

ENCORE CAPITAL GROUP INC  
Form 10-K  
February 21, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017 or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER: 000-26489  
ENCORE CAPITAL GROUP, INC.  
(Exact name of registrant as specified in its charter)

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

3111 Camino Del Rio North, Suite 103 San Diego, California 92108  
(Address of principal executive offices) (Zip code)  
(877) 445-4581

(Registrant’s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 Par Value Per Share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$964.7 million at June 30, 2017, based on the closing price of the common stock of \$40.15 per share on such date, as reported by NASDAQ.

The number of shares of our Common Stock outstanding at February 8, 2018, was 25,804,220.

Documents Incorporated by Reference

Portions of the registrant's proxy statement in connection with its annual meeting of stockholders to be held in 2018 are incorporated by reference in Items 10, 11, 12, 13, and 14 of Part III of this Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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PART I

Item 1—Business

An Overview of Our Business

Nature of 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 purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers' unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings.

We are a market leader in portfolio purchasing and recovery in the United States, including Puerto Rico. Cabot Credit Management plc (together with its subsidiaries, "Cabot"), our largest international subsidiary, is one of the largest credit management services providers in Europe and is a market leader in the United Kingdom and Ireland. We control Cabot via our majority ownership interest in the indirect holding company of Cabot, Janus Holdings S.a r.l. ("Janus Holdings"). These are our primary operations.

We have also developed or acquired additional international operations as we have explored new asset classes and geographies including: (1) certain subsidiaries that focus on (a) consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or "IVAs") in the United Kingdom and bank and non-bank receivables in Spain and (b) credit management services in Spain (collectively, "Grove"); (2) our majority-owned subsidiary Refinancia S.A. and its subsidiaries (collectively, "Refinancia"), which is a market leader in debt collection and management in Colombia and Peru, (3) purchases of non-performing loans in other countries in Latin America, including Mexico and Brazil; (4) our subsidiary, Baycorp Holdings Pty Limited (together with its subsidiaries, "Baycorp"), which is one of Australasia's leading debt resolution specialists and (4) an investment in Encore Asset Reconstruction Company ("EARC") in India, which has completed initial immaterial purchases.

To date, operating results from our international operations on an individual basis, other than from Cabot, have not been significant to our total consolidated operating results. As a result, descriptions of our international operations in Part I - Item 1 of this Form 10-K will focus substantially on Cabot's operations.

Throughout this Annual Report on Form 10-K, when we refer to our United States operations, we include accounts originated in the United States that are serviced through our operations centers in the United States, India and Costa Rica. When we refer to our international operations, we are referring to accounts originated outside of the United States. Those accounts are generally serviced in the country of origin.

Keys to Success

The foundation of our success is our people, our integrity and our operational agility. This foundation supports strengths in five key areas:

• Superior Analytics, including our extensive investments in data and behavioral science and our use of sophisticated predictive modeling techniques;

• Operational Scale and Cost Efficiency, driven by our specialized call centers, experienced international operations, and effective internal and external litigation operations;

• Strong Capital Stewardship, underpinned by our disciplined ability to raise and deploy capital prudently to maximize the return on our invested capital;

• Consumer-centric Commitment to Ethics and Principled Intent: we strive to conduct business ethically and in ways that support consumers' financial recovery. We commit to treat consumers with respect, compassion and integrity, and we demonstrate that commitment by continuous investment in compliance programs that enable us to efficiently adjust our business practices to a changing regulatory environment; and

• Extendable Business Model, driven by our scalable platform that supports strategic investment opportunities.

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### Seasonality

#### United States

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

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

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

#### International

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

#### Operating Segments

We have one reportable segment, portfolio purchasing and recovery. Financial information regarding our operating segments and geographic operations is set forth in Note 14, "Segment Information" to our consolidated financial statements.

#### Company Information

We were incorporated in Delaware in 1999. In June 2013, we completed our merger with Asset Acceptance Capital Corp., which was another leading provider of debt recovery solutions in the United States. In July 2013, by acquiring a majority ownership interest in the indirect holding company of Cabot, Janus Holdings, we acquired control of Cabot. In February 2014, Cabot acquired Marlin Financial Group Limited, a leading acquirer of non-performing consumer debt in the United Kingdom. In August 2014, we acquired Atlantic Credit & Finance, Inc., which was a market leader in the United States in buying and collecting on freshly charged-off debt. In June 2015, Cabot expanded in the United Kingdom by acquiring Hillesden Securities Ltd and its subsidiaries ("dlc"). In March 2016, we completed the divestiture of our membership interests in Propel Acquisition LLC and its subsidiaries (collectively, "Propel"), our tax lien business.

