

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, 2020 or

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

For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware 48-1090909
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

350 Camino De La Reina, Suite 100
San Diego, California 92108
(Address of principal executive offices, including zip code)

(877) 445 - 4581
(Registrant's telephone number, including area code)

(Not Applicable)
(Former name, former address and former fiscal year, if changed since last report)

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 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 Exchange Act). Yes No

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

Class	Outstanding at May 4, 2020
Common Stock, \$0.01 par value	31,234,420 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, 2020	December 31, 2019
Assets		
Cash and cash equivalents	\$ 188,199	\$ 192,335
Investment in receivable portfolios, net	3,166,018	3,283,984
Deferred court costs, net	—	100,172
Property and equipment, net	119,417	120,051
Other assets	302,019	329,223
Goodwill	839,301	884,185
Total assets	\$ 4,614,954	\$ 4,909,950
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 168,481	\$ 223,911
Borrowings	3,404,427	3,513,197
Other liabilities	136,235	147,436
Total liabilities	3,709,143	3,884,544
Commitments and Contingencies (Note 11)		
Equity:		
Convertible preferred stock, \$0.01 par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 75,000 shares authorized, 31,234 and 31,097 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	312	311
Additional paid-in capital	222,403	222,590
Accumulated earnings	833,366	888,058
Accumulated other comprehensive loss	(153,355)	(88,766)
Total Encore Capital Group, Inc. stockholders' equity	902,726	1,022,193
Noncontrolling interest	3,085	3,213
Total equity	905,811	1,025,406
Total liabilities and equity	\$ 4,614,954	\$ 4,909,950

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, 2020	December 31, 2019
Assets		
Cash and cash equivalents	\$ 90	\$ 34
Investment in receivable portfolios, net	478,613	539,596
Other assets	4,645	4,759
Liabilities		
Borrowings	\$ 435,099	\$ 464,092

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,	
	2020	2019
Revenues		
Revenue from receivable portfolios	\$ 357,365	\$ 311,158
Changes in expected current and future recoveries	(98,661)	—
Servicing revenue	28,680	34,023
Other revenues	1,697	529
Total revenues	289,081	345,710
Allowance reversals on receivable portfolios, net		1,367
Total revenues, adjusted by net allowances		347,077
Operating expenses		
Salaries and employee benefits	93,098	91,834
Cost of legal collections	66,279	49,027
Other operating expenses	27,164	29,614
Collection agency commissions	13,176	16,002
General and administrative expenses	31,877	39,547
Depreciation and amortization	10,285	9,995
Total operating expenses	241,879	236,019
Income from operations	47,202	111,058
Other (expense) income		
Interest expense	(54,662)	(54,967)
Other income (expense)	1,439	(2,976)
Total other expense	(53,223)	(57,943)
(Loss) income before income taxes	(6,021)	53,115
Provision for income taxes	(4,558)	(3,673)
Net (loss) income	(10,579)	49,442
Net loss (income) attributable to noncontrolling interest	125	(188)
Net (loss) income attributable to Encore Capital Group, Inc. stockholders	\$ (10,454)	\$ 49,254
(Loss) earnings per share attributable to Encore Capital Group, Inc.:		
Basic	\$ (0.33)	\$ 1.58
Diluted	\$ (0.33)	\$ 1.57
Weighted average shares outstanding:		
Basic	31,308	31,201
Diluted	31,308	31,359

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31,	
	2020	2019
Net (loss) income	\$ (10,579)	\$ 49,442
Other comprehensive (loss) income, net of tax:		
Change in unrealized gains/losses on derivative instruments:		
Unrealized loss on derivative instruments	(5,051)	(2,202)
Income tax effect	1,497	172
Unrealized loss on derivative instruments, net of tax	(3,554)	(2,030)
Change in foreign currency translation:		
Unrealized (loss) gain on foreign currency translation	(61,038)	7,580
Other comprehensive (loss) income, net of tax	(64,592)	5,550
Comprehensive (loss) income	(75,171)	54,992
Comprehensive loss (income) attributable to noncontrolling interest:		
Net loss (income) attributable to noncontrolling interest	125	(188)
Unrealized loss (gain) on foreign currency translation	3	(427)
Comprehensive loss (income) attributable to noncontrolling interest	128	(615)
Comprehensive (loss) income attributable to Encore Capital Group, Inc. stockholders	\$ (75,043)	\$ 54,377

See accompanying notes to consolidated financial statements

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

Three Months Ended March 31, 2020

	Common Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
	Shares	Par					
Balance as of December 31, 2019	31,097	\$ 311	\$ 222,590	\$ 888,058	\$ (88,766)	\$ 3,213	\$ 1,025,406
Cumulative adjustment	—	—	—	(44,238)	—	—	(44,238)
Balance as of January 1, 2020	31,097	311	222,590	843,820	(88,766)	3,213	981,168
Net loss	—	—	—	(10,454)	—	(125)	(10,579)
Other comprehensive loss, net of tax	—	—	—	—	(64,589)	(3)	(64,592)
Issuance of share-based awards, net of shares withheld for employee taxes	137	1	(4,714)	—	—	—	(4,713)
Stock-based compensation	—	—	4,527	—	—	—	4,527
Balance as of March 31, 2020	<u>31,234</u>	<u>\$ 312</u>	<u>\$ 222,403</u>	<u>\$ 833,366</u>	<u>\$ (153,355)</u>	<u>\$ 3,085</u>	<u>\$ 905,811</u>

Three Months Ended March 31, 2019

	Common Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Shares	Par					
Balance as of 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 as of 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>

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31,	
	2020	2019
Operating activities:		
Net (loss) income	\$ (10,579)	\$ 49,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,285	9,995
Other non-cash interest expense, net	5,909	6,629
Stock-based compensation expense	4,527	1,826
Deferred income taxes	(12,030)	19,682
Changes in expected current and future recoveries	98,661	—
Allowance reversals on receivable portfolios, net	—	(1,367)
Other, net	2,161	4,081
Changes in operating assets and liabilities		
Deferred court costs and other assets	3,377	18,725
Prepaid income tax and income taxes payable	14,970	(30,247)
Accounts payable, accrued liabilities and other liabilities	(46,476)	(67,775)
Net cash provided by operating activities	70,805	10,991
Investing activities:		
Purchases of receivable portfolios, net of put-backs	(209,045)	(258,635)
Collections applied to investment in receivable portfolios, net	169,914	202,695
Purchases of property and equipment	(7,538)	(10,227)
Other, net	3,414	(3,347)
Net cash used in investing activities	(43,255)	(69,514)
Financing activities:		
Proceeds from credit facilities	171,880	196,263
Repayment of credit facilities	(167,221)	(119,854)
Repayment of senior secured notes	(16,250)	—
Other, net	(10,171)	(4,862)
Net cash (used in) provided by financing activities	(21,762)	71,547
Net increase in cash and cash equivalents	5,788	13,024
Effect of exchange rate changes on cash and cash equivalents	(9,924)	(3,346)
Cash and cash equivalents, beginning of period	192,335	157,418
Cash and cash equivalents, end of period	\$ 188,199	\$ 167,096
Supplemental disclosure of cash information:		
Cash paid for interest	\$ 60,495	\$ 62,135
Cash paid for taxes, net of refunds	766	15,003

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.

The Company also has investments and operations in Latin America and Asia-Pacific, which the Company refers to as “LAAP.” In August 2019, the Company completed the sale of Baycorp, which represented the Company’s investments and operations in Australia and New Zealand and was a component of LAAP.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a global pandemic, which continues to spread throughout the United States and around the world. The COVID-19 outbreak and resulting containment measures implemented by governments around the world, as well as increased business uncertainty, are having an adverse impact on the Company’s ability to collect and are expected to delay a portion of its near-term expected cash collections on purchased receivable portfolios. The resulting impact on expected recoveries has impacted our financial results. We may also incur increased costs or other adverse changes to our business, but such potential impacts are unknown at this time.

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, 2019. 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. The inputs into the judgments and estimates consider the economic implications of COVID-19 on the Company’s critical and significant accounting estimates. 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 and are reclassified to earnings upon the substantial sale or liquidation of investments in foreign operations.

Reclassifications

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

Recently Adopted Accounting Pronouncement

On January 1, 2020, the Company adopted the new accounting standard for Financial Instruments - Credit Losses (“CECL”). CECL introduces a new impairment approach for credit loss recognition based on current expected lifetime losses rather than incurred losses. CECL applies to all financial assets carried at amortized costs, including the Company’s investment in receivable portfolios, which are defined as purchased credit deteriorated (“PCD”) financial assets under CECL. The adoption of CECL represents a significant change from the previous U.S. GAAP guidance relating to purchased credit impaired assets and resulted in changes to the Company’s accounting for its investment in receivable portfolios and the related income from the receivable portfolios.

As part of the adoption of CECL, the Company changed its accounting methodology for its court costs spent in its legal collection channel effective January 1, 2020. Previously, the Company capitalized its upfront court costs spent in its consolidated financial statements (“Deferred Court Costs”) and provided a reserve for those costs that it believed would ultimately be uncollectible. Effective January 1, 2020, the Company expenses all of its court costs as incurred. All expected cash flows, including all the expected collections from the legal channel, are included in the measurement of the negative allowance, or investment in receivable portfolios, at a discounted value. Upon transition, an adjustment was made to retained earnings to reflect the net change from an undiscounted to discounted value prior to writing-off uncollectible receivables and establishing a balance for discounted value of future recoveries of amounts expected to be collected.

The Company has not adjusted prior period comparative information and will continue to disclose prior period financial information in accordance with the previous accounting guidance. The following table summarizes the cumulative effects of adopting the CECL guidance on the Company’s consolidated statements of financial condition at January 1, 2020 (*in thousands*):

	Balance as of December 31, 2019	Adjustment	Opening Balance as of January 1, 2020
Assets			
Investment in receivable portfolios, net	\$ 3,283,984	\$ 44,166	\$ 3,328,150
Deferred court costs, net	100,172	(100,172)	—
Liabilities			
Other liabilities (for deferred tax liabilities)	147,436	(11,768)	135,668
Equity			
Accumulated earnings	888,058	(44,238)	843,820

Recent Accounting Pronouncements Not Yet Effective

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848). The ASU provides optional expedients and exceptions for applying GAAP to transactions affected by reference rate (e.g., LIBOR) reform if certain criteria are met, for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The ASU is effective as of March 12, 2020 through December 31, 2022. We will evaluate transactions or contract modifications occurring as a result of reference rate reform and determine whether to apply the optional

guidance on an ongoing basis. The ASU is currently not expected to have a material impact on our consolidated financial statements.

With the exception of the updated standard discussed above, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2020, 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.

Accounting Policy Update

As a result of the adoption of CECL, the Company revised its following accounting policies effective January 1, 2020:

Investment in Receivable Portfolios

The Company purchases portfolios of loans that have experienced significant deterioration of credit quality since origination from banks and other financial institutions. These financial assets are defined as PCD assets under CECL. Under the PCD accounting model, the purchased assets are grossed-up to their face value with an offsetting allowance and noncredit discount allocated to the individual receivables as the unit of account is at the individual loan level. Since each loan is deeply delinquent and deemed uncollectible at the individual loan level, the Company applies its charge-off policy and fully writes-off the amortized costs (*i.e.*, face value net of noncredit discount) of the individual receivables immediately after purchasing the portfolio. The Company then records a negative allowance that represents the present value of all expected future recoveries for pools of receivables that share similar risk characteristics using a discounted cash flow approach, which ultimately equals the amount paid for a portfolio purchase and presented as "Investment in receivable portfolios, net" in the Company's consolidated statements of financial condition. The discount rate is an effective interest rate (or "purchase EIR") based on the purchase price of the portfolio and the expected future cash flows at the time of purchase. The amount of the negative allowance (*i.e.*, investment in receivable portfolios) will not exceed the total amortized cost basis of the loans written-off.

Receivable portfolio purchases are aggregated into pools based on similar risk characteristics. Examples of risk characteristics include 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 location. Once a pool is established, the portfolios will remain in the designated pool unless the underlying risk characteristics change. The purchase EIR of a pool will not change over the life of the pool even if expected future cash flows change.

Revenue is recognized for each static pool over the economic life of the pool. The Company continues to evaluate the reasonable economic life of a pool in each reporting period. Revenue primarily includes two components: (1) accretion of the discount on the negative allowance due to the passage of time, and (2) changes in expected cash flows, which includes (a) the current period variances between actual cash collected and expected cash recoveries and (b) the present value change of expected future recoveries.

The Company elected not to maintain its previously formed pool groups with amortized costs at transition. Certain pools already fully recovered their cost basis and became zero basis portfolios ("ZBA") prior to the transition. The Company did not establish a negative allowance from ZBA pools as the Company elected the Transition Resource Group for Credit Losses' practical expedient to retain the integrity of its legacy pools. All subsequent collections to the ZBA pools are recognized as ZBA revenue, which is included in revenue from receivable portfolios in the Company's consolidated statements of operations. See "Note 5: Investment in Receivable Portfolios, Net" for further discussion of investment in receivable portfolios.

Deferred Court Costs

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. Effective January 1, 2020, the Company expenses all of its court costs as incurred and no longer capitalizes such costs as Deferred Court Costs. All expected cash flows, including all the expected collections from the legal channel, are included in the measurement of the negative allowance, or investment in receivable portfolios, at a discounted value.

Note 2: (Loss) Earnings Per Share

Basic (loss) earnings per share is calculated by dividing net earnings attributable to Encore by the weighted average number of shares of common stock outstanding during the period. Diluted (loss) earnings per share is 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. In computing the diluted net loss per share for the three months ended March 31, 2020, dilutive potential common shares are excluded from the diluted loss per share calculation because of their anti-dilutive effect.

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

	Three Months Ended March 31,	
	2020	2019
Net (loss) income attributable to Encore Capital Group, Inc. stockholders	\$ (10,454)	\$ 49,254
Total weighted-average basic shares outstanding	31,308	31,201
Dilutive effect of stock-based awards	—	158
Total weighted-average dilutive shares outstanding	31,308	31,359
Basic (loss) earnings per share	\$ (0.33)	\$ 1.58
Diluted (loss) earnings per share	\$ (0.33)	\$ 1.57

Anti-dilutive employee stock options outstanding were approximately 13,000 and 217,000 for the three months ended March 31, 2020 and 2019, respectively.

Note 3: Fair Value Measurements

Fair value is defined 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 Company uses 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, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate cap contracts	\$ —	\$ 2,150	\$ —	\$ 2,150
Liabilities				
Foreign currency exchange contracts	—	(2,177)	—	(2,177)
Interest rate swap agreements	—	(14,735)	—	(14,735)
Contingent consideration	—	—	(27)	(27)

	Fair Value Measurements as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	\$ —	\$ 1,473	\$ —	\$ 1,473
Interest rate cap contracts	—	2,460	—	2,460
Liabilities				
Interest rate swap agreements	—	(9,116)	—	(9,116)
Contingent consideration	—	—	(66)	(66)

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, 2020 and year ended December 31, 2019 (*in thousands*):

	Amount
Balance as of December 31, 2018	\$ 6,198
Change in fair value of contingent consideration	(2,300)
Payment of contingent consideration	(3,686)
Effect of foreign currency translation	(146)
Balance as of December 31, 2019	66
Payment of contingent consideration	(35)
Effect of foreign currency translation	(4)
Balance as of March 31, 2020	\$ 27

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 3 measurements. The fair value estimate of the assets held for sale was approximately \$42.9 million and \$46.7 million as of March 31, 2020 and December 31, 2019, respectively.

Financial Instruments Not Required To Be Carried At Fair Value

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 included in the consolidated statements of financial condition as of March 31, 2020 and December 31, 2019 (*in thousands*):

	March 31, 2020		December 31, 2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Investment in receivable portfolios, net	\$ 3,166,018	\$ 3,547,965	\$ 3,283,984	\$ 3,464,050
Deferred court costs	—	—	100,172	100,172
Financial Liabilities				
Encore convertible notes and exchangeable notes ⁽¹⁾	645,591	567,691	642,547	693,708
Cabot senior secured notes ⁽²⁾	1,077,548	996,060	1,127,435	1,170,945

(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.

(2) Carrying amount represents historical cost, adjusted for any related debt discount or debt premium.

Investment in Receivable Portfolios:

The fair value of investment in receivable portfolios is measured 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. 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.

Deferred Court Costs:

Effective January 1, 2020, the Company no longer carries Deferred Court Costs as a result of its change in accounting policy. The fair value estimate for Deferred Court Costs as of December 31, 2019 involved Level 3 inputs as there was little observable market data available and management was required to use significant judgment in its estimates.

Borrowings:

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. The Company's borrowings also include finance lease liabilities for which the carrying value approximates fair value.

Encore's convertible notes and exchangeable notes and Cabot's senior secured notes are carried at historical cost, adjusted for the debt discount. The fair value estimate for these convertible and exchangeable notes incorporates quoted market prices using Level 2 inputs.

