 | 2,864 | 55.8% | (867) | 0.9% | 26,284 | 3.4% |
| 2019 | 435 | 155 | 35.6% | — | 0.0% | 4,139 | 3.5% |
| Subtotal | 23,459 | 19,627 | 83.7% | (855) | 6.3% | 168,956 | 3.3% |
| Total | \$ 513,853 | \$ 311,158 | 60.6% | \$ 1,367 | 100.0% | \$ 3,211,587 | 2.9% |

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

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

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

(4) ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%.

| | Three Months Ended March 31, 2018 | | | | As of March 31, 2018 | | |
|---------------------------|-----------------------------------|------------------------------|---|------------------------------------|----------------------------------|----------------------|-------------|
| | Collections ⁽¹⁾ | Gross Revenue ⁽²⁾ | Revenue Recognition Rate ⁽³⁾ | Net Reversal (Portfolio Allowance) | Gross Revenue % of Total Revenue | Unamortized Balances | Monthly IRR |
| United States: | | | | | | | |
| ZBA ⁽⁴⁾ | \$ 29,919 | \$ 28,319 | 94.7% | \$ 1,729 | 10.1% | \$ — | — |
| 2008 | 1,042 | 194 | 18.6% | — | 0.1% | 569 | 5.2% |
| 2011 | 3,601 | 3,493 | 97.0% | — | 1.2% | 4,477 | 25.0% |
| 2012 | 9,745 | 8,729 | 89.6% | (723) | 3.2% | 14,656 | 18.6% |
| 2013 | 28,557 | 22,787 | 79.8% | — | 8.1% | 42,890 | 16.1% |
| 2014 | 26,699 | 14,949 | 56.0% | — | 5.3% | 100,747 | 4.5% |
| 2015 | 36,950 | 16,136 | 43.7% | — | 5.7% | 181,712 | 2.7% |
| 2016 | 67,702 | 29,331 | 43.3% | — | 10.4% | 330,757 | 2.7% |
| 2017 | 86,211 | 41,971 | 48.7% | — | 14.9% | 449,677 | 2.9% |
| 2018 | 8,541 | 5,024 | 58.8% | — | 1.8% | 175,317 | 3.1% |
| Subtotal | 298,967 | 170,933 | 57.2% | 1,006 | 60.8% | 1,300,802 | 3.7% |
| Europe: | | | | | | | |
| ZBA ⁽⁴⁾ | 5 | 5 | 100.0% | — | 0.0% | — | — |
| 2013 | 36,129 | 25,462 | 70.5% | 2,766 | 9.2% | 274,328 | 3.1% |
| 2014 | 35,808 | 21,949 | 61.3% | 5,419 | 7.8% | 290,217 | 2.5% |
| 2015 | 24,605 | 13,613 | 55.3% | 462 | 4.8% | 230,083 | 2.0% |
| 2016 | 23,570 | 13,503 | 57.3% | — | 4.8% | 210,993 | 2.2% |
| 2017 | 40,874 | 15,279 | 37.4% | — | 5.4% | 439,643 | 1.4% |
| 2018 | 1,186 | 1,251 | 105.5% | — | 0.4% | 87,848 | 1.5% |
| Subtotal | 162,177 | 91,062 | 56.1% | 8,647 | 32.4% | 1,533,112 | 2.1% |
| Other geographies: | | | | | | | |
| ZBA ⁽⁴⁾ | 2,864 | 2,864 | 100.0% | — | 1.0% | — | — |
| 2013 ⁽⁵⁾ | 150 | — | — | — | — | — | — |
| 2014 | 1,600 | 4,373 | 273.3% | — | 1.6% | 63,071 | 2.4% |
| 2015 | 8,836 | 5,668 | 64.1% | — | 2.0% | 31,779 | 5.4% |
| 2016 | 7,420 | 3,472 | 46.8% | 158 | 1.2% | 41,274 | 2.6% |
| 2017 | 6,711 | 2,426 | 36.1% | — | 0.9% | 43,804 | 1.8% |
| 2018 | 377 | 211 | 56.0% | — | 0.1% | 10,299 | 3.5% |
| Subtotal | 27,958 | 19,014 | 68.0% | 158 | 6.8% | 190,227 | 2.9% |
| Total | \$ 489,102 | \$ 281,009 | 57.5% | \$ 9,811 | 100.0% | \$ 3,024,141 | 2.8% |

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

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

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

(4) ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%.

Other revenues were \$34.6 million and \$36.0 million for the three months ended March 31, 2019 and 2018, respectively. Other revenues primarily consist of fee-based income earned at our international subsidiaries that provide portfolio management services to credit originators for non-performing loans. The decrease in other revenues in the periods presented was primarily attributable to the unfavorable impact of foreign currency translation, which was primarily the result of the strengthening of the U.S. dollar against the British Pound and the sale of all our interests in Refinancia in December 2018. Subsequent to the sale, we no longer earn fee-based income from Refinancia.

Net allowance reversals were \$1.4 million and \$9.8 million during the three months ended March 31, 2019 and 2018, respectively. The allowance reversal was primarily a result of sustained improvements in portfolio collections on certain domestic portfolios on which we had previously recorded portfolio allowances in the past. These improvements in portfolio collections were driven by liquidation improvement initiatives.

Operating Expenses

Total operating expenses were \$236.0 million during the three months ended March 31, 2019, a decrease of \$2.3 million, or 1.0%, compared to total operating expenses of \$238.3 million during the three months ended March 31, 2018.

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international operating expenses, and the weakening of the U.S. dollar relative to other foreign currencies has an unfavorable impact on our international operating expenses. Our operating expenses were favorably impacted by foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound by 6.9% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

Salaries and employee benefits increased by \$2.5 million, or 2.9%, to \$91.8 million during the three months ended March 31, 2019, from \$89.3 million during the three months ended March 31, 2018. The increase was primarily the result of an increase in headcount at our domestic sites as part of our initiative to increase collections capacity partially offset by a decrease in headcount at our international subsidiaries.

Stock-based compensation decreased \$0.5 million, or 19.8%, to \$1.8 million during the three months ended March 31, 2019, from \$2.3 million during the three months ended March 31, 2018. The decrease was primarily attributable to larger expense reversals as compared to the corresponding periods in the prior year partially offset by increased expenses related to the Cabot Transaction.

Cost of Legal Collections

Cost of legal collections primarily includes contingent fees paid to our external network of attorneys and the cost of litigation. We pursue legal collections using a network of attorneys that specialize in collection matters and through our internal legal channel. Under the agreements with our contracted attorneys, we advance certain out-of-pocket court costs, or Deferred Court Costs. We capitalize these costs in the consolidated financial statements and provide a reserve for those costs that we believe will ultimately be uncollectible. We determine the reserve based on our analysis of historical court costs recovery data. Cost of legal collections does not include internal legal channel employee costs, which are included in salaries and employee benefits in our consolidated statements of operations.

During the three months ended March 31, 2019, overall cost of legal collections decreased \$4.9 million, or 9.0%, to \$49.0 million, as compared to \$53.9 million during the corresponding period in the prior year. The cost of legal collections in the United States decreased by \$2.2 million, or 4.9% and the cost of legal collections in Europe decreased by \$2.6 million, or 29.3% during the three months ended March 31, 2019, as compared to the corresponding period in the prior year.

The decreases in the cost of legal collections in both the United States and Europe during the three months ended March 31, 2019 as compared to the corresponding periods in 2018 were due to the shift of account placements towards non-legal collection channels.

Other Operating Expenses

Other operating expenses decreased by \$4.1 million, or 12.2%, to \$29.6 million during the three months ended March 31, 2019, from \$33.7 million during the three months ended March 31, 2018.

The decrease during the three months ended March 31, 2019 as compared to the corresponding period in the prior year was primarily due to reduced expenditures in various other operating expenses including telephone number tracing expenses and the favorable impact of the strengthening of the U.S. dollar relative to other foreign currencies.

Collection Agency Commissions

During the three months ended March 31, 2019, we incurred \$16.0 million in commissions to third-party collection agencies, or 25.6% of the related gross collections of \$62.5 million. During the three months ended March 31, 2018, we incurred \$11.8 million in commissions to third-party collection agencies, or 20.5%, of the related gross collections of \$57.3 million.

Collections through this channel are predominately in Europe and Latin America and vary from period to period depending on, among other things, the number of accounts placed with an agency versus accounts collected internally. Commissions, as a percentage of collections in this channel also vary from period to period depending on, among other things, the amount of time that has passed since the charge-off of the accounts placed with an agency, the asset class, and the geographic location of the receivables. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time, and commission rates for purchased bankruptcy portfolios are lower than the commission rates for charged-off credit card accounts. The United States collection agency commission rate is lower than the European rate due to a higher concentration of lower commission rate bankruptcy portfolios collected through the collection agency channel in the United States.

General and Administrative Expenses

General and administrative expenses increased \$0.2 million, or 0.7%, to \$39.5 million during the three months ended March 31, 2019, from \$39.3 million during the three months ended March 31, 2018.

The increase was primarily due to various costs relating to additional infrastructure at our domestic sites partially offset by the favorable impact of the strengthening of the U.S. dollar relative to other foreign currencies.

Depreciation and Amortization

Depreciation and amortization expense decreased by \$0.4 million, or 4.2%, to \$10.0 million during the three months ended March 31, 2019, from \$10.4 million during the three months ended March 31, 2018.

Interest Expense

Interest expense decreased \$2.5 million to \$55.0 million during the three months ended March 31, 2019, from \$57.5 million during the three months ended March 31, 2018.

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

| | Three Months Ended March 31, | | |
|---|------------------------------|-----------|------------|
| | 2019 | 2018 | \$ Change |
| Stated interest on debt obligations | \$ 48,318 | \$ 44,356 | \$ 3,962 |
| Interest expense on preferred equity certificates | — | 7,721 | (7,721) |
| Amortization of loan fees and other loan costs | 3,409 | 3,073 | 336 |
| Amortization of debt discount | 3,240 | 2,312 | 928 |
| Total interest expense | \$ 54,967 | \$ 57,462 | \$ (2,495) |

On July 24, 2018, in connection with the Cabot Transaction, we purchased all outstanding preferred equity certificates (“PECs”) including accrued interest that were held by Cabot’s minority shareholders. As a result, no PEC interest expense was incurred subsequent to the Cabot Transaction.

The decrease in interest expense during the three months ended March 31, 2019 as compared to the corresponding period in 2018 was primarily attributable to the purchase of all previously outstanding PECs partially offset by larger expenses relating to higher interest rates, higher balances on the revolving credit facility in the United States, and higher balances outstanding on Cabot’s credit facilities.

Other Income and Expense

Other income and expense consists primarily of foreign currency exchange gains or losses, interest income and gains or losses recognized on certain transactions outside of our normal course of business. Other expense was \$3.0 million during the three months ended March 31, 2019 compared to other income of \$2.2 million during the three months ended March 31, 2018. The change was primarily due to foreign currency exchange losses during the three months ended March 31, 2019 versus foreign currency exchange gains during the three months ended March 31, 2018.