Our headquarters is located at 3111 Camino Del Rio North, Suite 103, San Diego, California 92108 and our telephone number is (877) 445-4581. Investors wishing to obtain more information about us may access the Investors section of our Internet site at <http://www.encorecapital.com>. The site provides access, free of charge, to relevant investor related information, such as Securities and Exchange Commission ("SEC") filings, press releases, featured articles, an event calendar, and frequently asked questions. SEC filings are available on our Internet site as soon as reasonably practicable after being filed with, or furnished to, the SEC. Also available on our website are our Standards of Business Conduct and charters for the committees of our Board of Directors. We intend to disclose any amendment to, or waiver of, a provision of our Standards of Business Conduct on our website. The content of our Internet site is not

incorporated by reference into this Annual Report on Form 10-K. Any materials that we filed with the SEC may also be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (<http://www.sec.gov>).

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### Our Competitive Advantages

**Analytic Strength.** We believe that success in our business depends on our ability to establish and maintain an information advantage. Leveraging an industry-leading financially distressed consumer database, our in-house team of statisticians, business analysts, and software programmers have developed, and continually enhance, proprietary behavioral and valuation models, custom software applications, and other business tools that guide our portfolio purchases. Moreover, our collection channels are informed by powerful statistical models specific to each collection activity, and each year we deploy significant capital to purchase credit bureau and customized consumer data that describe demographic, account level, and macroeconomic factors related to credit, savings, and payment behavior. Our international expansion has enabled us to collaborate across our operating subsidiaries to employ and enhance our statistical models throughout the markets we service.

**Consumer Intelligence.** At the core of our analytic approach is a focus on characterizing our consumers' willingness and ability to repay their financial obligations. In this effort, we apply tools and methods from statistics, psychology, economics, and management science across the full extent of our business. During portfolio valuation, we use an internally developed and proprietary family of statistical models that determines the likelihood and expected amount of payment for each consumer within a portfolio. Subsequently, the expectations for each account are aggregated to arrive at a portfolio-level liquidation solution and a valuation for the entire portfolio is determined. During the collection process, we apply a number of proprietary operational frameworks to match our collection approach to an individual consumer's payment behavior.

**Strong Capital Stewardship.** We continue to maintain a focus on raising and deploying capital prudently to maximize the return on our invested capital. Our operational scale and geographic diversification enable us to adjust to market trends and deploy capital to maximize risk-adjusted returns.

**Cost Efficiency.** Cost efficiency is central to our collection and purchasing strategies. We experience considerable cost advantages, stemming from our operations in India and Costa Rica and the development and implementation of operational models that enhance profitability. We believe that we are the only company in our industry with a successful, late-stage collection platform in India. This cost-saving, first-mover advantage helps to reduce our call center variable cost-to-collect.

**Principled Intent.** Across the full extent of our operations, we strive to treat consumers with respect, compassion, and integrity. From affordable payment plans to hardship solutions, we work with our consumers as they attempt to return to financial health. We are committed to dialogue that is honorable and constructive, and hope to play an important and positive role in our consumers' financial recovery. We believe that our interests, and those of the financial institutions from which we purchase portfolios, are closely aligned with the interests of government agencies seeking to protect consumer rights. In 2011, we unveiled the industry's first and only Consumer Bill of Rights, which codifies our commitment to respectful consumer treatment. We expect to continue investing in infrastructure and processes that support consumer advocacy and financial literacy while promoting an appropriate balance between corporate and consumer responsibility.

### Our Strategy

We have implemented a business strategy that emphasizes the following three elements:

**Continue to Invest in our Core Businesses in the United States.** Our core domestic portfolio purchasing and recovery business remains critical to our success. Supply and demand dynamics within the United States have fluctuated over time and will likely continue to do so. To position ourselves to continue to generate strong risk-adjusted returns, we intend to continue to invest in analytics, technology, risk management and compliance. We will also continue to invest in initiatives that enhance our relationships with consumers, expand our digital capabilities and collections, or improve liquidation rates on our portfolios. We also plan to invest in software and systems designed to better integrate our operations and improve our overall efficiency. We intend to continue to deploy a meaningful amount of capital in our core domestic markets.