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. Certain of 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 included in the Company's consolidated statements of financial condition (*in thousands*):

	March 31, 2020		December 31, 2019	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate cap contracts	Other assets	\$ 2,150	Other assets	\$ 2,460
Foreign currency exchange contracts	Other liabilities	(134)	Other assets	443
Interest rate swap agreements	Other liabilities	(14,735)	Other liabilities	(9,116)
Derivatives not designated as hedging instruments:				
Foreign currency exchange contracts	Other liabilities	(2,043)	Other assets	1,030

Derivatives Designated as Hedging Instruments

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

Certain of the 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, 2020, the total notional amount of the forward contracts that were designated as cash flow hedging instruments was \$6.3 million. The Company estimates that approximately \$0.1 million of net derivative loss 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, 2020 and 2019.

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, 2020, there were four interest rate swap agreements outstanding with a total notional amount of \$327.9 million.

Previously, the Company held two interest rate cap contracts that matured in 2021 (the "2018 Caps") which hedged the risk of GBP-LIBOR interest rate fluctuations for interest payments of Cabot Securitisation's senior facility agreement. As part of the amended and restated senior facility agreement as described in "Note 8: Borrowings", the Company settled the 2018 Caps and ceased the hedge relationship which resulted in the reclassification of the associated other comprehensive loss balance to interest expense for approximately \$2.5 million during the three months ended March 31, 2020.

As of March 31, 2020, the Company held two interest rate cap contracts with a notional amount of approximately \$876.4 million that are used to manage its risk related to interest rate fluctuations on the Company's variable interest rate bearing debt. The interest rate cap hedging the fluctuations in three-month EURIBOR for the Cabot 2024 Floating Rate Notes ("2019 Cap") has a notional amount of €400.0 million (approximately \$435.1 million) and matures in 2024. The interest rate cap hedging the fluctuations in sterling overnight index average ("SONIA") for the Cabot Securitisation UK Ltd senior facility agreement ("2020 Cap") has a notional amount of £350.0 million (approximately \$441.3 million) and matures in 2023. The 2019 Cap is structured as a series of European call options ("Caplets") such that if exercised, the Company will receive a payment equal to 3-months EURIBOR on a notional amount equal to the hedged notional amount net of a fixed strike price. The 2020 Cap is also structured as a series of Caplets such that if exercised, the Company will receive a payment equal to SONIA 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 SONIA or EURIBOR exceeds the strike price of the Caplets. The Company expects the hedge relationships to be highly effective and designates the 2019 Cap and 2020 Cap as cash flow hedge instruments.

The following table summarizes the effects of derivatives in cash flow hedging relationships designated as hedging instruments in the Company's consolidated statements of operations (*in thousands*):

Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from OCI into Income (Loss)	Gain (Loss) Reclassified from OCI into Income (Loss)	
	Three Months Ended March 31,			Three Months Ended March 31,	
	2020	2019		2020	2019
Foreign currency exchange contracts	\$ (389)	\$ 935	Salaries and employee benefits	\$ 127	\$ (95)
Foreign currency exchange contracts	(45)	(78)	General and administrative expenses	17	(84)
Interest rate swap agreements	(6,707)	(2,086)	Interest expense	(1,088)	(420)
Interest rate cap contracts	(1,396)	(1,572)	Interest expense	(2,542)	—

Derivatives Not Designated as Hedging Instruments

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

The following table summarizes the effects of derivatives in cash flow hedging relationships not designated as hedging instruments in the Company's consolidated statements of operations (*in thousands*):

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income (Loss) on Derivative	Amount of Gain Recognized in Income (Loss)	
		Three Months Ended March 31,	
		2020	2019
Foreign currency exchange contracts	Other income (expense)	\$ 1,943	\$ —

Note 5: Investment in Receivable Portfolios, Net

As discussed in "Note 1: Ownership, Description of Business, and Summary of Significant Accounting Policies", effective January 1, 2020, the Company accounts for its investment in receivable portfolios as PCD assets under CECL and changed its accounting policy for reimbursable court costs. As a result, the Company wrote-off the previous Deferred Court Costs balance that represented an undiscounted value of recoverable historic spend as a result of a loss-rate methodology, and established a discounted value of expected future recoveries of these reimbursable court costs, which is included in the beginning balance of the investment in receivable portfolios.

The table below illustrates the Company's transition approach for its investment in receivable portfolios as of January 1, 2020 (*in thousands*):

	Amount
Investment in receivable portfolios prior to transition	\$ 3,283,984
Initial transitioned deferred court costs	44,166
	3,328,150
Allowance for credit losses	79,028,043
Amortized cost	82,356,193
Noncredit discount	132,533,142
Face value	214,889,335
Write-off of amortized cost	(82,356,193)
Write-off of noncredit discount	(132,533,142)
Negative allowance	3,328,150
Initial negative allowance from transition	\$ 3,328,150

The table below provides the detail on the establishment of negative allowance for expected recoveries of portfolios purchased during the three months ended March 31, 2020 (*in thousands*):

	Three Months Ended March 31, 2020
Purchase price	\$ 214,113
Allowance for credit losses	521,194
Amortized cost	735,307
Noncredit discount	967,715
Face value	1,703,022
Write-off of amortized cost	(735,307)
Write-off of noncredit discount	(967,715)
Negative allowance	214,113
Negative allowance for expected recoveries - current period purchases	\$ 214,113

The following table summarize the changes in the balance of the investment in receivable portfolios during the periods presented (*in thousands*):

	Three Months Ended March 31,	
	2020	2019
Balance, beginning of period	\$ 3,328,150	\$ 3,137,893
Purchases of receivable portfolios	214,113	262,335
Put-backs and Recalls	(5,068)	(3,700)
Transfers to assets held for sale	(1,531)	(3,589)
Cash collections	(527,279)	(513,853)
Revenue from receivable portfolios	357,365	311,158
Changes to expected current period recoveries	10,315	—
Changes to expected future period recoveries	(108,976)	—
Portfolios allowance reversal, net	—	1,367
Foreign currency adjustments	(101,071)	19,976
Balance, end of period	\$ 3,166,018	\$ 3,211,587
Revenue as a percentage of collections	67.8 %	60.6 %

During the three months ended March 31, 2020, the Company reassessed its future forecasts of expected recoveries of receivable portfolios based on its best estimate of the potential impact arising from the COVID-19 pandemic. The updated forecasts changed the timing of future recoveries by reducing the forecasted cash flows in 2020. The majority of the shortfall in near-term cash flows is expected to be recovered in 2021 and most of the rest of the shortfall is expected to be recovered in subsequent periods. As a result, the change in the total amount of estimated remaining collections (“ERC”) was negligible. The delay in expected future cash flows, when discounted to present-value, resulted in a provision for credit loss adjustment of approximately \$109.0 million during the three months ended March 31, 2020. The circumstances around this pandemic are evolving rapidly and will continue to impact the Company’s business and its estimation of expected recoveries in future periods. The Company will continue to monitor the COVID-19 situation closely and update its assumptions accordingly.

Accretable yield represented the amount of revenue on purchased receivable portfolios the Company expects to recognize over the remaining life of its existing portfolios. The following table summarizes the change in accretable yield under the previous accounting guidance during the three months ended March 31, 2019 (*in thousands*):

	Three Months Ended March 31, 2019	
Balance as of beginning of period	\$	4,026,206
Revenue from receivable portfolios		(311,158)
Allowance reversals on receivable portfolios, net		(1,367)
Additions on existing portfolios, net		38,313
Additions for current purchases		285,637
Effect of foreign currency translation		26,461
Balance as of end of period	\$	4,064,092

The following table summarizes the change in the valuation allowance for investment in receivable portfolios as accounted for under the previous accounting guidance during the three months ended March 31, 2019 (*in thousands*):

	Three Months Ended March 31, 2019	
Balance as of beginning of period	\$	60,631
Provision for portfolio allowances		2,626
Reversal of prior allowances		(3,993)
Effect of foreign currency translation		164
Balance as of end of period	\$	59,428

Note 6: Deferred Court Costs, Net

As discussed in “Note 1: Ownership, Description of Business, and Summary of Significant Accounting Policies”, effective January 1, 2020 and as part of the adoption of CECL, the Company changed its method of accounting for court costs spent in its legal collection channel. The Company now expenses all of its court costs as incurred and includes all expected recoveries, including the recoveries from the legal channel, in the measurement of the investment in receivable portfolios at a discounted value. As a result, the Company no longer carries Deferred Court Costs.

Net deferred court costs under the previous accounting method consisted of the following as of the date presented (*in thousands*):

	December 31, 2019	
Court costs advanced	\$	891,207
Court costs recovered		(369,043)
Court costs reserve		(421,992)
Deferred court costs, net	\$	100,172

A roll-forward of the Company’s court cost reserve as accounted for under the previous accounting method is as follows (*in thousands*):

	Three Months Ended March 31, 2019	
Balance at beginning of period	\$	(396,460)
Provision for court costs		(15,713)
Charge-offs		13,779
Effect of foreign currency translation		(1,597)
Balance at end of period	\$	(399,991)

Note 7: Other Assets

Other assets consist of the following (in thousands):

	March 31, 2020	December 31, 2019
Operating lease right-of-use asset	\$ 74,113	\$ 75,254
Identifiable intangible assets, net	46,371	51,371
Assets held for sale	42,947	46,717
Deferred tax assets	26,291	24,134
Service fee receivables	22,786	27,705
Prepaid expenses	22,191	22,272
Other financial receivables	16,213	17,308
Other	51,107	64,462
Total	\$ 302,019	\$ 329,223

Note 8: Borrowings

The Company is in compliance in all material respects with all covenants under its financing arrangements as of March 31, 2020. The components of the Company's consolidated borrowings were as follows (in thousands):

	March 31, 2020	December 31, 2019
Encore revolving credit facility	\$ 528,000	\$ 492,000
Encore term loan facility	167,855	171,677
Encore senior secured notes	292,500	308,750
Encore convertible notes and exchangeable notes	672,855	672,855
Less: debt discount	(27,264)	(30,308)
Cabot senior secured notes	1,078,965	1,129,039
Less: debt discount	(1,417)	(1,604)
Cabot senior revolving credit facility	241,170	285,749
Cabot securitisation senior facilities	435,099	464,092
Other	47,924	54,151
Finance lease liabilities	8,642	8,121
	3,444,329	3,554,522
Less: debt issuance costs, net of amortization	(39,902)	(41,325)
Total	\$ 3,404,427	\$ 3,513,197

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"). The total commitment for the Revolving Credit Facility is \$884.2 million that matures in December 2021. The Term Loan Facility matures in December 2021 and the principal amortizes \$15.3 million in 2020 with the remaining principal due in 2021.

Provisions of the Restated Credit Agreement as of March 31, 2020 include, but are not limited to:

- A Revolving Credit Facility 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 (a) the per annum rate which the administrative agent publicly announces from time to time as its prime lending rate, (b) the federal funds effective rate from time to time, plus 0.5% per annum, (c) reserved adjusted LIBOR determined on a daily basis for a one month interest period, plus 1.0% per annum and (d) zero;
- A Term Loan Facility 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;
- A borrowing base under the Revolving Credit Facility equal to 35% of all eligible non-bankruptcy estimated remaining collections plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy;
- A maximum cash flow leverage ratio permitted of 3.00:1.00;
- A maximum cash flow first-lien leverage ratio of 2.00:1.00;
- A minimum interest coverage ratio of 1.75:1.00;
- The allowance of indebtedness in the form of senior secured notes not to exceed \$350.0 million;
- The allowance of additional unsecured or subordinated indebtedness not to exceed \$1.1 billion, including junior lien indebtedness not to exceed \$400.0 million;
- Restrictions and covenants, which limit the payment of dividends and the incurrence of additional indebtedness and liens, among other limitations;
- Repurchases of up to \$150.0 million of Encore's common stock and permitted indebtedness after July 9, 2015, subject to compliance with certain covenants and available borrowing capacity;
- 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.

As of March 31, 2020, the outstanding balance under the Revolving Credit Facility was \$528.0 million, which bore a weighted average interest rate of 4.58% and 5.50% for the three months ended March 31, 2020 and 2019, respectively. Available capacity under the Revolving Credit Facility, after taking into account borrowing base and applicable debt covenants, was \$356.2 million as of March 31, 2020. As of March 31, 2020, the outstanding balance under the Term Loan Facility was \$167.9 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, require quarterly principal payments of \$16.3 million. As of March 31, 2020, \$292.5 million of the Senior Secured Notes remained outstanding.

The covenants and material terms in the purchase agreement for the Senior Secured Notes are substantially similar to those in the Restated Credit Agreement.

Encore Convertible Notes and Exchangeable Notes

The following table provides a summary of the principal balance, maturity date and interest rate for the Company’s convertible and exchangeable senior notes (the “Convertible Notes” or “Exchangeable Notes,” as applicable) (*\$ in thousands*):

	March 31, 2020	December 31, 2019	Maturity date	Interest rate
2020 Convertible Notes	\$ 89,355	\$ 89,355	Jul 1, 2020	3.000 %
2021 Convertible Notes	161,000	161,000	Mar 15, 2021	2.875 %
2022 Convertible Notes	150,000	150,000	Mar 15, 2022	3.250 %
Exchangeable Notes	172,500	172,500	Sep 1, 2023	4.500 %
2025 Convertible Notes	100,000	100,000	Oct 1, 2025	3.250 %
	<u>\$ 672,855</u>	<u>\$ 672,855</u>		

The Exchangeable Notes were issued by Encore Capital Europe Finance Limited (“Encore Finance”), a 100% owned finance subsidiary of Encore, and are fully and unconditionally guaranteed by Encore. Unless otherwise indicated in connection with a particular offering of debt securities, Encore will fully and unconditionally guarantee any debt securities issued by Encore Finance. 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, 2020 are listed below:

	2020 Convertible Notes	2021 Convertible Notes	2022 Convertible Notes	2023 Exchangeable Notes	2025 Convertible Notes
Initial conversion or exchange price	\$ 45.72	\$ 59.39	\$ 45.57	\$ 44.62	\$ 40.00
Closing stock price at date of issuance	\$ 33.35	\$ 47.51	\$ 35.05	\$ 36.45	\$ 32.00
Closing stock price date	Jun 24, 2013	Mar 5, 2014	Feb 27, 2017	Jul 20, 2018	Sep 4, 2019
Conversion or exchange rate (shares per \$1,000 principal amount)	21.8718	16.8386	21.9467	22.4090	25.0000
Conversion or exchange date	Jan 1, 2020	Sep 15, 2020	Sep 15, 2021	Mar 1, 2023	Jul 1, 2025

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.

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 at the time of the original offering are listed below (*in thousands, except percentages*):

	2020 Convertible Notes ⁽¹⁾	2021 Convertible Notes	2022 Convertible Notes	2023 Exchangeable Notes	2025 Convertible Notes
Debt component	\$ 140,247	\$ 143,645	\$ 137,266	\$ 157,971	\$ 91,024
Equity component	\$ 32,253	\$ 17,355	\$ 12,734	\$ 14,009	\$ 8,976
Equity issuance cost	\$ 1,106	\$ 581	\$ 398	\$ —	\$ 224
Stated interest rate	3.000 %	2.875 %	3.250 %	4.500 %	3.250 %
Effective interest rate	6.350 %	4.700 %	5.200 %	6.500 %	5.000 %

(1) The Company used a portion of the net proceeds from the issuance of the 2025 Convertible Notes to repurchase approximately \$83.1 million aggregate principal amount of its 2020 Convertible Notes. As a result, the remaining principal amount of the 2020 Convertible Notes was \$89.4 million as of March 31, 2020.

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

	March 31, 2020	December 31, 2019
Liability component—principal amount	\$ 672,855	\$ 672,855
Unamortized debt discount	(27,264)	(30,308)
Liability component—net carrying amount	\$ 645,591	\$ 642,547
Equity component	\$ 83,127	\$ 83,127

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,	
	2020	2019
Interest expense—stated coupon rate	\$ 5,799	\$ 5,337
Interest expense—amortization of debt discount	3,044	3,121
Interest expense—Convertible Notes and Exchangeable Notes	\$ 8,843	\$ 8,458

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 or the 2025 Convertible Notes.

The details of the hedge program 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

The following table provides a summary of the Cabot senior secured notes (\$ in thousands):

	March 31, 2020	December 31, 2019	Maturity date	Interest rate
Floating rate senior secured notes due 2024	\$ 441,336	\$ 448,921	Jun 1, 2024	EURIBOR +6.375%
Senior secured notes due 2023	637,629	680,118	Oct 1, 2023	7.500 %
	<u>\$ 1,078,965</u>	<u>\$ 1,129,039</u>		

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

	Three Months Ended March 31,	
	2020	2019
Interest expense—stated coupon rate	\$ 19,417	\$ 19,394
Interest expense—amortization of debt discount	85	202
Interest expense—Cabot senior secured notes	<u>\$ 19,502</u>	<u>\$ 19,596</u>

Cabot Senior Revolving Credit Facility

Cabot Financial (UK) Limited (“Cabot Financial UK”) has an amended and restated senior secured revolving credit facility agreement (as amended and restated, the “Cabot Credit Facility”). As of March 31, 2020, the Cabot Credit Facility provided for a total committed facility of £375.0 million that expires in September 2023 and included the following key provisions:

- Interest at LIBOR (or EURIBOR for any loan drawn in euro) plus 3.00% per annum;
- 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; and
- Additional restrictions and covenants which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens.