Income Taxes

We recorded income tax expense of \$3.7 million and \$9.5 million during the three months ended March 31, 2019 and 2018, respectively. The decrease in our income tax expense for the three months ended March 31, 2019 as compared to the corresponding period in 2018 was primarily due to the recording of a tax provision benefit of approximately \$9.1 million related to a tax accounting method change for revenue reporting approved by the Internal Revenue Service ("IRS") during the three months ended March 31, 2019.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2019 | 2018 |
| Federal provision | 21.0 % | 21.0 % |
| State provision | 2.5 % | 1.4 % |
| Change in valuation allowance | 1.9 % | 14.2 % |
| Foreign income taxed at different rates ⁽¹⁾ | (0.9)% | (7.2)% |
| Change in tax accounting method ⁽²⁾ | (17.1)% | — % |
| Other | (0.5)% | (0.9)% |
| Effective rate | 6.9 % | 28.5 % |

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

(2) During the first quarter of 2019, we received IRS approval for a tax accounting method change related to revenue reporting. The revised tax accounting method more closely aligns with our book accounting method for revenue reporting.

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

Our subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2026 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, 2019 and 2018, was immaterial.

We had gross unrecognized tax benefits, inclusive of penalties and interest, of \$19.9 million at March 31, 2019. These unrecognized tax benefits, if recognized, would result in a net tax benefit of \$13.0 million as of March 31, 2019. There were no material changes in gross unrecognized tax benefits from December 31, 2018.

Of the \$167.1 million of cash and cash equivalents as of March 31, 2019, \$127.5 million was held outside of the United States. Following the enactment of the Tax Reform Act and associated transition tax, in general, repatriation of cash to the United States can be completed with no incremental U.S. tax. However, repatriation of cash could subject us to non-U.S. jurisdictional taxes on distributions. We maintain non-U.S. funds in our foreign operations to (1) provide adequate working capital; (2) satisfy various regulatory requirements, and (3) take advantage of business expansion opportunities as they arise. The non-U.S. jurisdictional taxes applicable to foreign earnings are not readily determinable or practicable. We continue to evaluate the impact of the Tax Reform Act on our election to indefinitely reinvest certain of our non-U.S. earnings. As of March 31, 2019, management believes that we have sufficient liquidity to satisfy our cash needs, including our cash needs in the United States.

Cost per Dollar Collected

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

| | Three Months Ended March 31, | |
|-----------------------------------|---------------------------------|-------|
| | 2019 | 2018 |
| United States | 39.6% | 43.6% |
| Europe | 27.6% | 27.4% |
| Other geographies | 51.2% | 47.8% |
| Overall cost per dollar collected | 36.4% | 38.5% |

Our overall cost per dollar collected (or “cost-to-collect”) decreased 210 basis points to 36.4% for the three months ended March 31, 2019, from 38.5% during the corresponding period in the prior year.

Cost-to-collect in the United States decreased due to a combination of (1) collection mix shifting towards non-legal collection, which has lower cost-to-collect, (2) higher total collections that blended down fixed cost and reduced overall cost-to-collect, and (3) reduced cost-to-collect in the legal channel that is driven by improved court cost recovery rates, more legal collections coming from internal legal channel that has lower cost-to-collect, and legal collection mix shifting towards new legal placement batches, which have lower commission rates than older batches.

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

Non-GAAP Disclosure

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

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

Adjusted Earnings Per Share. Management uses non-GAAP adjusted net income and adjusted earnings per share attributable to Encore to assess operating performance and to highlight trends in our business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP. Adjusted net income attributable to Encore excludes non-cash interest and issuance cost amortization relating to our convertible notes and exchangeable notes, acquisition, integration and restructuring related expenses, amortization of certain acquired intangible assets and other charges or gains that are not indicative of ongoing operations.

The following table provides a reconciliation between net income and diluted earnings per share attributable to Encore calculated in accordance with GAAP, to adjusted net income and adjusted earnings per share attributable to Encore, respectively. During the periods in which GAAP diluted earnings per share includes the dilutive effect of common shares that are issuable upon conversion or exchange of certain convertible notes and exchangeable notes because the average stock price during the respective periods exceeded the conversion price or exchange price of these notes, we present those metrics both including and excluding the dilutive effect of these convertible notes and exchangeable notes to better illustrate the impact of those notes and the related hedging transactions to shareholders, with “Per Diluted Share-Accounting” and “Per Diluted Share-Economic” columns. The average stock price during the three months ended March 31, 2019 and 2018 did not exceed the conversion price of our convertible notes or the exchange price of our exchangeable notes, therefore, our GAAP diluted

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earnings per share did not include any dilutive effect attributable to our convertible notes or exchangeable notes. As a result, the adjusted earnings per diluted shares-accounting and per diluted shares-economic were the same during the respective periods presented below (*in thousands, except per share data*):

| | Three Months Ended March 31, | | | |
|---|------------------------------|---|-----------|---|
| | 2019 | | 2018 | |
| | \$ | Per Diluted Share— Accounting and Economic | \$ | Per Diluted Share— Accounting and Economic |
| GAAP net income attributable to Encore, as reported | \$ 49,254 | \$ 1.57 | \$ 21,827 | \$ 0.83 |
| Adjustments: | | | | |
| Convertible notes and exchangeable notes non-cash interest and issuance cost amortization | 4,002 | 0.13 | 3,035 | 0.12 |
| Amortization of certain acquired intangible assets ⁽¹⁾ | 1,877 | 0.06 | 2,068 | 0.08 |
| Acquisition, integration and restructuring related expenses ⁽²⁾ | 1,208 | 0.04 | 572 | 0.02 |
| Net gain on fair value adjustments to contingent consideration ⁽³⁾ | — | — | (2,274) | (0.09) |
| Expenses related to withdrawn Cabot IPO ⁽⁴⁾ | — | — | 2,984 | 0.11 |
| Adjustments attributable to noncontrolling interest ⁽⁵⁾ | — | — | (1,558) | (0.06) |
| Income tax effect of above non-GAAP adjustments and certain discrete tax items ⁽⁶⁾ | (1,383) | (0.05) | (810) | (0.03) |
| Change in tax accounting method ⁽⁷⁾ | (9,070) | (0.29) | — | — |
| Adjusted net income attributable to Encore | \$ 45,888 | \$ 1.46 | \$ 25,844 | \$ 0.98 |

- (1) As we continue to acquire debt solution service providers around the world, the acquired intangible assets, such as trade names and customer relationships, have grown substantially. These intangible assets are valued at the time of the acquisition and amortized over their estimated lives. We believe that amortization of acquisition-related intangible assets, especially the amortization of an acquired company's trade names and customer relationships, is the result of pre-acquisition activities. In addition, the amortization of these acquired intangibles is a non-cash static expense that is not affected by operations during any reporting period. As a result, the amortization of certain acquired intangible assets is excluded from our adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations per share.
- (2) Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- (3) Amount represents the net gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to the Contingent Consideration section of Note 3 "Fair Value Measurements" in the notes to our consolidated financial statements for further details.
- (4) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore, adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- (5) Certain of the above pre-tax adjustments include expenses recognized by our partially-owned subsidiaries. This adjustment represents the portion of the non-GAAP adjustments that are attributable to noncontrolling interest.
- (6) Amount represents the total income tax effect of the adjustments, which is generally calculated based on the applicable marginal tax rate of the jurisdiction in which the portion of the adjustment occurred. Additionally, we adjust for certain discrete tax items that are not indicative of our ongoing operations.
- (7) Amount represents the benefit from the tax accounting method change related to revenue reporting. We adjust for certain discrete tax items that are not indicative of our ongoing operations. Refer to Note 10: Income Taxes in the notes to our consolidated financial statements for further details.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------------|
| | 2019 | 2018 |
| GAAP net income, as reported | \$ 49,442 | \$ 23,713 |
| Adjustments: | | |
| Interest expense | 54,967 | 57,462 |
| Provision for income taxes | 3,673 | 9,470 |
| Depreciation and amortization | 9,995 | 10,436 |
| Stock-based compensation expense | 1,826 | 2,276 |
| Acquisition, integration and restructuring related expenses ⁽¹⁾ | 1,208 | 572 |
| Gain on fair value adjustments to contingent consideration ⁽²⁾ | — | (2,274) |
| Expenses related to withdrawn Cabot IPO ⁽³⁾ | — | 2,984 |
| Interest income | (1,022) | (1,017) |
| Adjusted EBITDA | <u>\$ 120,089</u> | <u>\$ 103,622</u> |
| Collections applied to principal balance ⁽⁴⁾ | \$ 201,328 | \$ 198,282 |

- (1) Amount represents acquisition, integration and restructuring related expenses (excluding amounts already included in the interest expense and stock-based compensation expense line items above). We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- (2) Amount represents the gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 3 "Fair Value Measurement - Contingent Consideration" in the notes to our consolidated financial statements for further details.
- (3) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- (4) Amount represents (a) gross collections from receivable portfolios less (b) revenue from receivable portfolios and (c) allowance charges or allowance reversals on receivable portfolios.

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Adjusted Operating Expenses. Management utilizes adjusted operating expenses in order to facilitate a comparison of approximate costs to cash collections for our portfolio purchasing and recovery business. Adjusted operating expenses for our portfolio purchasing and recovery business are calculated by starting with GAAP total operating expenses and backing out operating expenses related to non-portfolio purchasing and recovery business, acquisition, integration and restructuring related operating expenses, stock-based compensation expense, settlement fees and related administrative expenses and other charges or gains that are not indicative of ongoing operations. Adjusted operating expenses related to our portfolio purchasing and recovery business for the periods presented are as follows (*in thousands*):

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------------|
| | 2019 | 2018 |
| GAAP total operating expenses, as reported | \$ 236,019 | \$ 238,336 |
| Adjustments: | | |
| Operating expenses related to non-portfolio purchasing and recovery business ⁽¹⁾ | (46,082) | (46,614) |
| Acquisition, integration and restructuring related expenses ⁽²⁾ | (1,208) | (572) |
| Stock-based compensation expense | (1,826) | (2,276) |
| Gain on fair value adjustments to contingent consideration ⁽³⁾ | — | 2,274 |
| Expenses related to withdrawn Cabot IPO ⁽⁴⁾ | — | (2,984) |
| Adjusted operating expenses related to portfolio purchasing and recovery business | <u>\$ 186,903</u> | <u>\$ 188,164</u> |

- (1) Operating expenses related to non-portfolio purchasing and recovery business include operating expenses from other operating segments that primarily engage in fee-based business, as well as corporate overhead not related to our portfolio purchasing and recovery business.
- (2) Amount represents acquisition, integration and restructuring related operating expenses (excluding amounts already included in stock-based compensation expense). We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- (3) Amount represents the gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 3 "Fair Value Measurement - Contingent Consideration" in the notes to our consolidated financial statements for further details.
- (4) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Supplemental Performance Data

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

Our collection expectations are based on demographic data, account characteristics, and economic variables. Additional adjustments are made to account for qualitative factors that may affect the payment behavior of our consumers and servicing related adjustments to ensure our collection expectations are aligned with our operations. We continue to refine our process of forecasting collections both domestically and internationally with a focus on operational enhancements. Our collection expectations vary between types of portfolio and geographic location. For example, in the U.K., due to the higher concentration of payment plans, as compared to the U.S. and other locations in Europe, we expect to receive streams of collections over longer periods of time. As a result, past performance of pools in certain geographic locations or of certain types of portfolio are not necessarily a suitable indicator of future results in other locations or for other types of portfolio.

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

We utilize proprietary forecasting models to continuously evaluate the economic life of each pool.