**Strengthen and Develop our International Businesses.** We believe we are well-positioned through Cabot and our other international businesses to take a leading role, worldwide, in the distressed debt and subprime consumer financial sectors. Cabot intends to preserve its market leading position in the U.K. by maintaining its high level of collections performance and compliance. Cabot also intends to invest in new innovations, particularly in the digital channels,

maintaining its reputation for customer service and compliance, which is important to customers, vendors and regulators, and continuing to develop its leading data, scorecard and litigation capabilities. In addition to Cabot, our international footprint also includes our presence in the Spanish, Latin American and Australasian debt markets, and our international operations at our India and Costa Rica locations. We intend to continue to strengthen and develop these international businesses. We will also continue to evaluate opportunities in new geographic markets.

Explore Business Model Adjacencies and Expansion. We are working to leverage some of our core competencies, such as our knowledge of financially distressed consumers, in other areas or for different types of defaulted consumer receivables or to provide other services to financial institutions. We believe that our existing underwriting and collection processes can be



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extended to a variety of consumer receivables. These capabilities have allowed us to develop and provide complementary products or services to specified financially distressed consumer segments and other complementary programs.

### Purchasing Approach

We provide sellers of delinquent receivables liquidity and immediate value through the purchase of charged-off consumer receivables. We believe that we are an appealing partner for these sellers given our financial strength, focus on principled intent, and track record of financial success.

### United States

Identify purchase opportunities. We maintain relationships with some of the largest credit originators and portfolio resellers of charged-off consumer receivables in the United States. We identify purchase opportunities and secure, where possible, exclusive negotiation rights. We believe that we are a valued partner for credit originators from whom we purchase portfolios, and our ability to secure exclusive negotiation rights is typically a result of our strong relationships and our purchasing scale. Receivable portfolios are sold either through a general auction, where the seller requests bids from market participants, or through an exclusive negotiation, where the seller and buyer negotiate a sale privately. The sale transaction can be either for a one-time spot purchase or for a “forward flow” contract. A “forward flow” contract is a commitment to purchase receivables over a duration that is typically three to twelve months with specifically defined volume, frequency, and pricing. Typically, these forward flow contracts have provisions that allow for early termination or price re-negotiation should the underlying quality of the portfolio deteriorate over time or if any particular month’s delivery is materially different than the original portfolio used to price the forward flow contract. We generally attempt to secure forward flow contracts for receivables because a consistent volume of receivables over a set duration can allow us more precision in forecasting and planning our operational needs.

Evaluate purchase opportunities using account-level analytics. Once a portfolio of interest is identified, we obtain detailed information regarding the portfolio’s accounts, including certain information regarding the consumers themselves. We then purchase additional information for the consumers whose accounts we are contemplating purchasing, including credit and payment behavior. Our Decision Science team, which is responsible for asset valuation, statistical analysis, and forecasting, then analyzes this information to create future cash forecasts. Our collection expectations are based on demographic data, account characteristics, and credit file variables, which we use to predict a consumer’s willingness and ability to repay their debt. The expected value of each portfolio is determined by the forecast, our operational strategy and the capacity of our collection channels. Additional adjustments to cash expectations are made to account for qualitative factors that may affect the payment behavior of our consumers (such as prior collection activities, or the underwriting approach of the seller), and servicing related adjustments to ensure our valuations are aligned with our operations.

Formal approval process. Once we have determined the value of the portfolio and have completed our qualitative diligence, we present the purchase opportunity to our investment committee, which either sets the maximum purchase price for the portfolio based on a corporate Internal Rate of Return (“IRR”) or other strategic objectives, or declines to bid. Members of the investment committee include our Chief Executive Officer, Chief Financial Officer, other members of our senior management team, and experts, as needed.

We believe long-term success is best achieved by combining a diverse asset sourcing approach with an account-level scoring methodology and a disciplined evaluation process.

### International

Identify purchase opportunities. Through Cabot, we have strong relationships with many of the largest financial service providers in the United Kingdom and Europe (including consumer finance, telecommunications companies, retailers, utilities companies and government agencies). These relationships frequently generate recurring purchase opportunities. Cabot primarily acquires receivable portfolios through a competitive bidding process that is initiated by the portfolio seller. Portfolios are also acquired through forward flow agreements. Cabot typically enters into forward flow arrangements only where and when it is able to secure agreements concerning the price for each tranche received that protect it from any adverse changes in portfolio quality.