As of March 31, 2020, the outstanding borrowings under the Cabot Credit Facility were £194.0 million (approximately \$241.2 million). The weighted average interest rate was 3.55% and 3.37% for the three months ended March 31, 2020 and 2019, respectively. Available capacity under the Cabot Credit Facility, after taking into account borrowing base and applicable debt covenants, was £181.0 million (approximately \$225.0 million) as of March 31, 2020.

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. In November 2018, Cabot’s wholly owned subsidiary Cabot Securitisation UK II Ltd (“Cabot Securitisation II”) entered into a non-recourse asset backed senior facility of £50.0 million.

On February 18, 2020, Cabot Securitisation amended and restated its Senior Facility Agreement. Pursuant to the amendment and restatement of the Senior Facility Agreement, the total commitment amount was increased by £50.0 million from £300.0 million to £350.0 million, the repayment date was extended from September 15, 2023 to March 15, 2025 and SONIA replaced LIBOR as the reference rate. Funds drawn under the amended and restated Senior Facility Agreement bear interest at a rate per annum equal to SONIA plus a margin of 3.06% plus, for periods after March 15, 2023, a step-up margin ranging from zero to 1.00%. Cabot Securitisation has drawn down the additional £50.0 million and used the proceeds to purchase receivables from Cabot Securitisation II in order to effect the termination of the £50.0 million senior facility of Cabot Securitisation II.

As of March 31, 2020, the outstanding borrowings under the Cabot Securitisation Senior Facility were £350.0 million (approximately \$435.1 million). 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 £377.6 million (approximately

\$469.4 million) as of March 31, 2020. The weighted average interest rate was 3.52% and 3.76% for the three months ended March 31, 2020 and 2019 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.

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.

As of March 31, 2020, 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. The Company has the power to direct the activities of the VIEs which includes but is not limited to the ability to exercise discretion in the servicing of the financial assets.

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

The Company recorded income tax expense of \$4.6 million on consolidated loss before income taxes of \$6.0 million during the three months ended March 31, 2020 and income tax expense of \$3.7 million on consolidated income before income taxes of \$53.1 million during the three months ended March 31, 2019. The income tax expense for the three months ended March 31, 2020 was primarily attributable to the recording of valuation allowances in certain foreign jurisdictions that incurred pre-tax losses. The income tax expense for the three months ended March 31, 2019 included a tax benefit of approximately \$9.1 million related to a tax accounting method change for revenue reporting approved by the Internal Revenue Service during the period.

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

	Three Months Ended March 31,	
	2020	2019
Federal provision	21.0 %	21.0 %
State provision	(15.6)%	2.5 %
Foreign income taxed at different rates ⁽¹⁾	(3.2)%	(0.9)%
Change in valuation allowance ⁽²⁾	(66.5)%	1.9 %
Change in tax accounting method ⁽³⁾	— %	(17.1)%
Foreign currency remeasurement	(6.4)%	0.2 %
Permanent items ⁽⁴⁾	(1.7)%	0.1 %
Other	(3.3)%	(0.8)%
Effective tax rate	(75.7)%	6.9 %

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

(2) Change in valuation allowance during 2020, recognized in the period under the discrete method, is attributable to losses incurred at certain foreign subsidiaries with cumulative operating losses for tax purposes.

(3) In 2019, includes tax benefit resulting from tax accounting method change.

(4) Represents a provision for nondeductible expenses

The Company utilized the discrete effective tax rate method (“discrete method”) for recording income taxes for the three months ended March 31, 2020. The Company believes the use of the discrete method is more appropriate than the application of the estimated annual effective tax rate (“AETR”) method due to uncertainty in estimating annual pre-tax earnings primarily due to the ongoing COVID-19 pandemic. The Company will re-evaluate the use of the discrete method each quarter until it is deemed appropriate to return to the AETR method.

The Company’s subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2026. The impact of the tax holiday in Costa Rica for the three months ended March 31, 2020 and 2019, was immaterial.

The Company had gross unrecognized tax benefits, inclusive of penalties and interest, of \$8.2 million as of March 31, 2020. These unrecognized tax benefits, if recognized, would result in a net tax benefit of \$7.6 million as of March 31, 2020. There was no material change in gross unrecognized tax benefits from December 31, 2019.

The Company has not provided for applicable income or withholding taxes on the undistributed earnings from continuing operations for certain of its subsidiaries operating outside of the United States. Undistributed net income of these subsidiaries as of March 31, 2020 was approximately \$117.1 million. Such undistributed earnings are considered permanently reinvested. The Company does not provide deferred taxes on translation adjustments on unremitted earnings under the indefinite reversal exemption. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practical due to the complexities of a hypothetical calculation. Subsidiaries operating outside of the United States for which the Company does not consider under the indefinite reversal exemption have no material undistributed earnings or outside basis differences and therefore no U.S. taxes have been provided.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law in response to the COVID-19 pandemic. The CARES Act contains several corporate income tax provisions, including modifications to the limitation on business interest expense and net operating loss regulations, and provides for a payment delay of employer payroll taxes and income taxes. The CARES Act did not have a material impact on the Company’s effective tax rate or income tax provision for the three months ended March 31, 2020.

Note 11: 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.

As of March 31, 2020, 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, 2019.

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. 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, 2020, 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, 2020, the Company had entered into agreements to purchase receivable portfolios with a face value of approximately \$3.0 billion for a purchase price of approximately \$378.4 million.

Note 12: 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.

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

	Three Months Ended March 31,	
	2020	2019
Total revenues ⁽¹⁾ :		
United States	\$ 208,218	\$ 189,372
International		
Europe ⁽²⁾	75,965	135,276
Other geographies	4,898	22,429
	<u>80,863</u>	<u>157,705</u>
Total	<u>\$ 289,081</u>	<u>\$ 347,077</u>

(1) Total revenues for periods in 2019 are adjusted by net allowances. Total revenues are attributed to countries based on consumer location.

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

Note 13: Goodwill and Identifiable Intangible Assets

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 Company performs its annual goodwill impairment testing in the fourth quarter of each year. During the 2019 impairment testing, both of the two reporting units had fair values substantially in excess of their carrying values. In addition to the annual impairment test, the Company is required to assess whether a triggering event has occurred which would require interim impairment testing. The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and its impact on each of the reporting units. Further, the Company assessed the current market capitalization, forecasts and the amount of headroom in the 2019 impairment test. The Company determined that it was

not more likely than not that the fair value of each of the reporting units was less than its respective carrying value as of March 31, 2020. Therefore, an interim quantitative impairment test was not performed.

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*):

	Three Months Ended March 31,	
	2020	2019
Balance, beginning of period	\$ 884,185	\$ 868,126
Effect of foreign currency translation	(44,884)	14,758
Balance, end of period	<u>\$ 839,301</u>	<u>\$ 882,884</u>

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

	As of March 31, 2020			As of December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 60,718	\$ (15,565)	\$ 45,153	\$ 67,897	\$ (18,191)	\$ 49,706
Developed technologies	4,257	(3,744)	513	4,734	(4,124)	610
Trade name and other	5,248	(4,543)	705	6,299	(5,244)	1,055
Total intangible assets	<u>\$ 70,223</u>	<u>\$ (23,852)</u>	<u>\$ 46,371</u>	<u>\$ 78,930</u>	<u>\$ (27,559)</u>	<u>\$ 51,371</u>

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, financing needs or plans or the impacts of COVID-19, 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” and those set forth in “Part II, Item 1A, Risk Factors” of this Quarterly Report 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”), and contingent collections, including through Wescot Credit Services Limited (“Wescot”), a leading U.K. contingency debt collection and BPO services company.

LAAP (Latin America and Asia-Pacific)

We have purchased non-performing loans in Colombia, Peru, Mexico and Brazil (which was sold in April 2020). Additionally, we have invested in Encore Asset Reconstruction Company (“EARC”) in India.

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 in the United States and United Kingdom and strengthening and developing our business in the rest of Europe.

Recent Developments

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (“COVID-19”) a pandemic, which has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns (including court closures in certain jurisdictions). While we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations for an indefinite period of time.

Although such disruptions did not have a material effect on our day-to-day operations for the first quarter of 2020, they are having an adverse impact on our ability to collect and are expected to delay a portion of our near-term collections on purchased receivable portfolios. Therefore, in accordance with the new accounting standard for Financial Instruments - Credit Losses (“CECL”), we have updated our expectations of timing of future collections primarily as a result of COVID-19, the financial impact of which materially impacted our results of operations.

Government Regulation

There have been various governmental actions taken, or proposed, in response to the COVID-19 pandemic, such as limiting debt collections efforts and encouraging or requiring extensions, modifications or forbearance, with respect to certain loans and fees. In addition, in certain jurisdictions courts have closed and/or government actions have affected the litigation process. Government actions have not been consistent across jurisdictions and the efficacy and ultimate effect of such actions is not known. We continue to monitor federal, state and international regulatory developments in relation to COVID-19 and their potential impact on our operations.

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.

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 domestic business. 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 in the first quarter remained 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 are closely monitoring the impacts of COVID-19 on pricing and supply as well as collections and cost-to-collect.

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 has generally provided a relatively consistent pipeline of opportunities over the past few years, despite an ongoing historic low level of charge-off rates, as creditors have embedded debt sales as an integral part of their business models and consumer indebtedness has continued to grow since the financial crisis.

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.

Across all of our European markets, we are closely monitoring the impacts of COVID-19 on pricing and supply of portfolios to purchase. Due to the COVID-19 pandemic, banks have paused portfolio sales to address customers' needs. As a result, we expect a lower level of supply available for purchase in the near-term.

Purchased Receivables 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,	
	2020	2019
MCM (United States)	\$ 185,252	\$ 174,227
Cabot (Europe)	28,861	83,640
Other geographies	—	4,468
Total purchases	\$ 214,113	\$ 262,335

During the three months ended March 31, 2020, we invested \$214.1 million to acquire receivable portfolios, with face values aggregating \$1.7 billion, for an average purchase price of 12.6% of face value. The amount invested in receivable portfolios decreased \$48.2 million, or 18.4%, compared with the \$262.3 million invested during the three months ended March 31, 2019, to acquire receivable portfolios with face values aggregating \$1.7 billion, for an average purchase price of 15.1% of face value.

In the United States, capital deployment increased during the three months ended March 31, 2020, as compared to the corresponding periods in the prior year. The majority of our deployments in the U.S. are in forward flow agreements, and the timing, contract duration, and volumes for each contract can fluctuate leading to variation when comparing to prior periods.

In Europe, capital deployment during the three months ended March 31, 2020 decreased as compared to the corresponding periods in the prior year. The decreases were primarily the result of a relatively limited supply of portfolios in the quarter and a continuation of our selective purchasing process in conjunction with a plan to reduce European debt leverage over time.

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 from Purchased Receivables by Channel and Geographic Location

We utilize three channels for the collection of our purchased 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 from receivable portfolios by collection channel and geographic area (*in thousands*):

	Three Months Ended March 31,	
	2020	2019
MCM (United States):		
Call center and digital collections	\$ 214,238	\$ 185,255
Legal collections	158,026	141,036
Collection agencies	2,465	3,303
Subtotal	<u>374,729</u>	<u>329,594</u>
Cabot (Europe):		
Call center and digital collections	63,789	62,665
Legal collections	42,900	50,658
Collection agencies	37,414	47,477
Subtotal	<u>144,103</u>	<u>160,800</u>
Other geographies:		
Call center and digital collections	—	10,200
Legal collections	—	1,530
Collection agencies	8,447	11,729
Subtotal	<u>8,447</u>	<u>23,459</u>
Total collections from purchased receivables	<u>\$ 527,279</u>	<u>\$ 513,853</u>

Gross collections from purchased receivables increased by \$13.4 million, or 2.6%, to \$527.3 million during the three months ended March 31, 2020, from \$513.9 million during the three months ended March 31, 2019. The increase of gross collections was attributable to increased collections in the United States, offset by decreases in collections in Europe and other geographies.

The increase of collections from purchased receivables in the United States 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. Our consumer centric collection approach and our capacity buildup are driving a higher proportion of call center collections compared to legal collections in the United States.

The decrease in collections from purchased receivables in Europe was primarily due to a reduced level of capital deployment in recent periods in conjunction with our plan to reduce European debt leverage over time, the impacts of COVID-19, and the unfavorable impact of foreign currency translation, which was primarily the result of the strengthening of the U.S. dollar against the British Pound.

The decrease in collections from purchased receivables in other geographies was primarily due to the sale of our wholly-owned subsidiary Baycorp in August 2019.

COVID-19 and the resulting containment measures, including impacts to the legal collections process, negatively affected collections beginning in late March 2020 and could continue to affect collections and related costs depending on the duration and severity of the resulting containment measures.

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,			
	2020		2019	
Revenues				
Revenue from receivable portfolios	\$ 357,365	123.6 %	\$ 311,158	89.7 %
Changes in expected current and future recoveries	(98,661)	(34.1) %	—	— %
Servicing revenue	28,680	9.9 %	34,023	9.8 %
Other revenues	1,697	0.6 %	529	0.1 %
Total revenues	289,081	100.0 %	345,710	99.6 %
Allowance reversals on receivable portfolios, net			1,367	0.4 %
Total revenues, adjusted by net allowances			347,077	100.0 %
Operating expenses				
Salaries and employee benefits	93,098	32.2 %	91,834	26.5 %
Cost of legal collections	66,279	22.9 %	49,027	14.1 %
Other operating expenses	27,164	9.4 %	29,614	8.5 %
Collection agency commissions	13,176	4.6 %	16,002	4.6 %
General and administrative expenses	31,877	11.0 %	39,547	11.4 %
Depreciation and amortization	10,285	3.6 %	9,995	2.9 %
Total operating expenses	241,879	83.7 %	236,019	68.0 %
Income from operations	47,202	16.3 %	111,058	32.0 %
Other expense				
Interest expense	(54,662)	(18.9) %	(54,967)	(15.8) %
Other income (expense)	1,439	0.5 %	(2,976)	(0.9) %
Total other expense	(53,223)	(18.4) %	(57,943)	(16.7) %
(Loss) income before income taxes	(6,021)	(2.1) %	53,115	15.3 %
Provision for income taxes	(4,558)	(1.6) %	(3,673)	(1.1) %
Net (loss) income	(10,579)	(3.7) %	49,442	14.2 %
Net loss (income) attributable to noncontrolling interest	125	0.1 %	(188)	(0.1) %
Net (loss) income attributable to Encore Capital Group, Inc. stockholders	\$ (10,454)	(3.6) %	\$ 49,254	14.1 %

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,	
	2020	2019
Total revenues	\$ 79,964	\$ 129,012
Total operating expenses	(75,239)	(70,499)
Income from operations	4,725	58,513
Interest expense	(30,495)	(28,955)
Other income (expense)	1,700	(302)
(Loss) income before income taxes	(24,070)	29,256
Benefit (provision) for income taxes	2,094	(5,431)
Net (loss) income	(21,976)	23,825
Net loss (income) attributable to noncontrolling interest	125	(188)
Net (loss) income attributable to Encore Capital Group, Inc. stockholders	\$ (21,851)	\$ 23,637

Comparison of Results of Operations

Revenues

Our revenues primarily include revenue recognized from engaging in debt purchasing and recovery activities. Effective January 1, 2020, we adopted the CECL accounting standard. Under CECL, we apply our charge-off policy and fully write-off the amortized costs (*i.e.*, face value net of noncredit discount) of the individual receivables we acquire immediately after purchasing the portfolio. We then record a negative allowance that represents the present value of all expected future recoveries for pools of receivables that share similar risk characteristics using a discounted cash flow approach, which is presented as “Investment in receivable portfolios, net” in our consolidated statements of financial condition. The discount rate is an effective interest rate (or “purchase EIR”) established based on the purchase price of the portfolio and the expected future cash flows at the time of purchase. Revenue generated by such activities primarily includes two components: (1) the accretion of the discount on the negative allowance due to the passage of time, which is included in “Revenue from receivable portfolios” and (2) changes in expected cash flows, which includes (a) the current period variances between actual cash collected and expected cash recoveries and (b) the present value change of expected future recoveries and presented in our consolidated statements of operations as “Changes to expected current and future recoveries.”

Certain pools already fully recovered their cost basis and became zero basis portfolios (“ZBA”) prior to our adoption of CECL. We did not establish negative allowance for these pools as we elected the Transition Resource Group for Credit Losses’ practical expedient to retain the integrity of these legacy pools. Similar to how we treated ZBA collections prior to the adoption of CECL, all subsequent collections to the ZBA pools are recognized as ZBA revenue which is included in revenue from receivable portfolios in our consolidated statements of operations.

Servicing revenue consists primarily of fee-based income earned on accounts collected on behalf of others, primarily credit originators. We 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.

Other revenues primarily include revenues recognized from the sale of real estate assets that are acquired as a result of our investments in non-performing secured residential mortgage portfolios in Europe and LAAP. Other revenues also include gains recognized on transfers of financial assets.