Cumulative Collections to Purchase Price Multiple

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

| Year of Purchase | Purchase Price ⁽¹⁾ | Cumulative Collections through March 31, 2019 | | | | | | | | | | | | Multiple ⁽³⁾ |
|---------------------------|-------------------------------|---|------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|----------------------|-------------------------|
| | | <2010 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total ⁽²⁾ | |
| <i>United States:</i> | | | | | | | | | | | | | | |
| <2010 | \$1,403,722 | \$2,617,761 | \$478,541 | \$348,627 | \$237,650 | \$ 171,270 | \$ 124,564 | \$ 97,044 | \$ 74,026 | \$ 58,976 | \$ 48,698 | \$ 10,232 | \$ 4,267,389 | 3.0 |
| 2010 | 357,303 | — | 125,853 | 288,788 | 220,686 | 156,806 | 111,993 | 83,578 | 55,650 | 40,193 | 31,699 | 6,688 | 1,121,934 | 3.1 |
| 2011 | 383,808 | — | — | 123,596 | 301,949 | 226,521 | 155,180 | 112,906 | 77,257 | 56,287 | 41,148 | 8,524 | 1,103,368 | 2.9 |
| 2012 | 548,824 | — | — | — | 187,721 | 350,134 | 259,252 | 176,914 | 113,067 | 74,507 | 48,832 | 9,953 | 1,220,380 | 2.2 |
| 2013 | 551,946 | — | — | — | — | 230,051 | 397,646 | 298,068 | 203,386 | 147,503 | 107,399 | 22,268 | 1,406,321 | 2.5 |
| 2014 | 518,001 | — | — | — | — | — | 144,178 | 307,814 | 216,357 | 142,147 | 94,929 | 19,667 | 925,092 | 1.8 |
| 2015 | 499,713 | — | — | — | — | — | — | 105,610 | 231,102 | 186,391 | 125,673 | 24,968 | 673,744 | 1.3 |
| 2016 | 554,245 | — | — | — | — | — | — | — | 110,875 | 283,035 | 234,690 | 47,454 | 676,054 | 1.2 |
| 2017 | 529,488 | — | — | — | — | — | — | — | — | 111,902 | 315,853 | 77,294 | 505,049 | 1.0 |
| 2018 | 633,687 | — | — | — | — | — | — | — | — | — | 175,042 | 94,281 | 269,323 | 0.4 |
| 2019 | 174,111 | — | — | — | — | — | — | — | — | — | — | 8,265 | 8,265 | 0.0 |
| Subtotal | 6,154,848 | 2,617,761 | 604,394 | 761,011 | 948,006 | 1,134,782 | 1,192,813 | 1,181,934 | 1,081,720 | 1,100,941 | 1,223,963 | 329,594 | 12,176,919 | 2.0 |
| <i>Europe:</i> | | | | | | | | | | | | | | |
| 2013 | 619,079 | — | — | — | — | 134,259 | 249,307 | 212,129 | 165,610 | 146,993 | 132,663 | 30,110 | 1,071,071 | 1.7 |
| 2014 | 630,342 | — | — | — | — | — | 135,549 | 198,127 | 156,665 | 137,806 | 129,033 | 28,120 | 785,300 | 1.2 |
| 2015 | 423,301 | — | — | — | — | — | — | 65,870 | 127,084 | 103,823 | 88,065 | 19,585 | 404,427 | 1.0 |
| 2016 | 258,853 | — | — | — | — | — | — | — | 44,641 | 97,587 | 83,107 | 16,838 | 242,173 | 0.9 |
| 2017 | 464,110 | — | — | — | — | — | — | — | — | 68,111 | 152,926 | 32,302 | 253,339 | 0.5 |
| 2018 | 455,551 | — | — | — | — | — | — | — | — | — | 49,383 | 30,079 | 79,462 | 0.2 |
| 2019 | 83,640 | — | — | — | — | — | — | — | — | — | — | 3,766 | 3,766 | 0.0 |
| Subtotal | 2,934,876 | — | — | — | — | 134,259 | 384,856 | 476,126 | 494,000 | 554,320 | 635,177 | 160,800 | 2,839,538 | 1.0 |
| <i>Other geographies:</i> | | | | | | | | | | | | | | |
| 2012 | 6,721 | — | — | — | — | 3,848 | 2,561 | 1,208 | 542 | 551 | 422 | 94 | 9,226 | 1.4 |
| 2013 | 29,568 | — | — | — | — | 6,617 | 17,615 | 10,334 | 4,606 | 3,339 | 2,468 | 391 | 45,370 | 1.5 |
| 2014 | 86,989 | — | — | — | — | — | 9,652 | 16,062 | 18,403 | 9,813 | 7,991 | 1,705 | 63,626 | 0.7 |
| 2015 | 91,039 | — | — | — | — | — | — | 15,061 | 57,064 | 43,499 | 32,622 | 5,862 | 154,108 | 1.7 |
| 2016 | 79,739 | — | — | — | — | — | — | — | 29,269 | 39,710 | 28,992 | 5,084 | 103,055 | 1.3 |
| 2017 | 57,596 | — | — | — | — | — | — | — | — | 15,471 | 23,075 | 4,757 | 43,303 | 0.8 |
| 2018 | 38,457 | — | — | — | — | — | — | — | — | — | 12,910 | 5,131 | 18,041 | 0.5 |
| 2019 | 4,084 | — | — | — | — | — | — | — | — | — | — | 435 | 435 | 0.1 |
| Subtotal | 394,193 | — | — | — | — | 10,465 | 29,828 | 42,665 | 109,884 | 112,383 | 108,480 | 23,459 | 437,164 | 1.1 |
| Total | \$9,483,917 | \$2,617,761 | \$604,394 | \$761,011 | \$948,006 | \$1,279,506 | \$1,607,497 | \$1,700,725 | \$1,685,604 | \$1,767,644 | \$1,967,620 | \$513,853 | \$15,453,621 | 1.6 |

- (1) Adjusted for Put-Backs and Recalls. Put-Backs (“Put-Backs”) and recalls (“Recalls”) represent ineligible accounts that are returned by us or recalled by the seller pursuant to specific guidelines as set forth in the respective purchase agreement.
- (2) Cumulative collections from inception through March 31, 2019, excluding collections on behalf of others.
- (3) Cumulative Collections Multiple (“Multiple”) through March 31, 2019 refers to collections as a multiple of purchase price.

Total Estimated Collections to Purchase Price Multiple

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

| | Purchase Price ⁽¹⁾ | Historical Collections ⁽²⁾ | Estimated Remaining Collections | Total Estimated Gross Collections | Total Estimated Gross Collections to Purchase Price |
|---------------------------|-------------------------------|---------------------------------------|---------------------------------|-----------------------------------|---|
| <i>United States:</i> | | | | | |
| <2010 | \$ 1,403,722 | \$ 4,267,389 | \$ 88,243 | \$ 4,355,632 | 3.1 |
| 2010 | 357,303 | 1,121,934 | 54,720 | 1,176,654 | 3.3 |
| 2011 | 383,808 | 1,103,368 | 73,671 | 1,177,039 | 3.1 |
| 2012 | 548,824 | 1,220,380 | 79,188 | 1,299,568 | 2.4 |
| 2013 ⁽³⁾ | 551,946 | 1,406,321 | 144,734 | 1,551,055 | 2.8 |
| 2014 ⁽³⁾ | 518,001 | 925,092 | 162,345 | 1,087,437 | 2.1 |
| 2015 | 499,713 | 673,744 | 194,192 | 867,936 | 1.7 |
| 2016 | 554,245 | 676,054 | 386,766 | 1,062,820 | 1.9 |
| 2017 | 529,488 | 505,049 | 571,675 | 1,076,724 | 2.0 |
| 2018 | 633,687 | 269,323 | 1,074,136 | 1,343,459 | 2.1 |
| 2019 | 174,111 | 8,265 | 359,019 | 367,284 | 2.1 |
| Subtotal | 6,154,848 | 12,176,919 | 3,188,689 | 15,365,608 | 2.5 |
| <i>Europe:</i> | | | | | |
| 2013 ⁽³⁾ | 619,079 | 1,071,071 | 720,596 | 1,791,667 | 2.9 |
| 2014 ⁽³⁾ | 630,342 | 785,300 | 608,019 | 1,393,319 | 2.2 |
| 2015 ⁽³⁾ | 423,301 | 404,427 | 392,875 | 797,302 | 1.9 |
| 2016 | 258,853 | 242,173 | 375,124 | 617,297 | 2.4 |
| 2017 | 464,110 | 253,339 | 645,612 | 898,951 | 1.9 |
| 2018 | 455,551 | 79,462 | 789,770 | 869,232 | 1.9 |
| 2019 | 83,640 | 3,766 | 167,654 | 171,420 | 2.0 |
| Subtotal | 2,934,876 | 2,839,538 | 3,699,650 | 6,539,188 | 2.2 |
| <i>Other geographies:</i> | | | | | |
| 2012 | 6,721 | 9,226 | 695 | 9,921 | 1.5 |
| 2013 | 29,568 | 45,370 | 1,559 | 46,929 | 1.6 |
| 2014 | 86,989 | 63,626 | 139,290 | 202,916 | 2.3 |
| 2015 ⁽³⁾ | 91,039 | 154,108 | 61,851 | 215,959 | 2.4 |
| 2016 | 79,739 | 103,055 | 49,885 | 152,940 | 1.9 |
| 2017 | 57,596 | 43,303 | 66,147 | 109,450 | 1.9 |
| 2018 | 38,457 | 18,041 | 59,066 | 77,107 | 2.0 |
| 2019 | 4,084 | 435 | 8,847 | 9,282 | 2.3 |
| Subtotal | 394,193 | 437,164 | 387,340 | 824,504 | 2.1 |
| Total | \$ 9,483,917 | \$ 15,453,621 | \$ 7,275,679 | \$ 22,729,300 | 2.4 |

(1) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put-backs, Recalls, and other adjustments. Put-Backs and Recalls represent ineligible accounts that are returned by us or recalled by the seller pursuant to specific guidelines as set forth in the respective purchase agreement.

(2) Cumulative collections from inception through March 31, 2019, excluding collections on behalf of others.