Evaluate purchase opportunities using pricing and analytical models. When Cabot identifies a portfolio of interest, it evaluates account-level information and performs due diligence to evaluate certain features of the portfolio. Cabot

next applies its proprietary, highly automated portfolio pricing models to further evaluate the portfolio, using separate models depending on the type of account: a model for paying semi-performing accounts and regression models for non-performing accounts. Using its substantial database of account holder information, Cabot carries out additional statistical analysis that is customized to evaluate specific repayment characteristics to further evaluate the accounts. The results of due diligence and the outputs of the

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pricing models and data analysis is presented to Cabot's pricing committee, which then decides whether to make an indicative bid for the portfolio. If, following the indicative bid, Cabot is short-listed by the vendor, it then conducts further due diligence on the portfolio and refines its analysis. Following this additional due diligence, the pricing committee decides whether to submit a final binding offer for the portfolio.

Formal approval process. All purchases require approval by the pricing committee. Cabot's pricing committee includes its Chief Executive Officer, Chief Financial Officer and other relevant officers. Purchases above a certain size or in certain geographies also require approval by Cabot's investment committee, which includes members of its board including officers of Encore. We believe that Cabot's significant industry and management experience enable it to make informed decisions about the portfolios Cabot acquires.

### Collection Approach

#### United States

**Inactive.** We strive to use our financial resources judiciously and efficiently by not deploying resources on accounts where the prospects of collection are remote based on a consumer's situation.

**Direct Mail and Email.** We develop innovative, mail and email campaigns offering consumers payment programs, and occasionally appropriate discounts, to encourage settlement of their accounts.

**Call Centers.** We maintain domestic collection call centers in Phoenix, Arizona, St. Cloud, Minnesota, Troy, Michigan, and Roanoke, Virginia and international call centers in Gurgaon, India and San Jose, Costa Rica. Call centers generally consist of multiple collection departments. Account managers supervised by group managers are trained and divided into specialty teams. Account managers assess our consumers' willingness and capacity to pay. They attempt to work with consumers to evaluate sources and means of repayment to achieve a full or negotiated lump sum settlement or develop payment programs customized to the individual's ability to pay. In cases where a payment plan is developed, account managers encourage consumers to pay through automatic payment arrangements. We continuously educate account managers to understand and apply applicable laws and policies that are relevant in the account manager's daily collection activities. Our ongoing training and monitoring efforts help ensure compliance with applicable laws and policies by account managers.

**Legal Action.** We generally refer accounts for legal action where the consumer has not responded to our direct mail efforts or our calls and it appears the consumer is able, but unwilling, to pay their obligations. When we decide to pursue legal action, we place the account into our internal legal channel or refer them to our network of retained law firms. If placed to our internal legal channel, attorneys in that channel will evaluate the accounts and make the final determination whether to pursue legal action. If referred to our network of retained law firms, we rely on our law firms' expertise with respect to applicable debt collection laws to evaluate the accounts placed in that channel in order to make the decision about whether or not to pursue collection litigation. Prior to engaging an external law firm (and throughout our engagement of any external law firm), we monitor and evaluate the firm's compliance with consumer credit laws and regulations, operations, financial condition, and experience, among other key criteria. The law firms we hire may also attempt to communicate with the consumers in an attempt to collect their debts prior to initiating litigation. We pay these law firms a contingent fee based on amounts they collect on our behalf.

**Third-Party Collection Agencies.** We selectively employ a strategy that uses collection agencies. Collection agencies receive a contingent fee for each dollar collected. Generally, we use these agencies on accounts when we believe they can liquidate better or less expensively than we can or to supplement capacity in our internal call centers. We also use agencies to initially provide us a way to scale quickly when large purchases are made and as a challenge to our internal call center collection teams. Prior to engaging a collection agency, we evaluate, among other things, those aspects of the agency's business that we believe are relevant to its performance and compliance with consumer credit laws and regulations.

**Digital Collections.** We offer an online payment portal that enhances consumer convenience by providing consumers the ability to view account details, make payments and submit inquiries online.