Under the previous accounting standard for purchased credit deteriorated assets, we incurred allowance charges when actual cash flows from our receivable portfolios underperform compared to our expectations or when there was a change in the timing of cash flows. We also recorded allowance reversals on pool groups that have historic allowance reserves when actual cash flows from these receivable portfolios outperform our expectations.

We have not adjusted prior period comparative information and will continue to disclose prior period financial information in accordance with the previous accounting guidance. The following table summarizes revenues for the periods presented (*in thousands*):

	Three months ended March 31,			
	2020	2019	\$ Change	% Change
Revenue recognized from portfolio basis	\$ 340,815	\$ 285,301	\$ 55,514	19.5 %
ZBA revenue	16,550	25,857	(9,307)	(36.0)%
Revenue from receivable portfolios	357,365	311,158	46,207	14.9 %
Changes in expected current period recoveries	10,315			
Changes in expected future period recoveries	(108,976)			
Changes in expected current and future recoveries	(98,661)			
Servicing revenue	28,680	34,023	(5,343)	(15.7)%
Other revenues	1,697	529	1,168	220.8 %
Total revenues	<u>\$ 289,081</u>	<u>\$ 345,710</u>	<u>\$ (56,629)</u>	<u>(16.4) %</u>
Allowance reversals on receivable portfolios, net ⁽¹⁾		1,367		
Total revenues, adjusted by net allowances		<u>\$ 347,077</u>		

(1) Amount includes \$2.3 million of allowance reversals for zero-basis portfolios.

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 1.8% during the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

The increase in revenue recognized from portfolio basis was primarily due to (1) higher portfolio basis used to calculate revenue, (2) higher expected total future cash flows resulting from a change in expected economic life of static pool groups based on a lifetime expected recovery model upon the adoption of CECL, which led to increased EIR, and (3) increased expected total future cash flows resulting from a change in our accounting policy for court costs, under our new accounting policy, all future expected cash flows, including the expected total recoveries in our legal channel, are included in the initial curve in the establishment of negative allowance, which in turn, increased the EIR.

As discussed above, ZBA revenue represents collections from our legacy ZBA pools, we expect our ZBA revenue continue to decline as we collect on these legacy pools. Since our forecast period is on a rolling 15 year basis after the adoption of CECL, we do not expect to have new ZBA pools in the future.

Under CECL, changes to expected current period recoveries represent over and under-performance in the reporting period. Due to our sustained improvements in portfolio collections driven by liquidation improvement initiatives, collections during the three months ended March 31, 2020 outperformed the projected cash flows, the over-performance was partially offset by a slight shortfall of collections in March. We believe such shortfall was primarily the result of the COVID-19 pandemic.

During the three months ended March 31, 2020, we reassessed our future forecasts of expected recoveries of receivable portfolios based on our best estimate of the potential impact arising from the COVID-19 pandemic. The updated forecasts changed the timing of future recoveries by reducing the forecasted cash flows in 2020. The majority of the shortfall in near-term cash flows is expected to be recovered in 2021 and most of the rest of the shortfall is expected to be recovered in subsequent periods. As a result, the change in the total amount of estimated remaining collections ("ERC") was negligible. The delay in expected future cash flows, when discounted to present-value, resulted in a provision for credit loss adjustment of approximately \$109.0 million during the three months ended March 31, 2020. The circumstances around this pandemic are evolving rapidly and will continue to impact our business and our estimation of expected recoveries in future periods. We will continue to monitor the COVID-19 situation closely and update our assumptions accordingly.

The following tables summarize collections from purchased receivables, 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, 2020			As of March 31, 2020	
	Collections	Revenue from Receivable Portfolios	Changes in Expected Current and Future Recoveries	Investment in Receivable Portfolios	Monthly EIR
United States:					
ZBA	\$ 15,274	\$ 15,274	\$ —	\$ —	— %
2011	7,249	6,865	(215)	2,021	88.6 %
2012	8,495	7,664	(480)	4,795	42.0 %
2013	17,687	18,136	(3,984)	11,564	40.5 %
2014	14,591	10,089	(2,026)	44,820	6.7 %
2015	18,302	9,309	(1,079)	73,901	3.8 %
2016	33,377	16,785	(2,412)	133,941	3.8 %
2017	55,435	30,850	(1,103)	178,176	5.2 %
2018	89,418	46,938	(15,629)	362,553	3.8 %
2019	102,534	72,048	(2,104)	601,892	3.8 %
2020	12,367	8,175	(5,010)	176,543	3.6 %
Subtotal	374,729	242,133	(34,042)	1,590,206	4.4 %
Europe:					
ZBA	58	58	—	—	— %
2013	25,259	22,262	(6,306)	215,495	3.2 %
2014	23,271	17,887	(4,972)	186,139	3.0 %
2015	15,173	11,189	(2,096)	143,275	2.4 %
2016	13,102	11,259	(11,028)	122,994	2.8 %
2017	23,494	15,696	(9,692)	260,314	1.9 %
2018	22,658	15,662	(22,493)	305,824	1.6 %
2019	20,106	14,292	(7,633)	240,124	1.8 %
2020	982	1,400	249	28,086	2.6 %
Subtotal	144,103	109,705	(63,971)	1,502,251	2.3 %
Other geographies:					
ZBA	1,218	1,218	—	—	— %
2014 ⁽¹⁾	1,174	545	(19)	47,819	100.2 %
2015	1,557	941	76	4,544	17.1 %
2016	971	686	(249)	3,391	5.1 %
2017	1,875	1,140	(323)	11,586	6.1 %
2018	1,580	955	(120)	5,986	3.7 %
2019	72	42	(13)	235	4.6 %
2020	—	—	—	—	— %
Subtotal	8,447	5,527	(648)	73,561	67.7 %
Total	\$ 527,279	\$ 357,365	\$ (98,661)	\$ 3,166,018	3.4 %

(1) Portfolio balance includes non-accrual pool groups. The EIR presented is only for pool groups that accrete portfolio revenue.

	Three Months Ended March 31, 2019			As of March 31, 2019	
	Collections	Revenue from Receivable Portfolios	Net Reversal (Portfolio Allowance)	Unamortized Balances	Monthly EIR
United States:					
ZBA ⁽¹⁾	\$ 25,531	\$ 23,270	\$ 2,267	\$ —	— %
2011	2,764	2,280	—	2,422	27.4 %
2012	7,336	6,096	273	8,994	20.2 %
2013	22,034	19,179	(52)	22,838	25.6 %
2014	19,667	10,822	1,090	65,813	5.0 %
2015	24,968	10,196	—	109,436	2.8 %
2016	47,454	20,653	(896)	208,176	3.0 %
2017	77,294	35,626	—	279,667	3.8 %
2018	94,281	52,674	—	527,432	3.1 %
2019	8,265	5,892	—	171,684	3.2 %
Subtotal	329,594	186,688	2,682	1,396,462	3.8 %
Europe:					
ZBA ⁽¹⁾	91	91	—	—	— %
2013	30,110	23,297	—	247,509	3.1 %
2014	28,120	19,679	(175)	228,433	2.7 %
2015	19,509	11,147	(256)	177,460	2.0 %
2016	16,823	11,279	(29)	157,254	2.4 %
2017	32,302	17,366	—	333,760	1.7 %
2018	30,079	18,991	—	418,012	1.5 %
2019	3,766	2,993	—	83,741	1.6 %
Subtotal	160,800	104,843	(460)	1,646,169	2.1 %
Other geographies:					
ZBA ⁽¹⁾	2,542	2,542	—	—	— %
2014	945	4,654	—	64,928	2.4 %
2015	5,410	4,418	—	18,667	7.3 %
2016	4,239	2,067	12	24,867	2.6 %
2017	4,757	2,927	—	30,071	3.2 %
2018	5,131	2,864	(867)	26,284	3.4 %
2019	435	155	—	4,139	3.5 %
Subtotal	23,459	19,627	(855)	168,956	3.3 %
Total	\$ 513,853	\$ 311,158	\$ 1,367	\$ 3,211,587	2.9 %

(1) Zero basis 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%.

The decrease in servicing revenues was primarily attributable to the sale of Baycorp in August 2019. Through Baycorp, we earned servicing revenues during the three months ended March 31, 2019, the decrease was also driven by unfavorable impact of foreign currency translation, which was primarily the result of the strengthening of the U.S. dollar against the British Pound.

The increase in other revenues was due to the increase in sale of real estate assets that are acquired as a result of our investments in non-performing secured residential mortgage portfolios in Europe and LAAP.

Operating Expenses

The following table summarizes operating expenses for the periods presented (*in thousands*):

	Three Months Ended March 31,			
	2020	2019	\$ Change	% Change
Salaries and employee benefits	\$ 93,098	\$ 91,834	\$ 1,264	1.4 %
Cost of legal collections	66,279	49,027	17,252	35.2 %
Other operating expenses	27,164	29,614	(2,450)	(8.3) %
Collection agency commissions	13,176	16,002	(2,826)	(17.7) %
General and administrative expenses	31,877	39,547	(7,670)	(19.4) %
Depreciation and amortization	10,285	9,995	290	2.9 %
Total operating expenses	\$ 241,879	\$ 236,019	\$ 5,860	2.5 %

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 1.8% for the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

The increase in salaries and employee benefits was primarily due to the following reasons:

- Increase in salaries and employee benefits at our domestic sites as part of our initiative to increase collections capacity; and
- Increased stock compensation due to larger expense reversals in the prior period;
- Partially offset by a decrease in headcount in other geographies as a result of the sale of Baycorp and the favorable impact of foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound.

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. Effective January 1, 2020, we no longer capitalize upfront court costs and recognize a portion of court costs as expense based on a loss-rate methodology, but rather, we expense all court costs as incurred. 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.

	Three months ended March 31,			
	2020	2019	\$ Change	% Change
Court costs	\$ 41,355	\$ 20,479	\$ 20,876	101.9 %
Legal collection fees	24,924	28,548	(3,624)	(12.7) %
Total cost of legal collections	\$ 66,279	\$ 49,027	\$ 17,252	35.2 %

The increase in cost of legal collections was primarily due to the following reasons:

- No longer capitalizing upfront court costs but rather expensing all court costs as incurred;
- Partially offset by a decline in legal collection fees.

Other Operating Expenses

The decrease in other operating expenses was primarily due to the following reasons:

- The favorable impact of foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound;
- Reduced expenditures for temporary services; and
- Lower collection expenses primarily due to the sale of Baycorp in August 2019.

Collection Agency Commissions

Collection agency commissions 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 decrease in collections agency commissions was primarily due to the following reasons:

- Other geographies decreased due to progressive decrement of portfolio collections during the period; and
- Europe decreased due to the favorable impact of foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound.

General and Administrative Expenses

The decrease in general and administrative expense was primarily due to the following reasons:

- Reduced consulting fees and infrastructure costs at our domestic sites;
- Lower general and administrative expenses due to the sale of Baycorp in August 2019; and
- The favorable impact of foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound;

Depreciation and Amortization

The increase in depreciation and amortization expense was primarily due to the following reasons:

- Increased depreciation expense primarily incurred at our domestic facilities;
- Partially offset by the favorable impact of foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound.

Interest Expense

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

	Three Months Ended March 31,			
	2020	2019	\$ Change	% Change
Stated interest on debt obligations	\$ 48,755	\$ 48,318	\$ 437	0.9 %
Amortization of loan costs	2,778	3,326	(548)	(16.5) %
Amortization of debt discount	3,129	3,323	(194)	(5.8) %
Total interest expense	\$ 54,662	\$ 54,967	\$ (305)	(0.6) %

The decrease in interest expense was primarily due to the following reasons:

- Favorable impact of foreign currency translation, primarily by the strengthening of the U.S. dollar against the British Pound;
- Lower balances on the Encore Term Loan Facility, Encore Senior Secured Notes, and Cabot Credit Facilities;
- Decrease in London Interbank Offered Rate (“LIBOR”) which resulted in decreased interest expense for the Encore Revolving Credit Facility; and
- Partially offset by the effect from higher balances on the Encore Revolving Credit Facility.

Other Income (Expense)

Other income or 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 income was \$1.4 million during the three months ended March 31, 2020 and other expense was \$3.0 million during the three months ended March 31, 2019. The change in other income (expense) was primarily due to the following reasons:

- Other income recognized during the three months ended March 31, 2020 based on fair value changes for currency exchange forward contracts which are not designated as hedge instruments for accounting purposes;
- Other expense recognized during the three months ended March 31, 2019 primarily due to foreign currency exchange losses.

Provision for Income Taxes

We recorded income tax expense of \$4.6 million on consolidated loss before income taxes of \$6.0 million during the three months ended March 31, 2020 and income tax expense of \$3.7 million on consolidated income before income taxes of \$53.1 million during the three months ended March 31, 2019. The income tax expense for the three months ended March 31, 2020 was primarily attributable to the recording of valuation allowances in certain foreign jurisdictions that incurred pre-tax losses. The income tax expense for the three months ended March 31, 2019 included a tax benefit of approximately \$9.1 million related to a tax accounting method change for revenue reporting approved by the Internal Revenue Service during the period.

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

	Three Months Ended March 31,	
	2020	2019
Federal provision	21.0 %	21.0 %
State provision	(15.6)%	2.5 %
Foreign income taxed at different rates ⁽¹⁾	(3.2)%	(0.9)%
Change in valuation allowance ⁽²⁾	(66.5)%	1.9 %
Change in tax accounting method ⁽³⁾	— %	(17.1)%
Foreign currency remeasurement	(6.4)%	0.2 %
Permanent items ⁽⁴⁾	(1.7)%	0.1 %
Other	(3.3)%	(0.8)%
Effective tax rate	(75.7)%	6.9 %

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

(2) Change in valuation allowance during 2020, recognized in the period under the discrete method, is attributable to losses incurred at certain foreign subsidiaries with cumulative operating losses for tax purposes.

(3) In 2019, includes tax benefit resulting from tax accounting method change.

(4) Represents a provision for nondeductible expenses.

We utilized the discrete effective tax rate method (“discrete method”) for recording income taxes for the three months ended March 31, 2020. We believe the use of the discrete method is more appropriate than the application of the estimated annual effective tax rate (“AETR”) method due to uncertainty in estimating annual pre-tax earnings primarily due to the ongoing COVID-19 pandemic. We will re-evaluate the use of the discrete method each quarter until it is deemed appropriate to return to the AETR method.

Our income tax expense includes deferred income taxes arising from temporary differences between the financial reporting and tax bases of assets and liabilities, and net operating losses. We regularly evaluate the realizability of our deferred income tax assets and assess the need for a valuation allowance, including considerations of whether it is more likely than not that the deferred income tax assets will be realized. The assessment of realizability requires significant judgement and our projections of future taxable income required to fully realize the recorded amount of deferred tax assets reflect numerous assumptions about our operating business and investments, and are subject to change as conditions change specific to our operating business, investments or general economic conditions. Adverse changes in certain jurisdictions could result in the need to record or increase the valuation allowance, resulting in a charge against earnings in the respective period.

Our subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2026. The impact of the tax holiday in Costa Rica for the three months ended March 31, 2020 and 2019, was immaterial.

We had gross unrecognized tax benefits, inclusive of penalties and interest, of \$8.2 million as of March 31, 2020. These unrecognized tax benefits, if recognized, would result in a net tax benefit of \$7.6 million as of March 31, 2020. There was no material change in gross unrecognized tax benefits from December 31, 2019.

We have not provided for applicable income or withholding taxes on the undistributed earnings from continuing operations for certain of its subsidiaries operating outside of the United States. Undistributed net income of these subsidiaries as of March 31, 2020 was approximately \$117.1 million. Such undistributed earnings are considered permanently reinvested. We do not provide for deferred taxes on translation adjustments on unremitted earnings under the indefinite reversal exemption. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practical due to the complexities of a hypothetical calculation. Subsidiaries operating outside of the United States for which we do not consider under the indefinite reversal exemption have no material undistributed earnings or outside basis differences and therefore no U.S. taxes have been provided.

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 (Loss) Per Share. Management uses non-GAAP adjusted net income (loss) and adjusted earnings (loss) 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 (loss) 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 (loss) and diluted earnings (loss) per share attributable to Encore calculated in accordance with GAAP, to adjusted net income (loss) and adjusted earnings (loss) per share attributable to Encore, respectively (*in thousands, except per share data*):

	Three Months Ended March 31,			
	2020		2019	
	\$	Per Diluted Share	\$	Per Diluted Share
GAAP net (loss) income attributable to Encore, as reported	\$ (10,454)	\$ (0.33)	\$ 49,254	\$ 1.57
Adjustments:				
Convertible notes and exchangeable notes non-cash interest and issuance cost amortization	3,977	0.13	4,002	0.13
Acquisition, integration and restructuring related expenses ⁽¹⁾	187	0.01	1,208	0.04
Amortization of certain acquired intangible assets ⁽²⁾	1,643	0.05	1,877	0.06
Income tax effect of above non-GAAP adjustments and certain discrete tax items ⁽³⁾	(1,250)	(0.05)	(1,383)	(0.05)
Change in tax accounting method ⁽⁴⁾	—	—	(9,070)	(0.29)
Adjusted net (loss) income attributable to Encore	\$ (5,897)	\$ (0.19)	\$ 45,888	\$ 1.46

(1) 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.