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

Estimated Remaining Gross Collections by Year of Purchase

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

| Estimated Remaining Gross Collections by Year of Purchase ^{(1), (2)} | | | | | | | | | | | |
|---|---------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| | 2019 ⁽³⁾ | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | >2027 | Total |
| <i>United States:</i> | | | | | | | | | | | |
| <2010 | \$ 28,672 | \$ 26,377 | \$ 16,886 | \$ 10,264 | \$ 4,912 | \$ 1,132 | \$ — | \$ — | \$ — | \$ — | \$ 88,243 |
| 2010 | 14,742 | 13,965 | 9,637 | 6,771 | 4,772 | 3,369 | 1,464 | — | — | — | 54,720 |
| 2011 | 19,346 | 18,477 | 12,529 | 8,691 | 6,101 | 4,296 | 3,030 | 1,201 | — | — | 73,671 |
| 2012 | 22,654 | 19,835 | 12,558 | 8,447 | 5,922 | 4,169 | 2,940 | 2,077 | 586 | — | 79,188 |
| 2013 ⁽⁴⁾ | 52,291 | 47,291 | 21,269 | 13,768 | 5,976 | 1,539 | 1,085 | 767 | 543 | 205 | 144,734 |
| 2014 ⁽⁴⁾ | 44,917 | 42,511 | 26,682 | 17,105 | 11,124 | 7,299 | 4,935 | 3,354 | 2,287 | 2,131 | 162,345 |
| 2015 | 58,097 | 52,821 | 29,062 | 18,641 | 12,425 | 8,273 | 5,285 | 3,579 | 2,507 | 3,502 | 194,192 |
| 2016 | 112,837 | 101,942 | 60,372 | 36,157 | 24,219 | 16,889 | 11,650 | 7,851 | 5,501 | 9,348 | 386,766 |
| 2017 | 174,007 | 149,063 | 87,435 | 56,116 | 34,949 | 23,230 | 15,734 | 10,617 | 7,090 | 13,434 | 571,675 |
| 2018 | 265,225 | 311,566 | 179,755 | 112,593 | 73,928 | 48,270 | 33,910 | 24,447 | 17,553 | 6,889 | 1,074,136 |
| 2019 | 60,434 | 108,707 | 71,269 | 40,926 | 26,624 | 18,245 | 12,481 | 8,865 | 6,380 | 5,088 | 359,019 |
| Subtotal | 853,222 | 892,555 | 527,454 | 329,479 | 210,952 | 136,711 | 92,514 | 62,758 | 42,447 | 40,597 | 3,188,689 |
| <i>Europe:</i> | | | | | | | | | | | |
| 2013 ⁽⁴⁾ | 84,492 | 104,486 | 95,810 | 87,186 | 78,604 | 70,323 | 62,556 | 55,360 | 48,717 | 33,062 | 720,596 |
| 2014 ⁽⁴⁾ | 75,556 | 90,075 | 80,992 | 71,236 | 63,199 | 55,747 | 47,564 | 41,994 | 37,158 | 44,498 | 608,019 |
| 2015 ⁽⁴⁾ | 51,868 | 58,764 | 50,722 | 44,209 | 38,515 | 33,230 | 28,057 | 23,807 | 20,661 | 43,042 | 392,875 |
| 2016 | 45,229 | 62,462 | 57,855 | 42,406 | 33,022 | 27,608 | 24,998 | 30,101 | 14,827 | 36,616 | 375,124 |
| 2017 | 91,417 | 100,359 | 86,205 | 72,677 | 60,994 | 51,590 | 43,172 | 35,231 | 28,248 | 75,719 | 645,612 |
| 2018 | 97,465 | 128,153 | 103,132 | 85,638 | 70,667 | 61,667 | 53,048 | 45,581 | 38,698 | 105,721 | 789,770 |
| 2019 | 19,092 | 26,192 | 21,579 | 18,066 | 15,066 | 12,501 | 10,592 | 9,129 | 7,788 | 27,649 | 167,654 |
| Subtotal | 465,119 | 570,491 | 496,295 | 421,418 | 360,067 | 312,666 | 269,987 | 241,203 | 196,097 | 366,307 | 3,699,650 |
| <i>Other geographies:</i> | | | | | | | | | | | |
| 2012 | 198 | 212 | 178 | 107 | — | — | — | — | — | — | 695 |
| 2013 | 593 | 528 | 373 | 63 | 2 | — | — | — | — | — | 1,559 |
| 2014 | 10,276 | 25,419 | 34,384 | 32,757 | 23,029 | 13,425 | — | — | — | — | 139,290 |
| 2015 ⁽⁴⁾ | 15,616 | 15,484 | 11,089 | 8,108 | 5,686 | 3,450 | 2,338 | 80 | — | — | 61,851 |
| 2016 | 13,068 | 13,323 | 9,577 | 6,458 | 3,283 | 2,072 | 1,496 | 608 | — | — | 49,885 |
| 2017 | 12,339 | 13,741 | 12,136 | 11,129 | 9,348 | 4,591 | 1,628 | 933 | 302 | — | 66,147 |
| 2018 | 13,376 | 14,199 | 10,355 | 7,557 | 5,388 | 3,366 | 2,039 | 1,424 | 992 | 370 | 59,066 |
| 2019 | 2,271 | 1,899 | 1,341 | 993 | 742 | 541 | 392 | 286 | 210 | 172 | 8,847 |
| Subtotal | 67,737 | 84,805 | 79,433 | 67,172 | 47,478 | 27,445 | 7,893 | 3,331 | 1,504 | 542 | 387,340 |
| Total | \$ 1,386,078 | \$ 1,547,851 | \$ 1,103,182 | \$ 818,069 | \$ 618,497 | \$ 476,822 | \$ 370,394 | \$ 307,292 | \$ 240,048 | \$ 407,446 | \$ 7,275,679 |

- (1) ERC for Zero Basis Portfolios can extend beyond our collection forecasts. As of March 31, 2019, ERC for Zero Basis Portfolios include approximately \$213.8 million for purchased consumer and bankruptcy receivables in the United States. ERC for Zero Basis Portfolios in Europe and other geographies was immaterial.
- (2) The collection forecast of each pool in the calculation of accretion revenue is generally estimated up to 120 months in the United States and up to 180 months in Europe. Expected collections beyond the 120 month collection forecast in the United States are included in the presentation of ERC but are not included in the calculation of IRRs.
- (3) 2019 amount consists of nine months data from April 1, 2019 to December 31, 2019.
- (4) Includes portfolios acquired in connection with certain business combinations.

Unamortized Balances of Portfolios

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

| | Unamortized Balance as of March 31, 2019 | Purchase Price ⁽¹⁾ | Unamortized Balance as a Percentage of Purchase Price | Unamortized Balance as a Percentage of Total |
|---------------------------|--|----------------------------------|--|---|
| <i>United States:</i> | | | | |
| 2011 | \$ 2,422 | \$ 383,808 | 0.6% | 0.1% |
| 2012 | 8,994 | 548,824 | 1.6% | 0.3% |
| 2013 ⁽²⁾ | 22,838 | 551,946 | 4.1% | 0.7% |
| 2014 ⁽²⁾ | 65,813 | 518,001 | 12.7% | 2.0% |
| 2015 | 109,436 | 499,713 | 21.9% | 3.4% |
| 2016 | 208,176 | 554,245 | 37.6% | 6.5% |
| 2017 | 279,667 | 529,488 | 52.8% | 8.7% |
| 2018 | 527,432 | 633,687 | 83.2% | 16.4% |
| 2019 | 171,684 | 174,111 | 98.6% | 5.3% |
| Subtotal | 1,396,462 | 4,393,823 | 31.8% | 43.4% |
| <i>Europe:</i> | | | | |
| 2013 ⁽²⁾ | 247,509 | 619,079 | 40.0% | 7.7% |
| 2014 ⁽²⁾ | 228,433 | 630,342 | 36.2% | 7.1% |
| 2015 ⁽²⁾ | 177,460 | 423,301 | 41.9% | 5.5% |
| 2016 | 157,254 | 258,853 | 60.8% | 4.9% |
| 2017 | 333,760 | 464,110 | 71.9% | 10.4% |
| 2018 | 418,012 | 455,551 | 91.8% | 13.0% |
| 2019 | 83,741 | 83,640 | 100.1% | 2.6% |
| Subtotal | 1,646,169 | 2,934,876 | 56.1% | 51.3% |
| <i>Other geographies:</i> | | | | |
| 2014 | 64,928 | 86,989 | 74.6% | 2.0% |
| 2015 ⁽²⁾ | 18,667 | 91,039 | 20.5% | 0.6% |
| 2016 | 24,867 | 79,739 | 31.2% | 0.8% |
| 2017 | 30,071 | 57,596 | 52.2% | 0.9% |
| 2018 | 26,284 | 38,457 | 68.3% | 0.8% |
| 2019 | 4,139 | 4,084 | 101.3% | 0.1% |
| Subtotal | 168,956 | 357,904 | 47.2% | 5.3% |
| Total | \$ 3,211,587 | \$ 7,686,603 | 41.8% | 100.0% |

(1) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put-backs, Recalls, and other adjustments. Put-Backs and Recalls represent ineligible accounts that are returned by us or recalled by the seller pursuant to specific guidelines as set forth in the respective purchase agreements.

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

Estimated Future Amortization of Portfolios

As of March 31, 2019, we had \$3.2 billion in investment in receivable portfolios. This balance will be amortized based upon current projections of cash collections in excess of revenue applied to the principal balance. The estimated amortization of the investment in receivable portfolios balance is as follows (in thousands):

| Years Ending December 31, | United States | Europe | Other Geographies | Total Amortization |
|---------------------------|---------------------|---------------------|-------------------|---------------------|
| 2019 ⁽¹⁾ | \$ 328,009 | \$ 154,478 | \$ 12,073 | \$ 494,560 |
| 2020 | 420,429 | 215,185 | 24,766 | 660,380 |
| 2021 | 243,238 | 198,936 | 34,837 | 477,011 |
| 2022 | 145,922 | 170,392 | 37,570 | 353,884 |
| 2023 | 94,493 | 147,502 | 30,955 | 272,950 |
| 2024 | 62,266 | 135,678 | 20,015 | 217,959 |
| 2025 | 42,289 | 124,984 | 5,068 | 172,341 |
| 2026 | 29,837 | 122,488 | 2,198 | 154,523 |
| 2027 | 19,992 | 115,133 | 1,029 | 136,154 |
| 2028 | 9,444 | 105,449 | 434 | 115,327 |
| 2029 | 543 | 56,747 | 11 | 57,301 |
| 2030 | — | 39,431 | — | 39,431 |
| 2031 | — | 28,104 | — | 28,104 |
| 2032 | — | 20,917 | — | 20,917 |
| 2033 | — | 10,162 | — | 10,162 |
| 2034 | — | 583 | — | 583 |
| Total | \$ 1,396,462 | \$ 1,646,169 | \$ 168,956 | \$ 3,211,587 |

(1) 2019 amount consists of nine months data from April 1, 2019 to December 31, 2019.

Headcount by Function by Geographic Location

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

| | Headcount as of March 31, | | | |
|--------------------------|---------------------------|---------------|--------------|------------------------------|
| | 2019 | | 2018 | |
| | Domestic | International | Domestic | International ⁽¹⁾ |
| General & Administrative | 1,097 | 2,402 | 970 | 2,725 |
| Account Manager | 495 | 3,941 | 446 | 4,367 |
| Total | 1,592 | 6,343 | 1,416 | 7,092 |

(1) Headcount as of March 31, 2018 includes 272 general and administrative and 477 account manager Refinancia employees.

Purchases by Quarter

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

| Quarter | # of Accounts | Face Value | Purchase Price |
|---------|---------------|--------------|----------------|
| Q1 2017 | 807 | \$ 1,657,393 | \$ 218,727 |
| Q2 2017 | 1,347 | 2,441,909 | 246,415 |
| Q3 2017 | 1,010 | 3,018,072 | 292,332 |
| Q4 2017 | 1,434 | 2,985,978 | 300,761 |
| Q1 2018 | 973 | 1,799,804 | 276,762 |
| Q2 2018 | 1,031 | 2,870,456 | 359,580 |
| Q3 2018 | 706 | 1,559,241 | 248,691 |
| Q4 2018 | 766 | 2,272,113 | 246,865 |
| Q1 2019 | 854 | 1,732,977 | 262,335 |

Liquidity and Capital Resources

Liquidity

The following table summarizes our cash flow activities for the periods presented (*in thousands*):

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2019 | 2018 |
| | (Unaudited) | |
| Net cash provided by operating activities | \$ 10,991 | \$ 1,029 |
| Net cash used in investing activities | (69,514) | (84,488) |
| Net cash provided by financing activities | 71,547 | 84,638 |

Operating Cash Flows

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

Net cash provided by operating activities was \$11.0 million and \$1.0 million during the three months ended March 31, 2019 and 2018, respectively. Cash provided by operating activities is affected by net income, various non-cash add backs in operating activities, including portfolio allowance reversals, and changes in operating assets and liabilities. The primary drivers of the change in operating cash flow included net income, interest expense, and various changes in operating assets and liabilities. Prepaid income tax and income taxes payable consumed \$30.2 million and \$2.2 million during the three months ended March 31, 2019 and March 31, 2018, respectively, while accounts payable, accrued liabilities and other liabilities consumed \$67.8 million and \$35.5 million during the three months ended March 31, 2019 and March 31, 2018, respectively.