**No Resale.** Our policy is to not resell accounts to third parties in the ordinary course of business.

We expand and build upon the insight developed during our purchase process when developing our account collection strategies for portfolios we have acquired. Our proprietary consumer-level collectability analysis is the primary determinant of whether an account is actively serviced post-purchase. The channel identification process is analogous

to a decision tree where we first differentiate those consumers who we believe are unable to pay from those who we believe are able to pay. Consumers who we believe are financially incapable of making any payments, or are facing extenuating circumstances or hardships that

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would prevent them from making payments, are excluded from our collection process. It is our practice to attempt to contact consumers and assess each consumer's willingness to pay through analytics, phone calls and/or letters. If the consumer's contact information is unavailable or out of date, the account is routed to our skip tracing process, which includes the use of different skip tracing companies to provide accurate phone numbers and addresses. The consumers that engage with us are presented with payment plans that are intended to suit their needs or are sometimes offered discounts on their obligations. For the consumers that do not respond to our calls or our letters we must then decide whether to pursue collections through legal action. Throughout our ownership period of accounts, we periodically refine our collection approach to determine the most effective collection strategy to pursue for each account.

### International

Cabot uses insights developed during its purchasing process to build account collection strategies. Cabot's proprietary consumer-level collectability analysis is the primary determinant of how an account will be serviced post-purchase. Cabot continuously refines this analysis to determine the most effective collection strategy to pursue for each account it owns. Cabot purchases both paying portfolios, which consist of accounts where over 50% of the investment value is associated with consumers who are already repaying some of their debt, albeit at levels that still require the debt to be written off under the originators' internal accounting policies, and non-paying portfolios, where 50% or more of the investment value is associated with customers who are not repaying some of their debt, which are higher risk and have less predictable cash flows than paying portfolios. Paying portfolios tend to have a higher purchase price relative to face value than non-paying accounts due to the higher expectations for collections, as well as lower anticipated collection costs. Non paying portfolios often consist of a substantial number of accounts without contact details and for which the vendor has made numerous unsuccessful attempts to collect.

For paying accounts, Cabot will attempt to establish contact with these consumers in order to transfer payment arrangements and gauge the willingness of these consumers to transition to an enhanced payment plan. For non-paying accounts, consumers who Cabot believes are financially incapable of making any payments, those having negative disposable income, or those experiencing hardship, are handled outside of normal collections processes through dedicated and tailored strategies. The remaining pool of accounts then receives further evaluation through Cabot's data analytics. At that point, Cabot analyzes and determines a consumer's perceived willingness to pay. Based on that analysis, Cabot pursues collections through letters, phone calls and/or text messages to its consumers. Where contact is made and consumers indicate a willingness and ability to pay, Cabot creates tailor-made payment plans to suit the consumer's situation using regulatory protocols within the United Kingdom to assess affordability and ensure that repayment plans are fair and balanced and therefore sustainable. Where contact is not made or the customer is unwilling to pay, Cabot refers the account to the appropriate escalation point in the collection process, which may include its internal debt collection agency, a third-party collection agency or legal action. Cabot also has robust internal legal collection capabilities, allowing the organization to address consumers across the entire willingness to pay spectrum. Cabot utilizes a similar collection approach for its debt servicing operations.

### Compliance and Enterprise Risk Management

#### United States

We have established a compliance management system framework, operational procedures, and governance structures to enable us to conduct business in accordance with applicable rules, regulations, and guidelines. Our philosophy rests on well-established risk management principles including a model leveraging three lines of defense. Our first line of defense consists of business lines or other operating units, whose role is to own and manage risks and associated mitigating controls. Our second line of defense is comprised of strong legal, compliance, and enterprise risk management functions, who ensure that the business maintains policies and procedures in compliance with existing laws and regulations, advise the business on assessing risk and strengthening controls, and provide additional, related support. These second-line functions facilitate oversight by our Board of Directors and management, and are responsible for promoting compliance with applicable laws and regulations, assisting in formulating and maintaining policies and procedures, and engaging in training, risk assessments, testing, monitoring, complaint response, compliance audits and corrective actions. Our third line of defense is provided by our internal audit function, providing independent assurance that both first and second line functions are performing their roles appropriately within the context of our framework.

Beyond written policies, one of our core internal goals is the adherence to principled intent as it pertains to all consumer interactions. We believe that it is in our shareholders' and our employees' best interest to treat all consumers with the highest standards of integrity. Specifically, we have strict policies and a code of ethics that guide all dealings with our consumers. To reinforce existing written policies, we have established a number of quality assurance procedures. Through our Quality Assurance program, our Fair Debt Collection Practices Act training for new account managers, our Fair Debt Collection Practices Act recertification program for continuing account managers, and our Consumer Support Services department, we take significant steps to ensure compliance with applicable laws and regulations and seek to promote consumer satisfaction.