- (2) As we acquire debt solution service providers around the world, we also acquire intangible assets, such as trade names and customer relationships. 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 (loss) attributable to Encore and adjusted income (loss) per share.
- (3) 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.
- (4) 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.

Adjusted EBITDA. Management utilizes adjusted EBITDA (defined as net income (loss) before discontinued operations, interest income and expense, taxes, depreciation and amortization, stock-based compensation expenses, acquisition, integration and restructuring related 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,	
	2020	2019
GAAP net (loss) income, as reported	\$ (10,579)	\$ 49,442
Adjustments:		
Interest expense	54,662	54,967
Interest income	(1,000)	(1,022)
Provision for income taxes	4,558	3,673
Depreciation and amortization	10,285	9,995
Stock-based compensation expense	4,527	1,826
Acquisition, integration and restructuring related expenses ⁽¹⁾	187	1,208
Adjusted EBITDA	<u>\$ 62,640</u>	<u>\$ 120,089</u>
Collections applied to principal balance ⁽²⁾	\$ 268,575	\$ 201,328

(1) 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.

(2) Amount represents (a) gross collections from receivable portfolios less the sum of (b) revenue from receivable portfolios and (c) changes in expected recoveries for 2020. Amount represents (a) gross collections from receivable portfolios less the sum of (b) revenue from receivable portfolios and (c) allowance charges or allowance reversals on receivable portfolios for 2019.

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,	
	2020	2019
GAAP total operating expenses, as reported	\$ 241,879	\$ 236,019
Adjustments:		
Operating expenses related to non-portfolio purchasing and recovery business ⁽¹⁾	(41,489)	(46,082)
Stock-based compensation expense	(4,527)	(1,826)
Acquisition, integration and restructuring related expenses ⁽²⁾	(187)	(1,208)
Adjusted operating expenses related to portfolio purchasing and recovery business	<u>\$ 195,676</u>	<u>\$ 186,903</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 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.

Cost per Dollar Collected

We utilize adjusted operating expenses in order to facilitate a comparison of approximate costs to cash collections from purchased receivables for our portfolio purchasing and recovery business. The following table summarizes our cost per dollar collected (defined as adjusted operating expenses as a percentage of collections from purchased receivables) by geographic location during the periods presented:

	Three Months Ended March 31,	
	2020	2019
United States	39.5 %	39.6 %
Europe	29.9 %	27.6 %
Other geographies	52.6 %	51.2 %
Overall cost per dollar collected	37.1 %	36.4 %

As discussed in the "Accounting Policy Update" section in "Note 1: Ownership, Description of Business, and Summary of Significant Accounting Policies" of the notes to the consolidated financial statements, effective January 1, 2020, we expense all court costs as incurred and no longer capitalize such costs as Deferred Court Costs based on a loss-rate methodology. This accounting policy change increased the cost-to-collect metric as compared to prior periods because the court costs expense recognized in prior periods only represented costs we did not expect to recover. The accounting policy change has no impact on the amount of court cost payments incurred.

The change in cost per dollar collected was primarily due to the following reasons:

- Cost-to-collect increased due to the impact of change in accounting policy relating to court costs as discussed above;
- Despite the above increase due to accounting policy change, cost-to-collect in the United States decreased due to a combination of (1) continued improvement in operational efficiencies in the collection process, (2) collection mix shifting towards non-legal collection, which has lower cost-to-collect, and (3) higher total collections that blended down fixed cost and reduced overall cost-to-collect;
- Cost-to-collect in LAAP is expected to stay at an elevated level and will continue to fluctuate over time.

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

Supplemental Performance Data

The tables included in this supplemental performance data section include detail for purchases, collections and ERC by year of purchase.

Our collection expectations are based on 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 from Purchased Receivables 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, 2020												Total ⁽²⁾	Multiple ⁽³⁾
		<2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
United States:															
<2011	\$ 1,761,007	\$ 3,222,155	\$ 637,415	\$ 458,336	\$ 328,076	\$ 236,557	\$ 180,622	\$ 129,676	\$ 99,169	\$ 80,397	\$ 65,855	\$ 15,151	\$ 5,453,409	3.1	
2011	383,805	—	123,596	301,949	226,521	155,180	112,906	77,257	56,287	41,148	33,445	7,372	1,135,661	3.0	
2012	548,818	—	—	187,721	350,134	259,252	176,914	113,067	74,507	48,832	37,327	8,495	1,256,249	2.3	
2013	551,920	—	—	—	230,051	397,646	298,068	203,386	147,503	107,399	84,665	17,687	1,486,405	2.7	
2014	517,774	—	—	—	—	144,178	307,814	216,357	142,147	94,929	69,059	14,591	989,075	1.9	
2015	499,371	—	—	—	—	—	105,610	231,102	186,391	125,673	85,042	18,302	752,120	1.5	
2016	553,544	—	—	—	—	—	—	110,875	283,035	234,690	159,279	33,377	821,256	1.5	
2017	528,642	—	—	—	—	—	—	—	111,902	315,853	255,048	55,435	738,238	1.4	
2018	631,288	—	—	—	—	—	—	—	—	175,042	351,696	89,418	616,156	1.0	
2019	678,821	—	—	—	—	—	—	—	—	—	174,693	102,534	277,227	0.4	
2020	185,240	—	—	—	—	—	—	—	—	—	—	12,367	12,367	0.1	
Subtotal	6,840,230	3,222,155	761,011	948,006	1,134,782	1,192,813	1,181,934	1,081,720	1,100,941	1,223,963	1,316,109	374,729	13,538,163	2.0	
Europe:															
2013	619,079	—	—	—	134,259	249,307	212,129	165,610	146,993	132,663	113,228	25,316	1,179,505	1.9	
2014	623,129	—	—	—	—	135,549	198,127	156,665	137,806	129,033	105,337	23,271	885,788	1.4	
2015	419,941	—	—	—	—	—	65,870	127,084	103,823	88,065	72,277	15,173	472,292	1.1	
2016	258,218	—	—	—	—	—	—	44,641	97,587	83,107	63,198	13,102	301,635	1.2	
2017	461,571	—	—	—	—	—	—	—	68,111	152,926	118,794	23,494	363,325	0.8	
2018	433,302	—	—	—	—	—	—	—	—	49,383	118,266	22,658	190,307	0.4	
2019	273,354	—	—	—	—	—	—	—	—	—	44,118	20,107	64,225	0.2	
2020	28,861	—	—	—	—	—	—	—	—	—	—	982	982	0.0	
Subtotal	3,117,455	—	—	—	134,259	384,856	476,126	494,000	554,320	635,177	635,218	144,103	3,458,059	1.1	
Other geographies:															
2012	6,721	—	—	—	3,848	2,561	1,208	542	551	422	390	70	9,592	1.4	
2013	29,568	—	—	—	6,617	17,615	10,334	4,606	3,339	2,468	1,573	291	46,843	1.6	
2014	86,989	—	—	—	—	9,652	16,062	18,403	9,813	7,991	6,472	1,350	69,743	0.8	
2015	83,198	—	—	—	—	—	15,061	57,064	43,499	32,622	17,499	1,557	167,302	2.0	
2016	64,450	—	—	—	—	—	—	29,269	39,710	28,992	16,078	1,652	115,701	1.8	
2017	49,670	—	—	—	—	—	—	—	15,471	23,075	15,383	1,875	55,804	1.1	
2018	26,371	—	—	—	—	—	—	—	—	12,910	15,008	1,580	29,498	1.1	
2019	2,668	—	—	—	—	—	—	—	—	—	3,198	72	3,270	1.2	
2020	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Subtotal	349,635	—	—	—	10,465	29,828	42,665	109,884	112,383	108,480	75,601	8,447	497,753	1.4	
Total	\$ 10,307,320	\$ 3,222,155	\$ 761,011	\$ 948,006	\$ 1,279,506	\$ 1,607,497	\$ 1,700,725	\$ 1,685,604	\$ 1,767,644	\$ 1,967,620	\$ 2,026,928	\$ 527,279	\$ 17,493,975	1.7	

- 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.
- Cumulative collections from inception through March 31, 2020, excluding collections on behalf of others.
- Cumulative Collections Multiple ("Multiple") through March 31, 2020 refers to collections as a multiple of purchase price.

Total Estimated Collections from Purchased Receivables to Purchase Price Multiple

The following table summarizes our purchases, resulting historical gross collections, and estimated remaining gross collections from 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>					
<2011	\$ 1,761,007	\$ 5,453,409	\$ 156,749	\$ 5,610,158	3.2
2011	383,805	1,135,661	73,676	1,209,337	3.2
2012	548,818	1,256,249	83,474	1,339,723	2.4
2013 ⁽³⁾	551,920	1,486,405	227,630	1,714,035	3.1
2014 ⁽³⁾	517,774	989,075	150,849	1,139,924	2.2
2015	499,371	752,120	165,897	918,017	1.8
2016	553,544	821,256	305,060	1,126,316	2.0
2017	528,642	738,238	477,336	1,215,574	2.3
2018	631,288	616,156	776,619	1,392,775	2.2
2019	678,821	277,227	1,327,476	1,604,703	2.4
2020	185,240	12,367	408,161	420,528	2.3
Subtotal	6,840,230	13,538,163	4,152,927	17,691,090	2.6
<i>Europe:</i>					
2013 ⁽³⁾	619,079	1,179,505	864,253	2,043,758	3.3
2014 ⁽³⁾	623,129	885,788	651,050	1,536,838	2.5
2015 ⁽³⁾	419,941	472,292	421,602	893,894	2.1
2016	258,218	301,635	334,423	636,058	2.5
2017	461,571	363,325	586,845	950,170	2.1
2018	433,302	190,307	633,275	823,582	1.9
2019	273,354	64,225	528,265	592,490	2.2
2020	28,861	982	71,820	72,802	2.5
Subtotal	3,117,455	3,458,059	4,091,533	7,549,592	2.4
<i>Other geographies:</i>					
2012	6,721	9,592	340	9,932	1.5
2013	29,568	46,843	1,629	48,472	1.6
2014	86,989	69,743	50,060	119,803	1.4
2015	83,198	167,302	20,132	187,434	2.3
2016	64,450	115,701	11,131	126,832	2.0
2017	49,670	55,804	32,047	87,851	1.8
2018	26,371	29,498	12,406	41,904	1.6
2019	2,668	3,270	513	3,783	1.4
2020	—	—	—	—	—
Subtotal	349,635	497,753	128,258	626,011	1.8
Total	\$ 10,307,320	\$ 17,493,975	\$ 8,372,718	\$ 25,866,693	2.5

(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, 2020, 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 from purchased receivable portfolios and estimated future cash flows from real estate-owned assets by year of purchase (in thousands):

Estimated Remaining Gross Collections by Year of Purchase ⁽¹⁾												
	2020 ⁽³⁾	2021	2022	2023	2024	2025	2026	2027	2028	>2028	Total ⁽²⁾	
United States:												
<2011	\$ 34,003	\$ 42,770	\$ 26,618	\$ 18,485	\$ 12,801	\$ 8,718	\$ 5,834	\$ 3,800	\$ 2,298	\$ 1,422	\$ 156,749	
2011	15,679	19,195	11,871	8,334	5,874	4,142	2,927	2,074	1,473	2,107	73,676	
2012	17,801	21,976	13,273	9,297	6,541	4,611	3,255	2,304	1,635	2,781	83,474	
2013 ⁽⁴⁾	41,433	58,706	37,648	26,573	18,807	13,338	9,464	6,717	4,769	10,175	227,630	
2014 ⁽⁴⁾	31,726	39,781	24,335	16,725	11,468	8,076	5,713	4,047	2,869	6,109	150,849	
2015	38,224	44,482	27,102	18,120	12,206	7,948	5,446	3,835	2,706	5,828	165,897	
2016	69,574	83,698	46,158	31,673	22,481	15,859	10,957	7,709	5,419	11,532	305,060	
2017	110,650	131,493	76,280	48,620	33,282	23,388	16,531	11,566	8,162	17,364	477,336	
2018	188,052	219,573	130,602	84,092	53,048	34,947	23,049	15,144	9,890	18,222	776,619	
2019	289,653	405,226	207,586	129,623	88,517	61,172	43,469	31,721	23,032	47,477	1,327,476	
2020	66,269	118,820	82,316	46,276	29,463	19,988	13,595	9,693	6,972	14,769	408,161	
Subtotal	903,064	1,185,720	683,789	437,818	294,488	202,187	140,240	98,610	69,225	137,786	4,152,927	
Europe:												
2013 ⁽⁴⁾	65,016	97,245	89,756	82,763	75,784	68,460	61,018	54,687	49,026	220,498	864,253	
2014 ⁽⁴⁾	53,447	82,619	72,490	64,437	57,662	50,983	43,579	38,471	34,418	152,944	651,050	
2015 ⁽⁴⁾	33,723	54,501	46,837	41,600	37,365	33,430	29,283	25,112	22,306	97,445	421,602	
2016	28,748	56,789	54,024	37,176	29,545	25,543	21,344	17,597	14,385	49,272	334,423	
2017	54,962	89,183	77,170	65,197	55,192	45,740	37,969	32,331	26,477	102,624	586,845	
2018	55,516	93,158	79,957	68,919	59,021	51,049	43,671	36,832	31,218	113,934	633,275	
2019	47,943	84,335	71,488	60,228	50,094	40,533	33,591	28,671	24,603	86,779	528,265	
2020	5,231	12,610	11,064	8,806	7,193	5,802	4,756	3,679	2,969	9,710	71,820	
Subtotal	344,586	570,440	502,786	429,126	371,856	321,540	275,211	237,380	205,402	833,206	4,091,533	
Other geographies:												
2012	107	149	84	—	—	—	—	—	—	—	340	
2013	459	591	387	192	—	—	—	—	—	—	1,629	
2014	5,108	8,163	6,681	6,328	5,643	4,471	2,687	1,455	1,367	8,157	50,060	
2015	2,894	3,776	3,197	2,605	1,814	1,212	840	736	636	2,422	20,132	
2016	3,388	4,036	2,498	669	263	177	100	—	—	—	11,131	
2017	5,539	6,974	5,005	3,689	2,126	1,840	1,311	719	692	4,152	32,047	
2018	2,899	3,645	2,420	1,650	813	435	284	186	74	—	12,406	
2019	134	159	99	67	45	9	—	—	—	—	513	
2020	—	—	—	—	—	—	—	—	—	—	—	
Subtotal	20,528	27,493	20,371	15,200	10,704	8,144	5,222	3,096	2,769	14,731	128,258	
Portfolio ERC	1,268,178	1,783,653	1,206,946	882,144	677,048	531,871	420,673	339,086	277,396	985,723	8,372,718	
REO ERC ⁽⁵⁾	13,461	35,374	17,655	8,913	7,148	3,615	64	—	—	—	86,230	
Total ERC	\$ 1,281,639	\$ 1,819,027	\$ 1,224,601	\$ 891,057	\$ 684,196	\$ 535,486	\$ 420,737	\$ 339,086	\$ 277,396	\$ 985,723	\$ 8,458,948	

(1) As of March 31, 2020, ERC for Zero Basis Portfolios include approximately \$156.7 million for purchased consumer and bankruptcy receivables in the United States. ERC for Zero Basis Portfolios in Europe and other geographies was immaterial.

(2) Represents the expected remaining gross cash collections on purchased portfolios over a 180-month period. As of March 31, 2020, ERC from purchased receivables for 84-month and 120-month periods were:

	84-Month ERC		120-Month ERC	
United States	\$	3,875,245	\$	4,072,425
Europe		2,878,292		3,478,009
Other geographies		108,446		116,744
Total	\$	6,861,983	\$	7,667,178

- (3) 2020 amount consists of nine months data from April 1, 2020 to December 31, 2020.
- (4) Includes portfolios acquired in connection with certain business combinations.
- (5) Real estate-owned assets ERC includes approximately \$82.5 million and \$3.7 million of estimated future cash flows for Europe and Other Geographies, respectively. As of December 31, 2019, estimated future cash flows for real estate-owned assets were approximately \$88.0 million and \$4.4 million, for Europe and Other Geographies, respectively.

Estimated Future Collections Applied to Principal

As of March 31, 2020, we had \$3.2 billion in investment in receivable portfolios. The estimated future collections applied to the investment in receivable portfolios net balance is as follows (*in thousands*):

Years Ending December 31,	United States	Europe	Other Geographies	Total
2020 ⁽¹⁾	\$ 262,775	\$ 40,238	\$ 9,895	\$ 312,908
2021	532,398	195,560	15,337	743,295
2022	281,131	179,894	12,456	473,481
2023	166,963	151,215	7,899	326,077
2024	107,866	131,691	6,028	245,585
2025	72,481	114,933	4,952	192,366
2026	49,487	97,881	2,961	150,329
2027	35,029	84,748	1,603	121,380
2028	25,029	74,317	1,432	100,778
2029	17,517	66,645	1,365	85,527
2030	12,430	62,460	1,363	76,253
2031	9,006	62,480	1,360	72,846
2032	6,765	64,548	1,358	72,671
2033	5,500	70,066	1,356	76,922
2034	5,104	79,311	1,354	85,769
2035	725	26,264	2,842	29,831
Total	\$ 1,590,206	\$ 1,502,251	\$ 73,561	\$ 3,166,018

(1) 2020 amount consists of nine months data from April 1, 2020 to December 31, 2020.