Investing Cash Flows

Net cash used in investing activities was \$69.5 million and \$84.5 million during the three months ended March 31, 2019 and 2018, respectively. Cash used in investing activities is primarily affected by receivable portfolio purchases offset by collection proceeds applied to the principal of our receivable portfolios. Receivable portfolio purchases were \$258.6 million and \$280.9 million during the three months ended March 31, 2019 and 2018, respectively. Collection proceeds applied to the principal of our receivable portfolios were \$201.3 million and \$206.4 million during the three months ended March 31, 2019 and 2018, respectively. Capital expenditures for fixed assets acquired with internal cash flows were \$10.2 million and \$11.2 million for the three months ended March 31, 2019 and 2018, respectively.

Financing Cash Flows

Net cash provided by financing activities was \$71.5 million and \$84.6 million during the three months ended March 31, 2019 and 2018, respectively. Cash provided by financing activities is generally affected by borrowings under our credit facilities and proceeds from various debt offering, offset by repayments of amounts outstanding under our credit facilities and repayments of various notes. Borrowings under our credit facilities were \$196.3 million and \$177.4 million during the three months ended March 31, 2019 and 2018, respectively. Repayments of amounts outstanding under our credit facilities were \$119.9 million and \$87.4 million during the three months ended March 31, 2019 and 2018, respectively.

Capital Resources

Historically, we have met our cash requirements by utilizing our cash flows from operations, bank borrowings, debt offerings, and equity offerings. From time to time, depending on the capital markets, we consider additional financings to fund our operations and acquisitions. We continue to explore possible synergies with respect to Cabot, including in connection with potential debt financing options. From time to time, we may repurchase outstanding debt or equity and/or restructure or refinance current debt obligations. Our primary cash requirements have included the purchase of receivable portfolios, entity acquisitions, operating expenses, the payment of interest and principal on borrowings, and the payment of income taxes.

We have a revolving credit facility (the “Revolving Credit Facility”) and term loan facility (the “Term Loan Facility”, and together with the Revolving Credit Facility, the “Senior Secured Credit Facilities”) pursuant to a Third Amended and Restated Credit Agreement dated December 20, 2016 (as amended, the “Restated Credit Agreement”). The Senior Secured Credit Facilities have a five-year maturity, expiring in December 2021. As of March 31, 2019, we had \$500.0 million outstanding and \$138.8 million of availability under the Revolving Credit Facility and \$183.1 million outstanding under the Term Loan Facility.

Through Cabot, we have a revolving credit facility of £385.0 million (approximately \$501.8 million) (the “Cabot Credit Facility”). As of March 31, 2019, we had £245.2 million (approximately \$319.8 million) outstanding and £139.8 million (approximately \$182.2 million) of availability under the Cabot Credit Facility.

In August 2018, we established an at-the-market equity offering program (the “ATM Program”) pursuant to which we may issue and sell shares of Encore’s common stock having an aggregate offering price of \$50.0 million in amounts and at times as we determine from time to time. During the three months ended March 31, 2019, we did not issue any shares under our ATM Program.

We have no obligation to sell any of such shares under our ATM Program. Actual sales will depend on a variety of factors to be determined by the Company from time to time, including, among others, market conditions, the trading price of our common stock, our determination of the appropriate sources of funding for the Company, and potential uses of funding available to us. We intend to use the net proceeds from the offering of such shares, if any, for general corporate purposes, which could include repayments of our credit facilities from time to time.

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

We are in compliance with all covenants under our financing arrangements. See Note 8, “Debt, net” to our consolidated financial statements for a further discussion of our debt.

Our cash and cash equivalents at March 31, 2019 consisted of \$39.6 million held by U.S.-based entities and \$127.5 million held by foreign entities. Most of our cash and cash equivalents held by foreign entities is indefinitely reinvested and may be subject to material tax effects if repatriated. However, we believe that our U.S. sources of cash and liquidity are sufficient to meet our business needs in the United States and do not expect that we will need to repatriate the funds.

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

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rates. At March 31, 2019, there had not been a material change in any of the foreign currency risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Interest Rates. At March 31, 2019, there had not been a material change in the interest rate risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Item 4 – Controls and Procedures

Attached as exhibits to this Form 10-Q are the certifications required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended. This section includes information concerning the controls and controls evaluation referred to in the certifications.

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

Information with respect to this item may be found in Note 12, “Commitments and Contingencies,” to the consolidated financial statements.

Item 1A – Risk Factors

There is no material change in the information reported under “Part I-Item 1A-Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Item 6 – Exhibits

| Number | Description |
|---------------|---|
| 3.1 | Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Company’s Registration Statement on Form S-1/A filed on June 14, 1999, File No. 333-77483) |
| 3.2 | Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on April 4, 2002, File No. 000-26489) |
| 3.3 | Bylaws, as amended through February 8, 2011 (incorporated by reference to Exhibit 3.3 to the Company’s Annual Report on Form 10-K filed on February 14, 2011) |
| 10.1+ | Executive Service Agreement, dated February 10, 2014, between Cabot Credit Management Limited and Kenneth John Stannard (filed herewith) |
| 10.2+ | Letter Agreement, dated July 23, 2018, between Cabot Credit Management Limited and Kenneth John Stannard (filed herewith) |
| 31.1 | Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 101.INS | XBRL Instance Document (filed herewith) |
| 101.SCH | XBRL Taxonomy Extension Schema Document (filed herewith) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith) |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document (filed herewith) |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (filed herewith) |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith) |

+ Management contract or compensatory plan or arrangement.

Executive Service Agreement

between

Cabot Credit Management Limited
as the Company

and

Kenneth John Stannard

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THIS DEED OF AGREEMENT is dated 10 February 2014 and made BETWEEN:

- (1) **CABOT CREDIT MANAGEMENT LIMITED**, (the “Company”), registered in England and Wales as company number 5754978 and having its registered office at 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4AU; and
- (2) **KENNETH JOHN STANNARD**, of ## ##### Road, London, SW4 9EW.

THE PARTIES AGREE THAT:

1. Interpretation

1.1 In this Agreement, where the context admits:

“Affiliate” means, in respect of any undertaking, an undertaking which is its subsidiary undertaking or parent undertaking, or an undertaking which is a subsidiary undertaking of that parent undertaking.

“the Board” means the Board of Directors of the Company or the Directors present at a duly convened meeting of the Directors at which a quorum is present and acting throughout or, where the context so requires, such person or committee nominated by them.

“the Business” means (taken together) the business of the Company and the business of any other Group Company with which you are required by the Board under clause 3 to be concerned.

“Confidential Information” means confidential information (which may include commercially sensitive information) important to and relating to the business of the Company or any Group Company or the Investors or any suppliers, customers or clients thereof or their affairs and which includes but is not limited to business secrets, business methods, methods of manufacture, prices, details of commercial arrangements, accounts, dealings, transactions, projected plans, and unpublished information relating to the business affairs of the Company or any Group Company.

“Effective Date” means the date of the top of this Agreement.

“Group Company” means any company which is from time to time a holding company (as defined by Section 1159 of the Companies Act 2006) of the Company, a subsidiary (as so defined) of the Company or a subsidiary of a holding company (as so defined) of the Company and the term “Group” shall mean the Company and each Group Company.

“month” means a calendar month.

“Investors” has the meaning given to such term in the investment agreement between the parties named therein relating to their investment in Cabot Holdings S.ar.l.

“Permitted Interest” means an interest in any class of shares or other securities of the Company or other member of the Group and/or any company which are traded on a recognised investment exchange which amount to not more than 3% of such class of issued shares or securities and an interest in any units of any authorised unit trust.

“Relevant Date” means the date of your termination of employment or, if sooner, the date prior to termination of your employment on which the Company, in exercising its rights under the provisions of clause 2.3, suspends you from performance of your duties for a period immediately prior to the termination of your employment.

“Relevant Period” means the period of 12 months before the Relevant Date.

“Restricted Business” means the business of debt and receivables purchasing and related collections activity, third party debt collection services and activities ancillary to all the foregoing carried on by the Company and/or any Group Company during Relevant Period and in which you have been either

been: (a) actively engaged or involved during that period; or (b) privy to confidential information during that period.

“Restricted Client” means any person who, on the date of termination of your employment or at any time during the Restricted Period, was a person or entity from whom or which the Company or any Group Company purchased debt or was otherwise a client or customer of the Company or any Group Company and with whom you have either: (a) had business dealings during the Relevant Period; or (b) been privy to confidential information during the Relevant Period.

“Restricted Employee” means any employee, consultant or director of the Company or any Group Company who is or was during the Restricted Period employed, engaged or appointed either: (a) in a senior capacity; (b) in a professional capacity; or (c) in a capacity in which he has access to or obtained Confidential Information, and (in each case) in respect of whom you were in possession of confidential information or had supervisory responsibility during the Restricted Period.

“Restricted Territory” means England, Scotland, Wales, Northern Ireland, the Republic of Ireland and any other territory in which the Company or any Group Company conducts or has plans to conduct a Restricted Business at the Relevant Date or in the Relevant Period and in relation to which other territory you are either: (a) materially involved; or (b) privy to Confidential Information.

“Restricted Potential Client” means any person who, on the date of termination of your employment or at any time during the Restricted Period, was a person or entity from whom or which the Company or any Group Company was in negotiations to purchase debt or to otherwise become a client or customer of the Company or any Group Company and with whom you shall have either (a) had business dealings during the Relevant Period; or (b) been privy to confidential information during the Relevant Period.

“Trade Secrets” means trade secrets, and information of such a highly confidential nature as to require the same protection as trade secrets, of the Company or any Group Company or any clients thereof, including information which falls into the following categories:

- data in, the sources of data in and methodologies employed in the pricing model used to evaluate debt portfolios (both those owned by the Group and those the Group is considering buying);
- algorithms and scorecards employed in the Groups’ decision and collection strategy definition process; and
- any programming codes that drive the Company’s or any Group Company’s operational collection systems.

1.2 In this Agreement where the context admits:

- (A) words and phrases the definitions of which are contained or referred to in Schedule 8 of the Companies Act 2006 shall have the meanings given to them in that Act;
 - (B) references to any statute or statutory provisions include a reference to those provisions as amended or re-enacted or as their application is modified by other provisions from time to time and any reference to a statutory provision shall include any subordinate legislation made from time to time under that provision;
 - (C) references to a “person” include any individual, company, body corporate, corporation sole or aggregate, government, state or agency of a state, firm, partnership, joint venture, association, organisation or trust (in each case, whether or not having separate legal personality and irrespective of the jurisdiction in or under the law of which it was incorporated or exists) and a reference to any of them shall include a reference to the others;
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- (D) any reference to “writing” shall include typewriting, printing, lithography, photography, telex, facsimile and the printed out version of a communication by electronic mail and other modes of representing or reproducing words in a legible form;
- (E) words denoting the singular shall include the plural and vice versa;
- (F) your employment are references to your employment by the Company whether or not during the continuance of this Agreement; and
- (G) the masculine gender shall be deemed to include the feminine gender.

1.3 In the event of any conflict between the terms of this Agreement and any other document recording or purporting to record the terms of your employment by the Company, the terms of this Agreement shall prevail.