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Our Quality Assurance team aims to enhance the skills of account managers and to drive compliance initiatives through active call monitoring, account manager coaching and mentoring, and the tracking and distribution of company-wide best practices. Finally, our Consumer Support Services department works directly with consumers to seek to resolve incoming consumer inquiries and to respond to consumer disputes as they may arise. We continually monitor applicable changes to laws governing statutes of limitations and disclosures to consumers.

Credit originators who sell us defaulted consumer receivables routinely conduct examinations of our collection practices and procedures and typically make reports with recommendations to us as to how they believe we can improve those practices and procedures. We respond to these reports in the ordinary course of business and make changes to our practices and procedures that we believe are appropriate to address any issues raised in such reports.

### International

Cabot has established a compliance framework, operational procedures, and governance structures to enable it to conduct business in accordance with applicable rules, regulations, and guidelines. Cabot's employees undergo comprehensive training on legal and regulatory compliance, and Cabot engages in regular call monitoring checks, data checks, performance reviews, and other operational reviews to ensure compliance with company guidelines. The laws and regulations under which Cabot operates have at their core the fair treatment of consumers, which is embedded within Cabot's processes and culture.

### Information Technology

**Technical Infrastructure.** Our internal network has been configured to be redundant in all critical functions, at all sites. This redundancy has been implemented within the local area network switches and the data center network and includes fully redundant Multiprotocol Label Switching (MPLS) networks. We have the capability to handle high transaction volume in our server network architecture with scalability to meet and exceed our future growth plans. Redundancy, coupled with seamless scalability and our high performance infrastructure, will allow for rapid business transformation and growth.

**Omni-Channel Enabled Dialer Technology.** Our call centers employ the use of upgraded dialer technology that expands our ability to service the consumer in their preferred channel of communication. This technology allows additional call volume capacity and greater efficiency through shorter wait times and an increase in the number of live contacts. This technology helps maximize account manager productivity and further optimizes the yield on our portfolio purchases. Additionally, the use of predictive dialing technology helps us comply with applicable federal and state laws in the United States that restrict the time, place, and manner in which debt collectors can call consumers. Recognizing mobile phone dialing has a different set of legal restrictions, we utilize a distinctly different platform for non-consented mobile phones in order to comply with all laws while providing a framework for us to maximize contact with our consumers.

**Computer Hardware.** We have made significant improvements in our data centers, and now have redundancy in support of continued growth. We use a robust computer platform to perform our daily operations, including the collection efforts of our global workforce. Our custom software applications are integrated within our database server environment allowing us to process transaction loads with speed and efficiency. The computer platform offers us reliability and expansion opportunities. Furthermore, this hardware incorporates state of the art data security protection. We back up our data utilizing a tapeless configuration, and copies are replicated to a secure secondary data center. We also mirror our production data to a remote location to give us full protection in the event of the loss of our primary data center. To ensure the integrity and reliability of our computer platform, we periodically engage outside auditors specializing in information technology and cybersecurity to examine both our operating systems and disaster recovery plans.

**Process Control.** To provide assurance that our entire infrastructure continues to operate efficiently and securely, we have developed a strong process and control environment. These governance, risk management, and control protocols govern all areas of the enterprise: from physical security and cybersecurity, to change management, data protection, and segregation of duties.

**Cybersecurity.** We divide our cybersecurity and information security functions into the four core tenants that we believe make up a solid information security practice: (1) security strategy and architecture; (2) operational security; (3) vulnerability and threat management; and (4) IT governance, risk and controls. We invest in cybersecurity and

advanced technologies, including next generation threat prevention and threat intelligence solutions, to protect our organization and consumer and proprietary data throughout its life cycle. We believe that our adoption and implementation of leading security frameworks for the financial services industry and the regulatory environments and geographies in which we operate demonstrates our commitment to cybersecurity and information security.

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Competition

The consumer credit recovery industry is highly competitive in both the United States and the United Kingdom. We compete with a wide range of collection and financial services companies, traditional contingency collection agencies and in-house recovery departments. Competitive pressures affect the availability and pricing of receivable portfolios, as well as the availability and cost of qualified recovery personnel. In the United States, we believe some of our major competitors, which include companies that focus primarily on the purchase of charged-off receivable portfolios, have continued to diversify into third-party agency collections and into offering credit card and other financial services as part of their recovery strategy.