Headcount by Geographic Location and Function

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

	Headcount as of March 31,	
	2020	2019
United States:		
General & Administrative	1,137	1,097
Account Manager	416	495
Subtotal	1,553	1,592
Europe:		
General & Administrative	1,079	1,049
Account Manager	2,234	2,111
Subtotal	3,313	3,160
Other Geographies ⁽¹⁾ :		
General & Administrative	621	1,353
Account Manager	2,137	1,830
Subtotal	2,758	3,183
Total	7,624	7,935

(1) Headcount as of March 31, 2019 includes 170 general and administrative and 361 account manager Baycorp employees.

Purchases by Quarter

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

Quarter	# of Accounts	Face Value	Purchase Price
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
Q2 2019	778	2,307,711	242,697
Q3 2019	1,255	5,313,092	259,910
Q4 2019	803	2,241,628	234,916
Q1 2020	943	1,703,021	214,113

Liquidity and Capital Resources

Liquidity

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

	Three Months Ended March 31,	
	2020	2019
	(Unaudited)	
Net cash provided by operating activities	\$ 70,805	\$ 10,991
Net cash used in investing activities	(43,255)	(69,514)
Net cash (used in) provided by financing activities	(21,762)	71,547

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, changes in expected future recoveries, 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 \$70.8 million and \$11.0 million during the three months ended March 31, 2020 and 2019, respectively. Included in the net loss of \$10.6 million during the three months ended March 31, 2020 was an adjustment of \$98.7 million due to the changes in our expected current and future recoveries. After adjusting for this item, net cash provided by operating activities significantly increased. Additionally, prepaid income tax and income taxes payable provided \$15.0 million and consumed \$30.2 million of cash during the three months ended March 31, 2020 and 2019, respectively, while accounts payable, accrued liabilities and other liabilities consumed \$46.5 million and \$67.8 million during the three months ended March 31, 2020 and 2019, respectively.

Investing Cash Flows

Net cash used in investing activities was \$43.3 million and \$69.5 million during the three months ended March 31, 2020 and 2019, 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, net of the change in principal balance due to the change in expected future recoveries or allowance adjustments. Receivable portfolio purchases were \$209.0 million and \$258.6 million during the three months ended March 31, 2020 and 2019, respectively. Collection proceeds applied to the principal of our receivable portfolios, net, were \$169.9 million and \$202.7 million during the three months ended March 31, 2020 and 2019, respectively. Capital expenditures for fixed assets acquired with internal cash flows were \$7.5 million and \$10.2 million for the three months ended March 31, 2020 and 2019, respectively.

Financing Cash Flows

Net cash used in financing activities was \$21.8 million during the three months ended March 31, 2020, and net cash provided by financing activities was \$71.5 million during the three months ended March 31, 2019. Financing cash flows are generally affected by borrowings under our credit facilities and proceeds from various debt offerings, offset by repayments of amounts outstanding under our credit facilities and repayments of various notes. Borrowings under our credit facilities were \$171.9 million and \$196.3 million during the three months ended March 31, 2020 and 2019, respectively. Repayments of amounts outstanding under our credit facilities were \$167.2 million and \$119.9 million during the three months ended March 31, 2020 and 2019, respectively. Repayment of senior secured notes was \$16.3 million during the three months ended March 31, 2020.

Capital Resources

Historically, we have met our cash requirements by utilizing our cash flows from operations, cash collections from our investment in receivable portfolios, bank borrowings, debt offerings, and equity offerings. 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 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.

Currently, all of our portfolio purchases are funded with cash from operations, cash collections from our investment in receivable portfolios, and our bank borrowings.

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

Our cash and cash equivalents as of March 31, 2020 consisted of \$55.7 million held by U.S.-based entities and \$132.5 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.

Included in cash and cash equivalents is cash that was collected on behalf of, and remains payable to, third-party clients. The balance of cash held for clients was \$19.4 million as of March 31, 2020.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic, including timing of cash collections from our consumers, and other risks detailed in Risk Factors. However, 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, cash collections from our investment in receivable portfolios, 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. As of March 31, 2020, 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, 2019.

Interest Rates. As of March 31, 2020, 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, 2019.

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

Except as noted below there were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

On January 1, 2020, we adopted the new accounting standard for Financial Instruments - Credit Losses (“CECL”). As a result, we implemented changes to policies, processes, systems, and controls over estimating the allowance for credit losses.

We have not experienced any material impact to our internal controls over financial reporting due to the COVID-19 pandemic even though many of our employees are working remotely. We are continually monitoring and assessing the impact of the COVID-19 pandemic on our internal controls to minimize the impact on their design and operating effectiveness.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

Information with respect to this item may be found in “Note 11, Commitments and Contingencies,” to the consolidated financial statements.

Item 1A – Risk Factors

Except for the additional risk factor set forth below, 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, 2019.

The impact of the COVID-19 pandemic and the measures implemented to contain the spread of the virus have had, and are expected to continue to have, a material adverse impact on our business and results of operations.

The COVID-19 pandemic and resulting containment measures have caused economic and financial disruptions that have adversely affected, and could continue to materially adversely affect, our business and results of operations. The extent to which the pandemic will continue to materially adversely affect our business and results of operations will depend on future developments that we are not able to predict, including the duration, spread and severity of the outbreak; the nature, extent and effectiveness of containment measures; the extent and duration of the effect on the economy; and how quickly and to what extent normal economic and operating conditions can resume. It is also possible that any adverse impacts of the pandemic and containment measures may continue once the pandemic is controlled and the containment measures are lifted.

The COVID-19 pandemic and resulting containment measures have contributed to among other things:

- Adverse impacts on our daily business operations and our ability to perform necessary business functions, including as a result of illness or as a result of restrictions on movement, which has caused expected delays in collections;
- Widespread changes to financial and economic conditions of consumers, which has reduced our ability to collect on our consumer receivable portfolios;
- Uncertainty in certain jurisdictions with respect to near-term availability of receivable portfolios that meet our purchasing standards;
- Governmental actions discussed, proposed or taken to provide forms of relief, such as limiting debt collections efforts and encouraging or requiring extensions, modifications or forbearance, with respect to certain loans and fees;
- Impacts on the court system and the legal process, which has impacted our ability to collect through the litigation process;
- Adverse impacts on third-party service providers;
- Adverse impacts on capital and credit market conditions, which may limit our access to funding, increase our cost of capital, and affect our ability to meet liquidity needs;
- Increased spending on business continuity efforts and readiness efforts for returning to our offices, which may in turn require that we cut costs and investments in other areas; and
- An increased risk of an information or cyber-security incident, fraud or a failure in the effectiveness of our compliance programs due to, among other things, an increase in remote work.

On January 1, 2020 we adopted CECL. Our ability to accurately forecast future losses under CECL may be impaired by the significant uncertainty surrounding the COVID-19 pandemic and containment measures and the lack of comparable precedent.

We do not yet know the full extent of how COVID-19 and the resulting containment measures will affect our business, results of operations and financial condition. However, the effects are likely to have a material impact on our business and results of operations and heighten many of the other risks described in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 6 – Exhibits

Number	Description
3.1.1	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)
3.1.2	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)
3.1.3	Second Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1.3 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2019)
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	Senior Facility Agreement, dated February 18, 2020, between Cabot Securitisation UK Limited, Cabot Financial (UK) Limited, HSBC Corporate Trustee Company (UK) Limited as Security Trustee, HSBC Bank PLC as Senior Agent and Goldman Sachs International Bank as Senior Lender (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 8-K filed on February 24, 2020)
10.2+	Executive Service Agreement, dated November 25, 2019, between Cabot UK Holdco Limited and Craig Buick (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 - The instance document does not appear in the interactive data file because XBRL tags are embedded within the inline XBRL 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)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

+ Management contract or compensatory plan or arrangement.

SIGNATURES

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

ENCORE CAPITAL GROUP, INC.

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

Date: May 11, 2020

Executive Service Agreement

between

CABOT UK HOLDCO LIMITED

and

CRAIG BUICK

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THIS DEED OF AGREEMENT is dated 25 November 2019 and made

BETWEEN:

- (1) **CABOT UK HOLDCO LIMITED**, (the "Company"), Registered in England and Wales, company number 08467515 and having its registered office is at 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4UA; and
- (2) **CRAIG BUICK**, of ### #####, London, ### ## ("you" or "your").

THE PARTIES AGREE THAT:

1. Interpretation

1.1 In this Agreement, where the context admits:

"Appointment" means your employment by the Company on the terms of this Agreement.

"the Board" means the board of directors of the Company, or as the context requires any authorised director or committee of directors from time to time.

"the Business" means (taken together) the business of the Company and the business of any other Group Company with which you are concerned.

"Commencement Date" means 1 January 2020, or such other date as mutually agreed between you and the Company.

"Company Intellectual Property" means any Intellectual Property made, created or discovered whether or not in the course of the Appointment or during normal hours of work or using the facilities of the Company which:

- a. in any way affects or relates to the business of the Company or any Group Company; or
- b. is capable of being used or adapted for use in or in connection with such business.

"Compensation Committee" means the compensation or remuneration committee operated by or for Encore Capital Group Inc. from time to time.

"Conduct Rules" means the conduct rules under the SMCR.

"Confidential Information" means information in whatever form relating to the business, products, services, clients, customers, affairs and finances of the Company or of any Group Company from time to time being confidential to it or to them or treated by it or them as such and trade secrets (including, without limitation, technical data and know-how) relating to the business of the Company or of any Group Company, any of its or their suppliers, clients or customers, including by way of illustration only and without limitation:

- a. any trade secret or confidential or secret information concerning the business development, affairs, future plans, business methods, connections, operations, accounts, finances, organisation, processes, policies or practices including operating practices and associated documents, designs, dealings, trading, software, or know-how relating or belonging to the Company or to any Group Company or any of its suppliers, agents, distributors, clients or customers (including without limitation data in, the sources of data in and methodologies employed in the pricing model used to evaluate debt portfolios, algorithms and scorecards employed in the decision and collection strategy definition process operated by the Company and Group Companies, and any programming codes that drive the Company's or any Group Company's operational collection systems);
- b. confidential computer software, computer-related know-how, passwords, computer programmes, apps, specifications, object codes, source codes, network designs, business processes, business logic, inventions, improvements and/or modifications relating to or belonging to the Company or any Group Company;
- c. details of the Company's or any Group Company's financial projections or projects, prices or pricing strategy, advertising, marketing or development plans, product development plans or strategies, fee levels, commissions and commission structures, market share and pricing statistics, marketing surveys and research reports and their interpretation;
- d. any confidential research, report or development undertaken by or for the Company or any Group Company;
- e. details of relationships or arrangements with, or knowledge of the needs or the requirements of, the Company's or any Group Company's actual or potential clients or customers;
- f. information supplied in confidence by customers, clients or any third party to which the Company or any Group Company owes an obligation of confidentiality;
- g. lists and details of contracts with the Company's or any Group Company's actual or potential suppliers;
- h. information of a personal or otherwise of a confidential nature relating to fellow employees, directors or officers of, or consultants to, the Company or any Group Company for which you may from time to time provide services; and
- i. confidential information concerning, or details of, any competitive business pitches, or target details.

"Encore Capital Group, Inc." means Encore Capital Group, Inc., whose principal executive offices are 3111 Camino Del Rio North, Suite 103, San Diego, California, 92108.

"Group Company." means the Company, its Subsidiaries or Holding Companies from time to time and any Subsidiary of any Holding Company from time to time, and including for the avoidance of doubt Encore Capital Group, Inc. and any Subsidiaries or Holding Companies of Encore Capital Group Inc., and the term "Group" shall mean the Company, Encore Capital Group, Inc. and each Group Company.

"Intellectual Property." means all intellectual and industrial property rights which may now or in the future subsist in any country of the world, including without limitation:

- a. patents, utility models, supplementary protection certificates and any other rights in inventions, discoveries and improvements;
- b. registered and unregistered trademarks, including any trade, brand or business names and get-ups(s), rights to sue for passing off or unfair competition and rights in domain names, devices and logos;
- c. registered and unregistered design rights;
- d. copyright (including all such rights in any information, know-how or techniques relating to the Company's business, and in any computer software and typographical rights) database rights and moral rights;
- e. all industrial, commercial and technical and accounts records and information (wherever located) relating to the activities of the Company;
- f. the Confidential Information; and
- g. applications for registration and the right to apply for any registration of the above in any country in the world.

"Irish Regulatory Regime" means the financial services regime operated by the Central Bank of Ireland.

"month" means a calendar month.

"Permitted Interest" means an interest in:

- a. any class of shares or other securities of the Company or other member of the Group;
- b. any class of shares or other securities of any company provided such shares or securities are traded on a recognised investment exchange and your holding does not amount to more than 3% of such class of issued shares or securities; or
- c. any units of any authorised unit trust.

"Policies" means the policies and procedures as may be in effect and updated from time to time which apply to employees within the UK Subsidiaries of the Company.

"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 2.5, 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.

"Remuneration Committee" means the remuneration committee operated by or for the Company and its Subsidiaries from time to time.

"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 respect of which you have: (a) been actively engaged or involved during that period; or (b) gained 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 Relevant Period, was a person or entity from whom or which the Company or any Group Company:

- purchased debt; and/or
- provided third party debt collection services; or
- was otherwise a client or customer of the Company or any Group Company (excluding individual consumers)

and in respect of which you have: (a) had business dealings during the Relevant Period; or (b) gained 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 Relevant 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 had material business dealings with or had supervisory responsibility over during the Relevant Period.

"Restricted Potential Client" means any person who, on the date of termination of your employment or at any time during the Relevant Period, was a person or entity from whom or which the Company or any Group Company was in negotiations to

- purchase debt; and/or
- provide third party debt collection services; or
- to otherwise become a client or customer of the Company or any Group Company (excluding individual consumers)

and in respect of which you have: a) had business dealings during the Relevant Period; or (b) gained Confidential Information during the Relevant Period.

"Restricted Territory" means England, Scotland, Wales, Northern Ireland, the Republic of Ireland, France, Spain, Portugal, Italy, Poland and any other territory in which the Company or any Group Company conducts or has plans to conduct 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.

"SMCR" means the Senior Managers and Certification Regime.

"Subsidiary" and "Holding Company" in relation to a company mean "subsidiary" and "holding company" as defined in section 1159 of the Companies Act 2006 and a company shall be treated, for the purposes only of the membership requirement contained in subsections 1159(1)(b) and (c), as a member of another company even if its shares in that other company are registered in the name of (a) another person (or its nominee), whether by way of security or in connection with the taking of security, or (b) a nominee.

"Termination Date" means the date of termination (howsoever caused) or expiration of your employment.

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 including a reference to those provisions as amended or re-enacted or as their application is modified by other provisions from time to time (including as a result of the exercise of powers conferred on Ministers under the European (Withdrawal) Act or any similar legislation) 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;
- 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. references to your employment are references to your employment by the Company whether or not during the continuance of this Agreement;
- g. the masculine gender shall be deemed to include the feminine gender; and
- h. 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 anticipates that as of the Commencement Date you will be appointed, and if so appointed, you hereby agree to serve the Company, and any other Group Company or Group Companies as required by the Company, with effect from the Commencement Date in the capacity of Executive Director and Chief Executive Officer of Cabot Credit Management or in such other capacity of commensurate status as the Company may from time to time require. You recognise that this position is one of trust and confidence and that you will have access to Confidential Information. This is a key position in which you will have an obligation to further the interests of the Company and any Group Company and to develop its or their businesses. Further, for the avoidance of doubt, you are employed to perform a senior management function within the meaning of the SMCR.
- 2.2 The Appointment shall commence on the Commencement Date and unless terminated earlier under clause 18, your employment will continue until terminated by either party giving to the other not less than twelve months' notice in writing.
- 2.3 You warrant that you are not bound by any court order, agreement, arrangement or undertaking which in any way restricts or prohibits you from entering into this Agreement or performing your duties under it. You undertake to indemnify the Company against all costs, claims, damages and expenses which the Company may incur in connection with any claim that you are subject to any such prohibition or restriction.

2.4 You warrant that you are entitled to work in the United Kingdom without any additional approvals and will notify the Company immediately if you cease to be so entitled during your employment. You further warrant that you have not been investigated or disciplined for any conduct that would either amount to a breach of the Conduct Rules or which could give rise to concerns about your fitness and propriety to perform the role for which you are employed.

2.5 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, the Company may, in its absolute discretion:

- a. require you to resign immediately without compensation from any office that you hold in the Group;
- b. revoke any powers you hold on behalf of the Company or any Group Company;
- c. require you not to render all or any of your duties under this Agreement or require you to carry out alternative duties instead, at such location as the Company may require (including your home);
- d. exclude you from any premises of the Company or of any Group Company (without providing any reason therefore);
 - e. require you not to have any contact with customers or clients, suppliers, investors, advisers or bankers 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;
- f. require you to take any accrued holiday due to you;
- g. require you to keep your line manager generally informed of your whereabouts and require that you provide contact details so you can be contacted during working hours;
- h. require you to immediately 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 (including all materials within the scope of clause 15.4); and
- i. appoint another person to perform your responsibilities jointly with you or in your place

but 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 13, and throughout the period of any such action your salary and other contractual benefits shall continue subject to relevant schemes or policies relating to such benefits (unless and until this Agreement shall be terminated).