2. Appointment

2.1 The Company hereby appoints you and you agree to serve the Company and any other Group Company or Group Companies as required by the Board, in the capacity of Chief Executive Officer or in such other capacity of commensurate status as the Board may, from time to time, determine as at and with effect from, the Effective Date, continuing thereafter (subject to termination as hereinafter provided) unless and until terminated by either party giving to the other not less than 12 months’ notice in writing..

2.2 You warrant that, in entering into this Agreement and performing your obligations under it, you will not be in breach of any terms or obligations under any agreement with any third party.

2.3 You agree that during any period after either party has served notice of termination or in relation to any period during which you are suspended:

- (A) the Board may, in its absolute discretion, require you not to render all or any of your duties under this Agreement and/or exclude you from any premises of the Company or of any Group Company (without providing any reason therefor); and
- (B) require you not to have any contact with customers or clients or suppliers of the Company or any Group Company nor any contact (other than purely social contact) with such employees of the Company or any Group Company as the Company shall determine;
- (C) require you to resign as a director of the Company or any Group Company (without providing any reason for doing so);
- (D) require you to take any accrued holiday due to you;
- (E) appoint another person to perform your responsibilities jointly with you or in your place;
- (F) you shall remain an employee of the Company and shall otherwise remain bound by the terms of the Appointment including your duty of fidelity and your obligations under clause 12; and
- (G) such action taken by the Company shall not constitute a breach of this Agreement of any kind whatsoever in respect of which you have any claim against the Company,

provided always that throughout the period of any such action your salary and other contractual benefits (except for bonus) shall not cease to be payable by reason thereof (unless and until this Agreement shall be terminated).

2.4 Your period of continuous service for the purposes of the Employment Rights Act 1996 commenced on 10 June 2012.

3. Duties and Powers

- 3.1 You shall exercise such powers, perform such duties (if any) and comply with such policies and directions in relation to the business of the Company or any other Group Company as the Board or any person authorised by the Board for the purpose may, from time to time, confer upon or assign or give to you.
- 3.2 You shall, during the continuance of this Agreement (unless prevented by ill health or accident or as otherwise agreed by the Board in writing), devote the whole of your time and attention and abilities to the Business and shall use your best endeavours to promote and protect the general interests and welfare of the Company, the Group and any other Group Company to which you may from time to time render your services under this Agreement.
- 3.3 You shall keep the Company properly informed of all matters that may materially affect the present or future business of the Company or any Group Company, including, *inter alia*:
- (A) any wrongdoing (including your own) of which he is aware;
 - (B) plans by any employee to leave the Company, whether alone or in concert with other employees, and whether to join or establish a competitor or any other business; or
 - (C) any misuse of Confidential Information or Trade Secrets by any employee.
- 3.4 You will comply with your fiduciary and statutory duties as a director.
- 3.5 You shall work normal business hours which are 09:00 to 17:30 Monday to Friday inclusive and such additional hours as may be necessary in the performance of your duties and powers under this Agreement. You will not be paid overtime in respect of any hours worked outside normal business hours.
- 3.6 You consent to opt out of the limit on weekly working hours contained in Regulation 4 of The Working Time Regulations 1998. The parties agree that your consent, for the purposes of this clause, shall continue indefinitely provided that you may withdraw such consent at any time by giving the Company three months' notice of your wish to do so.

4. Mobility

- 4.1 Your principal place of work is the Company's office in Central London but may be in such place or places as the Company or any Group Company shall reasonably require.
- 4.2 You may be required to travel both inside and outside the United Kingdom on the business of the Company or any Group Company on the occasions and as otherwise reasonably required by the Board.

5. Remuneration

- 5.1 Your annual salary is £333,000 and will be paid monthly in arrears on or before the last day of each month (or such other date or dates as shall be fixed by the Board from time to time). It will be deemed to accrue from day to day and includes director's fees payable to you.
- 5.2 Your salary under clause 5.1 will be subject to review in accordance with the Company's practice from time to time (the Company intends to establish a remuneration committee to review salaries and bonuses within 4 weeks of the completion of the Company's annual management accounts) but the Company will be under no obligation to increase such salary.
- 5.3 The Board may at its absolute discretion pay additional remuneration to you, whether by way of bonus or otherwise, but any such additional payments shall not form part of your salary for the purposes of clause 5.1.
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5.4 The following bonus arrangements shall apply:

- (A) You will be entitled to be considered for a bonus of an amount to be determined by the Company up to a maximum of 60% of your basic salary. The amount of the bonus payable to you (if any) shall be determined by the Company by reference to such corporate and/or personal target(s) and other conditions as the Company shall determine in its absolute discretion. Such targets and conditions will usually be communicated within 30 days of the commencement of each financial year or 30 days from the date of this Agreement in the case of the first financial year.
- (B) Payment of any bonus shall be made on such date as the Company shall pay bonuses to its similarly situated employees and usually by the end of the first calendar month immediately following the end of the relevant financial year.
- (C) If on the payment date you are under suspension for a disciplinary matter which results or could result in your dismissal for gross misconduct no bonus shall be payable.
- (D) Any entitlement to bonus will be reduced pro-rata (by such amount as determined by the Company) by reference to any period for which you have been absent from work for any reason during the period to which the bonus relates.
- (E) The bonus under this clause will not be paid if at the end of the financial year to which it relates you are no longer in the Company's employment or have given or been given notice of termination.
- (F) Receipt of a bonus in one year will not entitle you to a bonus in any other year. Whether or not any target has been met and, if so, whether to pay a bonus shall be determined by the Company in its absolute discretion.

6. Expenses

6.1 The Company shall pay or refund or procure to be paid or refunded to you monthly in arrears all reasonable travelling, entertainment and other similar out of pocket expenses necessarily and wholly incurred by you in the proper performance of your duties provided that you produce such evidence of such expenses as the Company may reasonably require.

7. Company Car Allowance and Other Benefits

7.1 The Company shall pay you an allowance (the "Car Allowance") equal to £20,000.00 per annum payable in arrears by equal monthly instalments on or before the last day of each month (or such other date or dates as shall be fixed by the Board from time to time) and which shall be deemed to accrue from day to day. For the avoidance of doubt the Car Allowance shall not be considered to be salary for the purposes of this Agreement and shall be conditional upon you holding a valid driver's licence and having available at all times a suitable motor car.

7.2 The Company will pay you such sum per mile as may be recommended by Her Majesty's Revenue and Customs (or its successor) guidelines from time to time in respect of the use by you of such motor car in the performance of your duties hereunder. You will be responsible for all insurances, road fund license, fuel costs, maintenance and/or repair costs and for any fines or parking tickets incurred by you.

7.3 You will receive an annual cash allowance of up to £2,280.00 in respect of family gym membership, subject to terms and you providing satisfactory proof of membership.

8. Holidays

8.1 The Company's holiday year commences on 01 January and expires on 31 December (the "Holiday Year").

- 8.2 In addition to statutory and bank holidays, your annual paid holiday entitlement in each Holiday Year will be 30 days. Save in accordance with clause 8.3 below holiday must be taken in the Holiday Year in which it accrues and must be taken at times approved in advance by the Board.
- 8.3 If you have been unable to take all of your accrued holiday entitlement in the relevant Holiday Year then you may carry over a maximum of 5 accrued but unused holiday days into the next Holiday Year provided that they are used by 28 February in that next Holiday Year (after which point they will expire without notice or payment in lieu). Any unused but accrued holiday not taken by the end of the applicable Holiday Year in excess of 5 days may not be carried over and expires without notice or payment in lieu, save if authorised in writing by the Board.
- 8.4 Upon termination of this Agreement you shall be entitled to payment in lieu of any untaken outstanding holiday entitlement in the Holiday Year during which your employment terminates.
- 8.5 Upon termination of your employment under this Agreement, the Company shall be entitled to deduct from any sum owed by the Company to you a sum representing overpayment of salary with respect to holiday which you have taken in excess of your accrued holiday entitlement and you hereby authorise the Company pursuant to the Employment Rights Act 1996 to make such deduction.
- 8.6 Payments in lieu of or deductions with respect to holidays shall be calculated as 1/260th of your salary for each day's holiday.

9. Sickness and Incapacity

- 9.1 Subject to clause 9.2 when you are absent from work and unable to perform your duties under this Agreement satisfactorily by reason of any injury, illness or other reason satisfactory to the Company, you shall be entitled to receive your salary and other benefits ("Contractual Sick Pay and Benefits") for up to 180 days during any such absence in any period of 12 consecutive months. During any such absence the benefits (if any) to which you are entitled under the Company's pension scheme will be subject to the terms of the trust deed and rules governing the Company's pension scheme from time to time including, without limitation, any powers of alteration and discontinuance.
- 9.2 Once you have been absent for 180 days in any period of 12 consecutive months you shall have no entitlement to any further Contractual Sick Pay and Benefits (including without limitation the entitlement to a Car allowance and pension contribution or equivalent cash allowance) under this clause until after you have returned to work and remained at work for 170 days. Any delay by the Company in terminating the provision of salary or benefits shall not constitute a waiver of its right to do so.
- 9.3 Once you have exhausted your entitlement to salary and other benefits under clause 9.1, you shall receive such benefits as are available to you under the provisions, from time to time in force, of any permanent health insurance scheme of the Company or, if no such benefits are available, you shall receive such sum or sums as the Board may, in its absolute discretion, decide.
- 9.4 Any salary payable pursuant to this clause will be adjusted by the amount of any benefit or statutory sick pay to which you may be entitled during the period of such inability under any National Insurance scheme, statutory sick pay or permanent health insurance scheme.
- 9.5 You shall submit yourself to a medical examination by a doctor appointed by the Company at the request of the Board, at the expense of the Company, at any time during the continuance of this Agreement, whether or not you are absent by reason of sickness, injury or other incapacity. Subject to compliance by the Company with the Access to Medical Reports Act 1988 (if applicable) you hereby authorise the Company pursuant to the Access to Medical Reports Act 1988 to have unconditional access to any report or reports (including copies) prepared as a result of any such examination as the Board may from time to time require.
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10. Pension

- 10.1 You may be a member of the Company's pension scheme ("the Scheme") subject to the terms of the trust deed and rules governing the Scheme from time to time, including, without limitation, any powers of alteration and discontinuance. Your membership of the Scheme shall be in substitution for and shall operate to the exclusion of, any agreement or representation whether written or oral in relation to pension entitlement made with or to you by any person on behalf of the Company or any Group Company at any time. There is no contracting out certificate in force with respect to your employment pursuant to this Agreement.
- 10.2 The Company confirms that it will make an annual Company contribution of 15% of your basic salary to the Company pension scheme.

11. Private Health Insurance and Other Insurance

- 11.1 The Company shall, during the continuance of your employment under this Agreement, pay all premiums and make all necessary payments to provide you, your spouse and immediate family with private medical insurance under the provisions of the Company's medical insurance schemes as, subject as further provided below in this clause 11.1, the Board may from time to time, in its absolute discretion, determine (having regard amongst other things to the cost of funding of any such scheme or schemes) and of which you are or may become a member during the continuance of your employment on the terms from time to time set out in the rules and terms of such schemes as may from time to time be issued by the Company. The medical insurance cover provided under this clause 11.1 is currently BUPA Executive Cover Scale A.
- 11.2 Subject as provided in clause 11.3, the Company shall, during the continuance of your employment under this Agreement pay all premiums and make all necessary payments to provide you with permanent health insurance and life cover or other similar cover under the provisions of the Company's permanent life insurance, life cover or other insurance schemes as the Board may from time to time, in its absolute discretion, determine (having regard amongst other things to the cost of funding of any such scheme or schemes) and of which you are or may become a member during the continuance of your employment on the terms from time to time set out in the rules and terms of such schemes as may from time to time be issued by the Company.
- 11.3 Your right to participate in the schemes in set out in this clause are subject to:
- (A) the rules and the terms of such schemes from time to time in force;
 - (B) the Company's absolute discretion to change schemes and/or scheme providers and/or discontinue to provide the benefit in question if they are not available for the you or your family or not available at a cost the Company considers reasonable; and
 - (C) you satisfying any underwriting or other requirements of the relevant scheme provider and the premium being at a rate which the Company considers reasonable.
- 11.4 You shall cooperate with the Company and the relevant scheme provider when making any claim.
- 11.5 The Company has no obligation to pursue any claim for benefits your behalf or on behalf of your dependents if it is not accepted by the scheme provider in question.
- 11.6 The Company will have no liability to you or your dependants for failure or refusal by the relevant scheme provider for whatever reason to pay benefits or for cessation of benefits on termination of your employment and is entitled to terminate your employment notwithstanding the fact that you may thereby lose entitlement to benefits under these arrangements.
- 11.7 You are not contractually entitled to any other benefit which you may enjoy from time to time.
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12. Exclusive Service

- 12.1 During the continuance of this Agreement, you shall not without the prior written consent of the Board, either as principal, servant or agent, carry on or be engaged, concerned or interested directly or indirectly (whether alone or on your own behalf or on behalf of or in association or conjunction with any other person and whether as an employee or in any other capacity) in any trade, business or occupation whatsoever other than that of the Company or of any other Group Company otherwise than as a holder for investment purposes only of any:
- (A) investment pertaining to a company whose shares or other capital are listed on, or dealt in on or under the rules of:
 - (1) an investment exchange, including any market comprised within such exchange, which is the subject of a recognition order made in accordance with section 290(1)(a) Financial Services and Markets Act 2000; or
 - (2) a regulated market to which Article 36(2) of the Financial Services and Markets Act 2000 (Exemption) Order 2001 (SI 2001/1201) applies; or
 - (B) shares or other capital comprising not more than 1% of the issued capital of any company which is not listed or dealt in on any such investment exchange as referred to above and which does not compete with any Group Company.

13. Inventions, Designs, Copyright and other Intellectual Property

- 13.1 In this clause, the term "Intellectual Property" means all intellectual and industrial property and all rights therein including, without limiting the generality of the foregoing, all inventions (whether patentable or not, and whether or not patent protection has been applied for or granted), improvements, developments, discoveries, proprietary information, trade marks, trade mark applications, trade names, websites, Internet domain names, logos, art work, slogans, know-how, technical information, trade secrets, processes, designs (whether or not registrable and whether or not design rights subsist in them), utility models, works in which copyright may subsist (including computer software and preparatory and design materials therefor), topography rights and all works protected by rights or forms of protection of a similar nature or having equivalent effect anywhere in the world.
- 13.2 Subject to the provisions of the Patents Act 1977, the Registered Designs Act 1949 and the Copyright Designs and Patents Act 1988, if at any time in the course of, or in connection with, your employment under this Agreement you make or discover or participate in the making or discovery of any Intellectual Property directly or indirectly relating to or capable of being used in the business carried on by the Company or by any Group Company, full details of the Intellectual Property shall immediately be disclosed in writing by you to the Company and the Intellectual Property shall be the absolute property of the Company. To the extent that any such Intellectual Property does not otherwise vest in the Company you hereby assign the same to the Company. At the request and expense of the Company, you shall give and supply all such information, data, drawings and assistance as may be necessary or in the opinion of the Company desirable to enable the Company to exploit the Intellectual Property to the best advantage (as decided by the Company), and shall execute all documents and do all things which may be necessary or in the opinion of the Company desirable for obtaining patent or other protection for the Intellectual Property in such parts of the world as may be specified by the Company and for vesting the same in the Company or as it may direct.

14. Confidentiality

- 14.1 As Confidential Information will from time to time become known to you, the Company considers and you acknowledge, that the following restraints, on which you have had the opportunity to take
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independent legal advice, are necessary for the reasonable protection by the Company of its business or the business of the Group, the clients thereof or their respective affairs.

- 14.2 You shall not at any time, either during the continuance of or after the termination of your employment with the Company, use, disclose or communicate to any person whatsoever any Confidential Information or any Trade Secrets of which you have or may have become possessed during your employment with the Company or supply the names or addresses of any clients, customers or agents of the Company or any Group Company to any person except in the proper course of the Business or as authorised in writing by the Board or as ordered by a Court of competent jurisdiction.
- 14.3 You shall not at any time either during the continuance of or after the termination of your employment with the Company make, otherwise than for the benefit of the Company or any Group Company, any notes or memoranda relating to any matter within the scope of the Business or concerning any of the dealings or affairs of the Company or any Group Company.
- 14.4 You shall not at any time either during the continuance of or after the termination of your employment with the Company utter any statement (whether written or oral) to any representative of television, radio, film or other similar media and shall not write any article for the press or otherwise for publication on any matter connected with or relating to the business of the Company or any Group Company without first obtaining the written approval of the Board.
- 14.5 Nothing in this Agreement shall preclude you from making a protected disclosure in accordance with the provisions set out in the Employment Rights Act 1996.

15. Restrictions

- 15.1 You shall not during the 12 (twelve) month period after the date of termination of your employment either on your own account or in conjunction with or on behalf of any other person, solicit or entice away or endeavour to solicit or to entice away or assist any other person whether by means of the supply of names or expressing views on suitability or otherwise howsoever to solicit or entice away from the Company or any Group Company any Restricted Employee (whether or not any Restricted Employee would commit a breach of contract by reason of leaving service).
 - 15.2 You shall not during the 12 (twelve) month period after the date of termination of your employment either on your own account or in conjunction with or on behalf of any other person, employ any Restricted Employee, in connection with a business which is in direct or indirect competition with the Restricted Business (whether or not any Restricted Employee would commit a breach of contract by reason of leaving service).
 - 15.3 You shall not during the 12 (twelve) month period after the date of termination of your employment either on your own account or in conjunction with or on behalf of any other person, solicit, interfere with the Company's or any Group Company's relationship with or entice away or attempt to solicit, interfere with the Company's or any Group Company's relationship with or entice away any person who is a Restricted Client or a Restricted Potential Client. Nothing contained in this clause shall be deemed to prohibit the seeking or doing of business not in direct or indirect competition with the Restricted Business.
 - 15.4 You shall not during the 12 (twelve) month period after the date of termination of your employment either on your own account or in conjunction with or on behalf of any other person, have business dealings directly or indirectly with any person who is a Restricted Client or a Restricted Potential Client Nothing contained in this clause shall be deemed to prohibit the seeking or doing of business not in direct or indirect competition with the Restricted Business.
 - 15.5 You shall not during the 12 (twelve) month period after the date of the termination of your employment either on your own account or in conjunction with or on behalf of any other person, be engaged,
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concerned or interested, either directly or indirectly in any capacity in any trade or business or occupation whatsoever in the Restricted Territory which competes with the Restricted Business.

- 15.6 You shall not during the 12 (twelve) month period after the date of the termination of your employment solicit or deal with any person or entity who has: (a) provided finance to the Company or any Group Company; or (b) been in active negotiations with the Company or any Group Company concerning the provision of finance, (in each case) in the 12 months prior to the Termination Date and which whom or which you have either (a) had material personal contact; or (b) been privy to Confidential Information;
- 15.7 You shall not during the 12 (twelve) month period after the date of the termination of your employment either on your own account or in conjunction with or on behalf of any other person, interfere or seek to interfere with, or divert or seek to divert, to the Company's detriment any contractual or other trade relations between the Company or any Group Company and any of its or their suppliers, collection agents or commercial partners with whom or which you have either: (a) had material personal contact during the Relevant Period; or (b) been privy to Confidential Information during the Relevant Period.
- 15.8 The periods of restriction specified in this clause shall each be reduced by the duration of any period immediately prior to the date of termination during which the Company, in exercising its rights under the provisions of clause 2.3, suspends you from performance of your duties.
- 15.9 Each of the restrictions in this clause 15 shall be construed as a separate and independent restriction and if one or more of the restrictions is found to be void or unenforceable, the validity of the remaining restrictions shall not be affected.
- 15.10 The restrictions contained in clause 15, on which you have had the opportunity to take independent legal advice are considered reasonable by the parties, and necessary for the protection of the legitimate interests of the Company but if any such restriction shall be found to be void or voidable but would be valid and enforceable if some part of some parts thereof were deleted, such restriction shall apply with such modification as may be necessary to make it valid and enforceable.
- 15.11 Without prejudice to clause 15.10, if any restriction is found by any court or other competent authority to be void or unenforceable the parties shall negotiate in good faith to replace such void or unenforceable restriction with a valid restriction which, as far as possible, has the same legal and commercial effect as that which it replaces.
- 15.12 Notwithstanding any other provision of this clause 15, you may hold a Permitted Interest.
- 15.13 You agree that the Company is entering into this Agreement as a trustee on behalf of each Group Company. You will, at the request and expense of the Company, enter into a separate agreement with any Group Company in which he agrees to be bound by restrictions corresponding to those restrictions in this clause 15 (or such of those restrictions as the Company deems appropriate) in relation to that Group Company.

16. Notification of Restrictions

- 16.1 If you receive any offer of employment (whether oral or in writing and whether accepted or not) from any person either during the continuance of this Agreement or during the continuance in force of all or any of the restrictions in clause 15 of this Agreement, you shall, without prejudice to your obligations in relation to confidentiality provide the offeror details of the substance of the restrictions contained in clauses 14 and 15 no later than the time when you first meet the prospective offeror.

17. Directorships

- 17.1 Whilst you have not right to serve as a director, you shall accept appointment as a director of the Company and of any such Group Company or other company as the Board may require in connection with your appointment under this Agreement and you shall resign without claim for compensation
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from office as a director of any such company at any time on request by the Company, which resignation shall not affect the continuance in any way of this Agreement. You shall immediately account to the Company for any director's fees or other emoluments, remuneration or payments either receivable or received by you by virtue of your holding office as such director as aforesaid (or waive any right to the same if so required by the Company).

- 17.2 Upon the termination of your employment with the Company however arising and for whatsoever reason you shall, upon the request of the Board, resign without claim for compensation (but without prejudice to any claim you may have for damages for breach of this Agreement) from:
- (A) office as a director of the Company or of any Group Company or of any other company in which you hold a directorship at the Company's request;
 - (B) from all offices held by you in any or all of such companies; and
 - (C) all trusteeships held by you of any pension scheme or other trusts established by the Company, any Group Company or any other company with whom you have had dealings as a consequence of your employment by the Company.
- 17.3 If you fail to resign from office as a director or from any other office or trusteeship in accordance with clauses 17.1 or 17.2, either during your employment, when so requested by the Company, or on termination thereof, in order to secure your obligation under this Agreement, the Company is hereby irrevocably authorised as your lawful attorney to appoint a person in your name and on your behalf to execute any documents and to do all things required to give effect to the resignation,
- 17.4 Save with the prior agreement in writing of the Board, you shall not, during the continuance of this Agreement, resign from any office as a director of the Company, any Group Company or of any other company in which you hold a directorship at the Company's request or do anything that would cause you to be disqualified from continuing to act as a director.