2.6 During your employment under the terms of this Agreement and for six years following the Termination Date you shall be entitled to be covered by a policy of directors' and officers' liability insurance on terms no less favourable than those in place from time to time for other members of the Board. A copy of the policy is available from the General Counsel. As a statutory director you will be entitled to be indemnified under the terms of the Company's articles of association (as amended from time to time).

2.7 The Company reserves the right, as and when you are absent from work due to holiday, sickness or another reason, to reallocate on a temporary basis such duties and responsibilities of your role to another person as the Company sees fit in order to ensure an individual within the Company is able to discharge any responsibilities allocated to you from time to time by the Company whether pursuant to the SMCR or Irish Regulatory Regime or otherwise.

2.9 Your employment under this Agreement shall commence on the Commencement Date. Your period of continuous service for the purposes of the Employment Rights Act 1996 commenced on 4th January 2016.

3 Duties and Powers

3.1 You shall exercise such powers and 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 Company may, from time to time, confer upon or assign to you, including any responsibilities allocated to you from time to time by the Company pursuant to the SMCR or by the Group pursuant to the Irish Regulatory Regime or any other applicable regulatory regime. In particular, but without limitation, you shall if and so long as the Company may require and without further remuneration carry out your duties on behalf of any Group Company and act as a director or officer of the Company and any Group Company.

3.2 You shall, during the continuance of this Agreement (unless prevented by ill health or accident or as otherwise agreed by the Company 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. You shall comply with applicable statutory and fiduciary duties as a director.

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 you are aware; or
- b. plans by any employee (including yourself) 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 Should the Company appoint you as a director of a Group Company, it is not obliged to ensure that you remain a director of a Group Company, and your removal from a board in accordance with the Company or Group Company's articles of association or otherwise will not be a breach of this Agreement by the Company.

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 80 Cannon Street, London, EC4N 6HL but may be in such place or places for such periods as the Company or any Group Company shall reasonably require.
- 4.2 You will 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 Company.
- 4.3 The Company does not envisage that you will be required to work outside the United Kingdom for any continuous period of more than one month. In the event that you are so required from time to time, you will continue to be employed under the terms and conditions set out in this Agreement unless any additional or varied terms are agreed between the Company and you.

5 Remuneration

- 5.1 Your basic annual salary is £360,000 (Three hundred and sixty thousand pounds) 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 Company from time to time). It will be deemed to accrue from day to day and paid less appropriate deductions for tax and national insurance.
- 5.2 Your salary under clause 5.1 will be subject to review in accordance with the Company's practice from time to time, but the Company will be under no obligation to increase such salary.
- 5.3 The Company may in 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. Any bonus will be paid less appropriate deductions for tax and national insurance.
- 5.4 In addition to any payment under clause 5.3 the following bonus arrangements shall apply:
- a. You may be entitled to be considered for both short and long-term bonuses of amounts to be determined by either the Compensation Committee or the Remuneration Committee. The amount of the bonus payable to you (if any) shall be determined by such committee by reference to such corporate and/or personal target(s) and other conditions as such committee shall determine in its absolute discretion.
 - 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 third calendar month immediately following the end of the relevant financial year. Part of any bonus paid to you may be deferred under the Company's deferred bonus plan or otherwise, if so determined by the Compensation Committee or the Remuneration Committee in accordance with the applicable remuneration policy.
 - c. If on the payment date you are under suspension for a disciplinary matter which results 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 Compensation Committee or Remuneration Committee) by reference to any period (excluding statutory leave) 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. Where you have given notice, it will be at the discretion of either the Compensation Committee or the Remuneration Committee to determine if any bonus should be payable for the bonus year in which you give notice, on a pro rata basis.
- 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 either the Compensation Committee or the Remuneration Committee in their absolute discretion.

5.5 Notwithstanding any other provision of this Agreement, you acknowledge and agree that the payment of any amount or provision of any benefit to you is conditional upon such payment or provision being consistent with the applicable remuneration policy. Any provision of this Agreement which is not consistent with the applicable remuneration policy shall be void and you shall have no entitlement to compensation or damages in respect of any loss suffered in consequence thereof.

5.6 The salary specified in clause 5.1 shall be inclusive of any fees to which you may be entitled as a director of the Company or any Group Company.

6 Performance adjustment

6.1 Any award, including any amount deferred, is subject to the Encore Capital Group, Inc.'s regulatory obligations, including, but without limitation, such performance adjustment of any granted or awarded incentive compensation pursuant to the terms of Encore Capital Group, Inc.'s Compensation Recovery Policy, adopted by Encore Capital Group, Inc.'s board of directors on April 3, 2013, and amended from time to time

6.2 The implementation of performance adjustment by the Company shall be without prejudice to any other rights or remedies that may be available to the Company.

6.3 You agree that any sums owed to the Company under this clause 6 may be deducted from your salary or any outstanding payments due to you from the Company.

6.4 Following any repayment of sums pursuant to clause 6.1 (including by any deduction under clause 6.3) you agree to pay to the Company an amount equal to any tax credit or offset from which you benefit or any tax repayment received by you, in either case as a result of the repayment, or of any further repayment under this clause 6.4.

6.5 In the event of the application of performance adjustment in accordance with this clause, the Company will provide reasonable assistance to you in dealing with any income tax and NIC issues arising from such adjustment.

7 Awards

7.1 Subject to the approval of either the Compensation Committee or the Remuneration Committee, you may, during the course of your employment with the Company, be granted awards conferring on you the right to acquire incentives. The awards will be subject to the terms and conditions applicable to the awards granted under the long term incentive plan (or any subsequent replacement plan in place from time to time) and the applicable award agreement, which you will be required to sign. If you are granted an award, then the award agreement will detail: (i) the incentive which is subject to the award; (ii) any time or performance conditions required for the award to vest; and (iii) any other conditions which either the Compensation Committee or the Remuneration Committee may deem appropriate. The Company is not obliged to make any award, and if you receive an award then the Company is not obliged to make a further award.

8 Expenses

8.1 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 receipts or other evidence of such expenses as the Company may reasonably require, and subject to your compliance with any applicable expenses policy contained in the Policies.

9 Holidays

9.1 The Company's holiday year commences on 1 January and expires on 31 December (the "Holiday Year").

9.2 In addition to statutory and bank holidays, your annual paid holiday entitlement in each Holiday Year will be 30 days. Holiday must be taken in the Holiday Year in which it accrues and must be taken at times approved in advance by your line manager in accordance with the Policies.

9.3 You are required to take at least four weeks' holiday in each Holiday Year. Your holiday entitlement under the Working Time Regulations 1998 shall be deemed to be taken first.

9.4 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, unless the Company exercises its rights under the provisions of clause 2.5. Any payment in lieu will be pro-rated and based on the number of complete weeks you have been employed in the Holiday Year.

9.5 Upon termination of your employment under this Agreement, the Company shall deduct from any sum owed by the Company to you a sum representing any overpayment of salary with respect to holiday which you have taken in excess of your accrued holiday entitlement.

9.6 Payments in lieu of or deductions with respect to holidays shall be calculated as 1/260th of your salary for each day's holiday.

10 Sickness and Incapacity

10.1 If at any time you are prevented by reason of ill health, accident or other incapacity from properly performing your duties, you shall promptly furnish to the Company, if required, evidence of such incapacity in a form satisfactory to the Company.

- 10.2 Further details of payment entitlements and sickness absence procedure (which you are obliged to comply with) may be found in the sickness absence policy which is contained in the Policies, which does not form part of your contract of employment and is subject to change from time to time. Any payment of Company sick pay will be paid inclusive of SSP.
- 10.3 Once any entitlement to payment pursuant to clause 10 is exhausted (or ceases to apply), any further payment made to you by the Company shall be at the Company's absolute discretion and shall take into account any permanent health insurance which may be payable under clause 12.
- 10.4 Any salary payable pursuant to this clause 10 shall be subject to set off of any statutory sick pay or social security sickness benefit to which you may be entitled during the period of such inability, or any other benefits you may be entitled to receive.
- 10.5 You shall submit yourself to a medical examination by a doctor appointed by the Company at the request of the Company, 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. You hereby authorise the Company to have unconditional access to any report or reports (including copies) prepared as a result of any such examination as the Company may from time to time require.
- 10.6 If your absence shall be occasioned wholly or partly by any act or omission of a third party in respect of which damages or compensation are recoverable, then you shall not be entitled to any remuneration (other than statutory sick pay) but the Company may in its absolute discretion advance sums not exceeding the remuneration to which you would otherwise be entitled against your entitlement to damages or compensation (including interest at such rate as you are entitled to recover in respect of a claim for loss of earnings) and you shall:
- a. notify the Company immediately of all the relevant circumstances and of any claim, compromise, settlement or judgement made or awarded in connection with it; and
 - b. if the Company so requires, refund to the Company any amount received by you from any such third party provided that the refund shall be no more than the amount which you have recovered in respect of remuneration (plus interest).
- 10.7 Any payments made under clause 10.6 shall be subject to the maximum aggregate sum which the Company is permitted to lend under the restrictions relating to loans to directors contained in the Companies Act 2006.
- 10.8 Subject to clause 10.9 the rights of the Company to terminate this Agreement apply even when such termination would or might cause you to forfeit any entitlement to sick pay or other benefits.
- 10.9 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.
- 10.10 If your employment under this Agreement is terminated under clause 10.9 in circumstances where you are or may be entitled to receive benefits under a permanent health insurance 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 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 (other than payments which are received through the PHI scheme and any statutory holiday entitlement you may be entitled to); 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.

11 Pension

11.1 The Company will comply with its obligations in accordance with Part 1 of the Pensions Act 2008.

11.2 You may be a member of the Company's pension scheme ("the Scheme"), or such registered pension scheme as may be set up by the Company to replace the Scheme, subject to:

- a. the rules governing the Scheme (or such replacement scheme) from time to time (including, without limitation, those stipulating minimum levels of employee contribution, and any powers of alteration and discontinuance); and
- b. any changes in legislation governing pensions provision (which may necessitate an increase in your contributions to the Scheme or any replacement scheme in due course)

11.3 The Company will make a monthly contribution to the Scheme (or any replacement scheme) in line with the entitlement detailed in the attached schedule of benefits. Your contributions to the Scheme (or any replacement Scheme) will be made by way of deductions from your salary.

12 Permanent Health Insurance, Private Medical Expenses Insurance and Life Assurance

12.1 Subject to the terms of this clause 12, the Company shall, during the continuance of your employment under this Agreement, pay all premiums due under:

- a. a permanent health insurance (or income protection) scheme arranged by the Company for your benefit, under which the insurer offers cover of up to 75% of your basic salary after 13 weeks' absence from work;
- b. a life assurance scheme under which the insurer offers cover at a rate of four times your basic salary and
- c. a private medical expenses insurance scheme arranged by the Company for your benefit, and that of your spouse/civil partner and children under 18 (at the date of this Agreement, the Company pays premiums in respect of current policy allowance).

12.2 Your right to participate in the schemes set out in this clause is subject to:

- a. the rules and the terms of such schemes from time to time in force;
- b. scheme providers accepting you, your spouse/civil partner and/or your family members (as applicable) for cover under the relevant scheme;

- c. the Company's absolute discretion to change schemes and/or scheme providers, which may mean the level of benefit provided varies (and may be decreased); and
- d. you satisfying any underwriting or other requirements of the relevant scheme provider and the premium being at a rate which the Company considers reasonable.

12.3 You shall cooperate with the Company and the relevant scheme provider when making any claim.

12.4 The Company has no obligation to pursue any claim for benefits on your behalf or on behalf of your dependents if it is not accepted by the scheme provider in question.

12.5 The Company in its sole and absolute discretion reserves the right to discontinue, vary or amend the schemes (including the level of your cover) at any time on reasonable notice to you.

12.6 If the insurance provider refuses for any reason to provide permanent health insurance, life assurance, or private medical insurance benefit to you, the Company shall not be liable to provide to you any replacement benefit of the same or similar kind or to pay any compensation in lieu of such benefit.

12.7 If you are receiving benefits under the Company's permanent health insurance scheme:

- a. You shall resign as a director of the Company or any Group Company if so requested by the Company; and
- b. the Company shall be entitled to appoint a successor to you to perform all or any of the duties required of you under the terms of this Agreement and your duties shall be amended accordingly.

12.8 The Company will have no liability to you or your family and/or 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.

12.9 You are not contractually entitled to any other benefit which you may enjoy from time to time.

13 Exclusive Service

13.1 Subject to clause 13.2, during the continuance of this Agreement you shall not without the prior written consent of the Board, either as principal, employee, consultant, director or agent:

- a. 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 paid or not) in any trade, business or occupation whatsoever other than that of the Company or of any other Group Company; or
- b. engage in any activity which the Board reasonably considers may be, or become harmful to the interests of the Company or of any Group Company or which might reasonably be considered to interfere with the performance of your duties under this Agreement.

13.2 Nothing in clause 13.1 will prevent you from holding a Permitted Interest.

13.3 You confirm that you have disclosed to the Company (and will continue to do so promptly throughout your employment) all circumstances in respect of which there is or might be a conflict of interest between you or members of your immediate family and the Company or any Group Company.

14 Intellectual Property

14.1 You acknowledge that you may make, discover or create Intellectual Property in the course of your duties and agree that in this respect you have a special obligation to further the interests of the Company and any Group Company.

14.2 You agree to disclose to the Company in writing full details of any Company Intellectual Property promptly following its making, creation or discovery.

14.3 You agree that any Company Intellectual Property shall so far as the law permits belong to and be the absolute property of the Company or any other Group Company as the Company may direct upon creation and:

- a. to the extent that the same does not automatically belong to the Company upon creation, undertake to hold any such Company Intellectual Property upon trust for the benefit of the Company until such time as it shall be vested absolutely in the Company or such other Group Company; and
- b. hereby assign to the Company or such other Group Company with full title guarantee by way of present and future assignment all such Company Intellectual Property.

14.4 If and when required so to do by the Company you shall, at the expense of the Company, as the Company or any other Group Company may direct:

- a. give and supply to the Company or such Group Company all such information, data, drawings and assistance as the Company or such Group Company may require in order to exploit the Company Intellectual Property to best advantage;
- b. apply or join with the Company or such Group Company in applying for patents or other protection or registration in the United Kingdom and in any other part of the world for the Company Intellectual Property; and
- c. execute and do all instruments and things necessary for vesting in the Company or such Group Company or in such other person as the Company may specify, as sole beneficial owner, any Company Intellectual Property including such patents or other protection or registration when obtained and all right, title and interest to and in them absolutely.

14.5 You irrevocably and unconditionally waive any and all moral rights in connection with your authorship of any existing or future copyright work made or created by you during your employment.

14.6 You irrevocably appoint the Company to be your attorney in your name and on your behalf to execute and do any such instrument or thing and generally to use your name for the purpose of giving to the Company the full benefit of this clause. In favour of any third party, a certificate in writing signed by any director or by the secretary of the Company that any instrument or act falls within the authority conferred by this clause shall be conclusive evidence that such is the case.

14.7 The rights and obligations under this clause shall continue in force after termination of this Agreement in respect of Company Intellectual Property and shall be binding on your representatives.

14.8 Nothing in this clause shall be construed as restricting your rights under sections 39 to 43 Patents Act 1977.

15 Confidentiality

15.1 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 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.

15.2 You shall not at any time, either during the continuance of or after the termination of your employment with the Company:

a. use for your own purposes or for any purposes other than those of the Group; or

b. disclose to any person; or

c. through any failure to exercise due care and diligence, permit or cause any unauthorised disclosure of;

any Confidential Information, except during your employment in the proper course of the Business or as authorised in writing by your line manager or as ordered by a Court of competent jurisdiction.

15.3 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.

15.4 All notes and records (both originals and copies) wherever located and whether on paper, computer disk, computer memory, smartphone, tablet, memory stick or other media, which contain any Confidential Information or which you have made or acquired in the course of your employment:

a. shall be and remain the property of the Company or the relevant Group Company;

b. shall not be removed from the Company's premises (or the premises of any Group Company) except in the course of your duties; and

c. shall be handed over by you to the Company or to the relevant Group Company on demand and in any event on the termination of your employment (for whatever reason).

15.5 You shall on demand by the Company and in any event on the termination of your employment (howsoever caused) irretrievably delete any Confidential Information stored on any magnetic or optical disk or memory, including personal computer networks, personal e-mail accounts or personal accounts on websites, and all matter derived from such sources which is in your possession or under your control outside the Company's premises.

15.6 You shall provide written confirmation that you have made a diligent search for, and delivered to the Company, all the notes and records described in clause 15.4 and have irretrievably deleted any Confidential Information described in clause 15.5 when requested to do so by the Company, whether during or after your employment together with such reasonable evidence of compliance as the Company may request.