18. Termination

- 18.1 This Agreement and your employment with the Company hereunder may be terminated immediately by the Company without prior notice, if you at any time:
- (A) commit any act of gross misconduct;
 - (B) commit any serious or, after having been given warning in writing (where the commission of such breach continues for more than five business days after such warning), repeated or continual breach of any of your material obligations under this Agreement; or
 - (C) are guilty of any serious misconduct or serious neglect in the discharge of your duties under this Agreement; or
 - (D) have a bankruptcy order made against you or if you make any arrangement or composition with your creditors or have an interim order made against you pursuant to Section 252 of the Insolvency Act 1986; or
 - (E) are convicted of any criminal offence other than an offence which, in the reasonable opinion of the Board, does not affect your position as an employee of the Company; or
 - (F) by your actions or omissions, in the reasonable opinion of the Board, bring the name or reputation of the Company or any Group Company into serious disrepute or prejudice the interests of the business of the Company or any other Group Company; or
 - (G) become of unsound mind or are or become a patient for the purpose of any statute relating to mental health; or
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- (H) are convicted of an offence under any present or future statutory enactment or regulation relating to insider dealing; or
- (I) are or become prohibited by law from being a director.

Any delay by the Company in exercising such right to termination shall not constitute a waiver thereof.

- 18.2 In the event of termination pursuant to clause 18.1, the Company shall not be obliged to make any further payment to you beyond the amount of any remuneration, contractual benefit and payment in lieu of outstanding untaken holiday entitlement actually accrued up to and including the date of such termination and the Company shall be entitled to deduct from such remuneration any sums owing to it or to any other Group Company by you to which deduction you expressly hereby consent.
- 18.3 In the event of the termination of your employment for whatever reason and whether by notice or in any other manner whatsoever, you will not at any time after such termination represent yourself as still having any connection with the Company or any Group Company save as a former employee for the purpose of communicating with prospective employers or complying with any applicable statutory requirements.
- 18.4 In the event that you are incapacitated by ill health, accident or any other cause from performing your duties under this Agreement for a period of 180 working days or more (whether consecutive or not) in any continuous period of 12 months, then the Company may terminate this Agreement by giving to you your statutory minimum notice entitlement in writing expiring at any time (whether or not you remain incapacitated from performing your duties under this Agreement) provided always that you shall receive all benefits lawfully due to you under this Agreement calculated up to the date of termination of employment.
- 18.5 If your employment under this Agreement is terminated under clause 18.4 in circumstances where you are or may be entitled to receive benefits under a salary continuance or long term disability insurance scheme then operated by the Company or Group, and those benefits would cease to be payable on termination of your employment with the Company:
 - (A) you shall be deemed to remain in the Company's employment if and for so long as is necessary under the rules of the scheme or the terms of the applicable insurance policy solely for the purpose of receiving such benefits as may be payable and providing that there is no cost to the Company; but
 - (B) that shall not affect the termination of your employment (including, in particular, your rights to remuneration and other benefits) for all other purposes of this Agreement.
- 18.6 As an alternative to serving notice pursuant to clause 2.1 and without prejudice to the provisions of clauses 18.1 and 18.2, the Company may, in its absolute discretion, terminate this Agreement by written notice to take immediate effect and by agreeing to make a payment in lieu of the basic salary to which you would have been entitled during the period of notice or any remaining period of notice of termination provided under clause 2.1.

19. Compliance

- 19.1 You undertake as a term of your employment with the Company to comply, for so long as they remain applicable to you, with the:
 - (A) principles and codes of practice for approved persons and the rules of the Financial Conduct Authority for the time being and from time to time in effect under the Financial Services and Markets Act 2000; and
 - (B) Company's rules in relation to compliance.
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- 19.2 You are required to comply with the provisions of any Personal Account Dealing Notice that may be notified to you from time to time
- 19.3 You agree to deal with the Company in an open and co-operative manner.
- 19.4 Your attention is drawn to the non contractual policies and procedures set out in the Company's Employee Handbook and on its Intranet, which you agree to abide by. Failure to do so may result in disciplinary action being taken against you. In the event of any conflict with the Employee Handbook and such policies, the terms of this Agreement will prevail.

20. Return of Property on Termination

- 20.1 Upon the termination of your employment with the Company for whatsoever cause, you shall immediately
- (A) deliver up to the Company or its authorised representative any property of the Company or any other Group Company which may be in your possession, custody or under your control;
 - (B) on request, deliver to the Company any computer or other device in your possession or control to allow the Company to remove all Confidential Information and the Company's licensed software;
- 20.2 If so requested, you shall provide to the Company a signed statement confirming that you have fully complied with clause 20.1.
- 20.3 You shall, on request, co-operate and provide assistance to the Company or any Group Company in any internal investigation, administrative, regulatory, quasi-judicial proceedings or any threatened or actual litigation concerning it or them where you have in your possession or knowledge any facts or other matters which the Company or any Group Company reasonably considers is relevant to such process or legal proceedings (including, but not limited to, giving statements/affidavits, meeting with their legal and other professional advisers, attending any legal hearing and giving evidence) on the understanding that the Company or relevant Group Company will pay your reasonable expenses incurred in providing such assistance.

21. Disciplinary, Dismissal and Grievance Procedures

- 21.1 You are subject to the Company's disciplinary and grievance procedures which are contained in the Company's disciplinary and grievance policy as in place from time to time. You may be suspended during any disciplinary or regulatory investigation for such period as the Company deems fit. These procedures do not form part of your contract of employment.

22. Data Protection

- 22.1 You consent to the Company and any other Group Company holding and processing, both electronically and manually, the data it collects in relation to you, in the course of your employment, for the purposes of the Company's administration and management of its employees and its business and for compliance with applicable procedures, laws and regulations and to the transfer, storage and processing by the Company or an agent acting on the Company's behalf of such data outside the European Economic Area, in particular to and in the United States and any other country in which the Company has offices. Such personal data may also be made available to the Investors.
- 22.2 Nothing in clause 22.1 shall affect your rights to request copies of any personal data to which you are the data subject, information about how that data is processed and the parties to whom any of the information may be disclosed under the Data Protection Act 1998.
- 22.3 You consent to the Company and each Group Company monitoring its communication and electronic equipment including, without limitation, the Company's telephone, facsimile and e-mail systems, information stored on the Company's computer equipment (including all electronically stored
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information that is the property of the Company) and recordings from the Company's closed circuit television cameras and any other computer equipment or other device used by you in the performance of your duties.

23. Notices

23.1 Any notice to be given under this Agreement shall be given in writing and may be sent, addressed in the case of the Company to its registered office for the time being and in the case of you to you at your last known place of residence or given personally and any notice given by post shall be deemed to have been served 48 hours after it was posted.

24. Assignment

24.1 The benefit of each agreement and obligation of you under this Agreement may be assigned to and enforced by all successors or assigns for the time being carrying on the Business and such agreements and obligations shall operate and remain binding notwithstanding the termination of your employment.

25. Third Party Rights

25.1 No person who is not a party to this Agreement shall have any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

26. Law and Jurisdiction

26.1 English law

This Agreement and any non-contractual obligations arising from or connected with it shall be governed by English law and this Agreement shall be construed in accordance with English law.

26.2 Jurisdiction

In relation to any legal action or proceedings arising out of or in connection with this Agreement (whether arising out of or in connection with contractual or non-contractual obligations) ("Proceedings"), each of the parties irrevocably submits to the exclusive jurisdiction of the English courts and waives any objection to Proceedings in such courts on the grounds of venue or on the grounds that Proceedings have been brought in an inappropriate forum.

27. Prior Agreements

27.1 This Agreement shall be in substitution for any subsisting agreement, service agreement or contract of employment (oral or otherwise) made between the Company and you between any other Group Company and you in relation to your employment which shall be deemed to have been terminated by mutual consent with effect from the Effective Date.

27.2 You warrant and agree that you are not entering into this Agreement in reliance on any representation not expressly set out in this Agreement.

27.3 No amendment to this Agreement shall be effective unless it is in writing and signed by the parties.

27.4 You agree that by signing this Agreement the Company and each Group Company has fully discharged any obligations it may have owed to you prior to the date of this Agreement in respect of the issuance of shares or the payment of any bonus or other incentive award. You confirm that the only payments or benefits outstanding to you are payments for basic salary and holiday pay in the ordinary course of business and any other contractual entitlements not referred to in this Agreement or the Investment Agreement are hereby waived.

28. Collective Agreements

28.1 There are no collective agreements currently in force which affect directly or indirectly the terms and conditions of your employment.

29. Severability

29.1 If any provision of this Agreement or of a clause hereof is determined to be illegal or unenforceable by any court of law or any competent governmental or other authority, the remaining provisions within that clause and the remainder of this Agreement shall be severable and enforceable in accordance with their terms, so long as this Agreement, without such terms or provisions, does not fail of its essential purpose. The parties shall negotiate in good faith to replace any such illegal or unenforceable provisions with suitable substitute provisions which will maintain as far as possible the purposes and the effect of this Agreement.

30. General

30.1 The Employment Rights Act 1996 protects employees from any detriment in relation to certain disclosures. For the purposes of the Act, you are required first to inform the Chairman of the Board in writing of the nature of such disclosure, Failure to do so may result in disciplinary action being taken.

30.2 Pursuant to the Contracts (Rights of Third Parties) Act 1999 only the parties to this Agreement and any Group Company may enforce any of the terms of this Agreement.

IN WITNESS whereof this Deed of Agreement has been executed by the parties the day and year first before written

EXECUTED and DELIVERED as a DEED of)

CABOT CREDIT MANAGEMENT)/s/ illegible

LIMITED acting by a single Director in the)

presence of:)

Witness:

Signature: /s/ Richard Hunton

Name: Richard Hunton

Address: ## ##### Avenue
#####, S75 6JP

Occupation: Head of Risk

SIGNED and DELIVERED)

as a DEED of **KENNETH JOHN STANNARD**)/s/ Kenneth Stannard

in the presence of:)

Witness:

Signature: /s/ Michelle Thomas

Name: Michelle Thomas

Address: ### ##### ####
#####, BN16 2JW

Occupation: HR Director



PRIVATE & CONFIDENTIAL

Kenneth Stannard

Road
#####

23rd July 2018

Dear Ken,

Salary increase

Following the recent successful completion of Encore's acquisition of Cabot Credit Management and as previously confirmed by the Remuneration Committee, I am delighted to confirm that we will increase your annual salary to £420,000 in recognition of your leadership and contribution to the business. This increase will take effect from 1st August 2018, from this point your £20,000 car allowance will be removed. For avoidance of doubt your upcoming LTIP award, which is a percentage of base salary, will be based on this new salary level.

Any percentage based pension contributions will be altered automatically in line with the increase.

All other terms and conditions of your employment also remain unchanged.

Please do not hesitate to contact me if you have any further questions.

Yours sincerely

/s/ Ashish Masih
Ashish Masih
Encore
Chief Executive Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Ashish Masih, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Encore Capital Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: _____ /s/ ASHISH MASIH

Ashish Masih
President and Chief Executive Officer

Date: May 8, 2019

ENCORE CAPITAL GROUP, INC.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Encore Capital Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

/s/ Ashish Masih

Ashish Masih

President and Chief Executive Officer

May 8, 2019

/s/ Jonathan C. Clark

Jonathan C. Clark

**Executive Vice President,
Chief Financial Officer and Treasurer**

May 8, 2019

This certification accompanies the above described Report and is being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall be not be deemed filed as part of the Report.