15.7 You shall not at any time either during the continuance of or after the termination of your employment with the Company:

- a. utter any statement (whether written or oral) to any representative of television, radio, film or other similar media; and/or
- b. 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

which is or could be reasonably viewed as derogatory or defamatory towards or about the Company or any Group Company.

15.8 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 or a relevant pay disclosure as defined in the Equality Act 2010.

16 Restrictions

16.1 You shall not during the specified period below either on your own account or in conjunction with or on behalf of any other person:

- a. for 12 (twelve) months after the Relevant Date 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 with the Group); or
- b. for 12 (twelve) months after the Relevant Date 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 with the Group); or
- c. for 12 (twelve) months after the Relevant Date solicit or entice away from the Group, or interfere with the Company's or any Group Company's relationship with, a Restricted Client or a Restricted Potential Client, or attempt to do so. However, this restriction shall only apply to actual or attempted solicitation or enticement of a Restricted Client or Restricted Potential Client insofar as such solicitation or enticement is with a view to providing to a Restricted Client or Restricted Potential Client services similar to those provided by the Restricted Business; or
- d. for 12 (twelve) months after the Relevant Date accept from a Restricted Client or a Restricted Potential Client orders for providing services similar to those provided by the Restricted Business; or
- e. for 6 (six) months after the Relevant Date be engaged, 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; or

f. for 12 (twelve) months after the Relevant Date solicit or deal with any person 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 Relevant Period and in respect of whom or which you have either: (a) had material personal contact during the Relevant Period; or (b) gained Confidential Information during the Relevant Period; or

g. for 12 (twelve) months after the Relevant Date 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 which the Company dealt with in the Relevant Period and in respect of whom or which you have either: (a) had material personal contact during the Relevant Period; or (b) gained Confidential Information during the Relevant Period.

16.2 Each of the restrictions in this clause 16 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.

16.3 The restrictions contained in clause 16, 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.

16.4 Without prejudice to clause 16.3, 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.

16.5 Notwithstanding any other provision of this clause 16, you may hold a Permitted Interest. Further, nothing in this clause 16 shall prevent you from:

a. being engaged or concerned in any business concern insofar as your duties or work shall relate solely to geographical areas where the business concern is not in competition with the Restricted Business; or

b. being engaged or concerned in any business concern, provided that your duties or work shall relate solely to services or activities of a kind with which you were not concerned to a material extent during the Relevant Period; or

c. holding an investment by way of shares or securities of not more than 5% of the total issued share capital of any company whether or not it is listed or dealt in on a recognised stock exchange.

16.6 At no time after the termination of your employment shall you, directly or indirectly, represent yourself as being interested in or employed by or in any way connected with the Company or any Group Company (other than as a former employee of the Company) and shall not (whether directly or indirectly and whether on your own or through an association of any kind with any third party) make use of any corporate or business name which is used by the Company or any Group Company, or which is similar to or likely to be confused with any such name.

16.7 The Company is entering into this Agreement as a trustee on behalf of each Group Company, and holds the benefit of the restrictions in this clause 16 on trust for each Group Company. Such restrictions shall be enforceable on behalf of each Group Company as though it were a party to this Agreement. Further, you will, at the request and expense of the Company, enter into a separate agreement with any Group Company in which you agree to be bound by restrictions corresponding to those restrictions in this clause 16 (or such of those restrictions as the Company deems appropriate) in relation to that Group Company.

16.8 If your employment is transferred to any firm, company, person or entity other than a Group Company ("New Employer") pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006, you will, if required, enter into an agreement with the New Employer containing post-termination restrictions corresponding to those restrictions in this clause 16, protecting the confidential information, trade secrets and business connections of the New Employer.

16.9 You confirm that prior to entering into this Agreement you had the opportunity to take independent legal advice on the nature, extent and enforceability of your obligations under this Agreement. You confirm that you understand that your remuneration under this Agreement has been agreed on the basis that such covenants are binding on you and enforceable against you.

17 Notification of Restrictions

17.1 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 16 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, 15 and 16 no later than the time when you first meet the prospective offeror.

18 Termination

18.1 This Agreement and your employment with the Company hereunder may be terminated immediately by the Company without prior notice and without any entitlement to a payment in lieu of notice, if you at any time:

- a. commit any act of gross misconduct; or
- b. commit any serious breach 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 wilful or serious neglect in the discharge of your duties under this Agreement; or
- d. are guilty of any fraud or dishonesty; or
- e. 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
- f. are convicted of any criminal offence other than an offence which, in the reasonable opinion of the Company, does not affect your position as an employee and/or director of the Company; or

- g. by your actions or omissions, in the reasonable opinion of the Company, 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
- h. cease to be eligible to work in the United Kingdom; or
- i. fail or cease to meet the requirements of any regulatory body whose consent is required to enable you to undertake all or any of your duties under your employment or are guilty of a serious breach of the rules and regulations of such regulatory body or of any compliance manual of the Company or any Group Company; or
- j. without prejudice to the generality of clause 18.1i, cease to be a fit and proper person (howsoever arising) within the meaning of the SMCR or other similar regulatory regime, fail to discharge the responsibilities allocated to you under the SMCR and/or fail to comply with the Conduct Rules or other similar regulatory regime; or
- k. cease to hold any professional qualification which the Company has stipulated as a requirement for your employment; or
- l. are convicted of an offence under any present or future statutory enactment or regulation relating to insider dealing; or
- m. refuse (without reasonable cause) to accept the novation by the Company of this Agreement, or an offer of employment on terms no less favourable to you than the terms of this Agreement, by any company which, as a result of a reorganisation, amalgamation or reconstruction of the Company, acquires or agrees to acquire not less than 90 per cent of the issued equity share capital of the Company; or
- n. resign (otherwise than at the Company's request) as, or otherwise cease to be, or becomes prohibited by law from being, a director of the Company or any Group Company.

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

18.3 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.

18.4 In the event of the termination of your employment for whatever reason and whether by notice or in any other manner whatsoever:

- a. at the request of the Company you shall resign from office as a director of the Company and all offices you hold in any Group Company, without claim for compensation for loss of office, provided however that such resignation shall be without prejudice to any claims which you may have against the Company or any Group Company arising out of the termination of your employment;
- b. at the request of the Company you shall resign from all trusteeships you hold of any pensions scheme or other trusts established by the Company or any Group Company;

- c. 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; and
- d. you irrevocably authorise the Company or any Group Company to appoint any person in your name and on your behalf to sign any documents and do any things necessary or requisite to give effect to your obligations under this clause 18.

18.5 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.

18.6 If your employment under this Agreement is terminated under clause 18.5 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.

18.7 As an alternative to serving notice pursuant to clause 2.2 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, or first instalment thereof, 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 2.2 ("Reference Period") less any appropriate tax and other statutory deductions.

18.8 For the avoidance of doubt, the payment referred to at clause 18.7 shall not include:

- a. any bonus or commission payments that might otherwise have been due;
- b. any benefits you would have been entitled to receive; or
- c. any holiday entitlement that would have accrued during the Reference Period.

18.9 The payment referred to in clause 18.7 may be made in instalments on the day on which basic salary would have been payable if your employment had continued throughout the Reference Period. It will be payable only for such portion of the Reference Period as you do not perform work or services on your own account or for any other party of a remunerative nature provided that the Company shall make up any shortfall between any such earnings and the amount that would otherwise have been payable under clause 18.7.

18.10 Notwithstanding the fact that the Company has purported to exercise its discretion to make payment pursuant to clause 18.7, you shall nonetheless not be entitled to any such payment if the Company would have been entitled to terminate your employment without notice in accordance with clause 18.1. In that case the Company shall be entitled to recover from you any such payment (or instalments thereof) already made.

19 Compliance

19.1 You undertake as a term of your employment with the Company:

- a. to observe all rules and guidance notes for the time being of the Financial Conduct Authority ("FCA") or any other applicable regulatory regime binding on the Company, the Group or you;
- b. to observe the Conduct Rules, and to meet and maintain fit and proper status as required under the SMCR;
- c. to co-operate fully with all relevant regulatory authorities, including (without limitation) the Department for Business, Innovation and Skills and the FCA;
- d. to not deal in shares or other securities (whether of the Company, any Group Company, or of any other company) or any warrants or derivatives relating to such securities in circumstances which would amount to a breach of Part V Criminal Justice Act 1993, the Financial Services and Markets Act 2000, the Model Code for transactions in securities (as applicable to the Group) or the FCA Handbook or under any other applicable legislation;
- e. to observe the compliance rules and procedures of the Company and/or the Group for the time being in force;
- f. to observe any restrictions or other requirements for the time being of the FCA or any other applicable regulatory regime on senior managers;
- g. to promptly to supply to the Company any information which you may from time to time have regarding any matters on which the FCA or any other applicable regulatory regime would or might require notification or information; and
- h. you agree to deal with the Company in an open and co-operative manner.

19.2 You shall comply with the memorandum and articles of association, and all other rules, regulations, policies and procedures from time to time in force, of the Company and any other Group Company to which you may from time to time render your services under this Agreement. Failure to do so may result in disciplinary action being taken against you. In particular, but without limitation, your attention is drawn to the non-contractual policies and procedures set out in the Policies which you agree to abide by. In the event of any conflict with the Policies and this Agreement, 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:

- a. immediately 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 (including all materials within the scope of clause 15.4); and

b. on request, immediately 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 reasonable request, provide reasonable co-operation and provide reasonable 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. The Company will reimburse reasonable expenses and reasonable legal fees incurred by you in providing such co-operation and assistance. In return for you providing such assistance, the Company will provide reasonable co-operation and provide reasonable assistance to you in any such internal investigation, administrative, regulatory, quasi-judicial proceedings or any threatened or actual litigation concerning you relating to your employment or period on office with the Company or any Group Company, providing that in doing so, it does not create either an actual or material threat of a conflict of interest between the Company or any Group Company, and yourself.

21 Disciplinary, Dismissal and Grievance Procedures

21.1 If you:

- a. are dissatisfied with any disciplinary decision relating to you (or any decision to dismiss you), you may raise this with a HR Business Partner who will refer the matter to an appropriate person; and
- b. have a grievance relating to your employment, you should raise this with a HR Business Partner who will refer the matter to an appropriate person.

21.2 For further details, please refer to the Company's disciplinary and grievance procedures, to which you are subject, which are contained in the Company's disciplinary and grievance policy as in place from time to time. Copies may be obtained from the Company's HR Department. These procedures do not form part of your contract of employment.

21.3 You may be suspended during any disciplinary or regulatory investigation (including, for the avoidance of doubt, where concerns are raised about your fitness and propriety as a senior manager under the SMCR or any other applicable regulatory regime) for such period as the Company deems fit. If you are suspended, the provisions of clause 2.5 shall apply.

22 Deductions

22.1 For the purposes of the Employment Rights Act 1996 you authorise the Company at any time during your employment, and in any event on termination howsoever arising, to deduct from your remuneration under this Agreement (which for this purpose includes salary, commission, bonus, holiday pay, sick pay and pay in lieu of notice) any monies due from you to the Company including, but not limited to, any performance adjustment necessary under clause 6, outstanding loans, advances, the cost of repairing any damage or loss of the Company's property caused by you (and of recovering it), excess holiday, and any other monies owed by you to the Company.

23 Data Protection

- 23.1 You agree to comply with any policy introduced by the Company in order to comply with Data Protection Legislation (defined below), including any policy on the transfer of data outside the European Economic Area, at all times during your employment and to comply with any policy introduced by the Company and any other Group Company in order to comply with it, including any policy on the transfer of data outside the European Economic Area.
- 23.2 The Company will process your personal data in accordance with and to the extent permitted by Data Protection Legislation for the purposes set out in the Privacy note.
- 23.3 The Company may make Personal Data relating to you available to any Group Company, as well as to any person or company who provides, or is a potential provider of products or services to the Company, or to whom the Company provides, or may provide services, including potential or existing clients and suppliers, advisors and brokers, pensions and insurance providers, payroll administrators, regulatory authorities, potential or future employers, and potential purchasers of the Company. The Company may, for the purposes set out in this clause, transfer your Personal Data (including Special Categories of Data) to entities which are established in countries which are located outside the European Economic Area, in particular to, and in the United States, and any other country which the Company has offices. If the Company transfers your Personal Data outside the EEA, it will ensure that a finding of adequacy has been made by the EC Commission in respect of such country or will alternatively make sure other appropriate safeguards are in place, including but not limited to EU standard contractual clauses or an intragroup agreement.
- 23.4 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 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.
- 23.5 In this clause the expressions "personal data" and "special category personal data" have the same meanings as those expressions bear in the General Data Protection Regulation (EU) 2016/679 ("GDPR").
- 23.6 In this clause "Data Protection Legislation" means the GDPR, Data Protection Act 2018 ("DPA"), and the Privacy and Electronic Communications (EC Directive) Regulations 2003 (or any successor to the GDPR, DPA, or Privacy and Electronic Communications Regulations) and the applicable version at the relevant time of any guidance or codes of practice issued by the Information Commissioner's Office from time to time.
- 23.7 Further information about the ways in which the Company Processes your Personal Data is set out in the Company's Colleague, Consultant and Applicant Privacy Notice, as updated from time to time. A copy of the current privacy notice is attached to this Agreement. This will be updated from time to time.

24 Notices

- 24.1 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.

25 Assignment and Effect of Termination

25.1 The benefit of each agreement and obligation of you under this Agreement may be assigned by the Company 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.

25.2 The expiration or termination of this Agreement shall not prejudice any claim which either party may have against the other in respect of any pre-existing breach of this Agreement nor shall it prejudice the coming into force or the continuance in force of any provision of this Agreement which is expressly or by implication intended to or has the effect of coming into or continuing in force on or after such expiration or termination.

26 Third Party Rights

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

27 Law and Jurisdiction

27.1 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.

27.2 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.

28 Prior Agreements

28.1 This Agreement shall be in substitution for any subsisting agreement or arrangement (oral or otherwise) made between the Company and you or 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 Commencement Date. You acknowledge that you have no outstanding claim of any kind in respect of any such agreement or arrangement.

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

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

29 Collective Agreements

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

30 Severability

30.1 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.

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 UK HOLDCO LIMITED) /s/ Ashish Masih
acting by a single Director in the)
presence of:)

Witness:

Signature: /s/ Greg Call
Name: Greg Call
Address: 350 Camino De La Reina
San Diego, CA 92108
Occupation: EVP

SIGNED and DELIVERED)
as a DEED by **CRAIG BUICK**) /s/ Craig Buick
in the presence of:)

Witness:

Signature: /s/ Jane Perkin
Name: Jane Perkin
Address: ## ##### #####
London ### ###
Occupation: HRBP

Schedule of Benefits
DIRECTOR

This schedule sets out an "at a glance" summary of the benefits an employee might receive. The provision of any benefit is subject to the provisions contained in the body of the relevant contract of employment. To the extent there may be any conflict between the contents of this schedule and the body of the relevant contract of employment, the terms of the latter will prevail. Please note the Company has absolute discretion to change schemes and/or scheme providers, which may mean the level of benefit provided varies (and may be decreased).

Benefit	Eligibility	Current Benefit	More information available on the Company intranet, detailed in:
Holiday entitlement	on commencement of employment.	30 days per annum (full time entitlement which will be pro-rated if part time). There is no further accrual with length of service.	Annual Leave Policy
Statutory Bank Holidays	on commencement of employment.	8 days per annum	Annual Leave Policy
Pension	on commencement of employment	The Company will make an employer contribution of 15% of your basic salary into the pension scheme, which is not conditional on you making any employee contributions). This will comply with the Company's minimum obligations in respect of auto enrolment.	Detailed policies and details of benefit provision terms are available on the intranet
Life Assurance – death in service	on commencement of employment.	Four times your basic annual salary from the date of commencement of your employment.	Detailed policies and details of benefit provision terms are available on the intranet
Income Insurance	on commencement of employment.	75% of base salary after 13 weeks of absence (subject to insurer accepting claim and meeting definition of disability). Subject to conditions	Detailed policies and details of benefit provision terms are available on the intranet
Healthcare	on commencement of employment.	Scale B cover (includes family if required).	Detailed policies and details of benefit provision terms are available on the intranet
Gym	on commencement of employment.	Family membership	Please contact the HR Department for further details
Long term incentive plan	when approved and awarded by either the Compensation Committee or the Remuneration Committee		Long Term Incentive Plan scheme rules (as amended from time to time)
Discretionary Bonus	when approved and awarded by either the Compensation Committee or the Remuneration Committee	Subject to individual and company performance with an on target of 85% of your basic salary	Bonus scheme rules as applicable from time to time

* Please note that on reaching the age of 65 or the relevant state pensionable age (whichever is greater), the Company reserves the right under the Equality Act 2010 to withdraw entitlement to insured benefits. The Company will continue to pay employer pension contributions whilst the employees make their contributions.

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 11, 2020

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Jonathan C. Clark, 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/ JONATHAN C. CLARK

Jonathan C. Clark
Executive Vice President, Chief Financial Officer and Treasurer

Date: May 11, 2020

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, 2020 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 11, 2020

/s/ JONATHAN C. CLARK

Jonathan C. Clark
Executive Vice President,
Chief Financial Officer and Treasurer

May 11, 2020

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.