When purchasing receivables, we compete primarily on the basis of price, the ease of negotiating and closing the prospective portfolio purchases with us, our ability to obtain funding, and our reputation with respect to the quality of services that we provide. We believe that our ability to compete effectively in this market is also dependent upon, among other things, our relationships with credit originators and portfolio resellers of charged-off consumer receivables, and our ability to provide quality collection strategies in compliance with applicable laws.

We believe that smaller competitors in the United States and the United Kingdom are facing difficulties in the portfolio purchasing market because of the higher cost to operate due to increased regulatory pressure and scrutiny applied by regulators. In addition, sellers of charged-off consumer receivables are increasingly sensitive to the reputational risks involved in the industry and are therefore being more selective with buyers in the marketplace, resulting in consolidation within the portfolio purchasing and recovery industry. We believe this favors larger participants in this market, such as us, that are better able to adapt to these pressures.

Government Regulation

United States

Our debt purchasing 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. It is our policy to comply with the provisions of all applicable laws in all of our recovery activities. Our failure to comply with these laws could have a material adverse effect on us to the extent that they limit our recovery activities or subject us to fines or penalties in connection with such activities.

The federal Fair Debt Collection Practices Act (“FDCPA”) and comparable state and local laws establish specific guidelines and procedures that debt collectors must follow when communicating with consumers, including the time, place and manner of the communications, and prohibit unfair, deceptive, or abusive debt collection practices. Until 2011, the Federal Trade Commission (“FTC”) administered, and had primary responsibility for the enforcement of, the FDCPA. In July 2011, pursuant to the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010 (the “Dodd-Frank Act”), Congress transferred the FTC’s role of administering the FDCPA to the Consumer Financial Protection Bureau (“CFPB”), along with certain other federal statutes, and gave the CFPB authority to implement regulations under the FDCPA. The FTC and the CFPB share enforcement responsibilities under the FDCPA.

In addition to the FDCPA, the federal laws that directly or indirectly apply to our business (including the regulations that implement these laws) include the following:

Dodd-Frank Act, including the Consumer Financial Protection Act (Title X of the Dodd-Frank Act, “CFPA”)	Servicemembers’ Civil Relief Act
Electronic Fund Transfer Act	Telephone Consumer Protection Act (“TCPA”)
Equal Credit Opportunity Act	Truth In Lending Act
Fair Credit Billing Act	U.S. Bankruptcy Code
Fair Credit Reporting Act (“FCRA”)	Wire Act
Federal Trade Commission Act (“FTCA”)	Credit CARD Act
Gramm-Leach-Bliley Act	Foreign Corrupt Practices Act
Health Insurance Portability and Accountability Act	

The Dodd-Frank Act was adopted to reform and strengthen regulation and supervision of the U.S. financial services industry. It contains comprehensive provisions governing the oversight of financial institutions, some of which apply

to us. Among other things, the Dodd-Frank Act established the CFPB, which has broad authority to implement and enforce “federal consumer financial law,” as well as authority to examine financial institutions, including credit issuers that may be sellers of receivables and debt buyers and collectors such as us, for compliance with federal consumer financial law. The CFPB has authority to prevent unfair, deceptive, or abusive acts or practices by issuing regulations or by using its enforcement authority

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without first issuing regulations. The Dodd-Frank Act also authorizes state officials to enforce regulations issued by the CFPB and to enforce the CFPA general prohibition against unfair, deceptive, and abusive acts or practices. The CFPB's authorities include the ability to issue regulations under all significant federal statutes that affect the collection industry, including the FDCPA, FCRA, and others. In July 2016, the CFPB released an outline of proposals under consideration for its debt collection rulemaking. The proposals are aimed at ensuring debt collectors, among other things: collect the correct debt; limit excessive or disruptive communications; stop collecting or suing for debt without proper documentation; and provide documentation substantiating debt to a consumer upon demand. In addition to consulting with business representatives, the CFPB will continue to seek input from the public, consumer groups, industry, and other stakeholders before continuing the rulemaking process. In July 2017, the CFPB issued an agenda that included plans to issue a Notice of Proposed Rulemaking concerning debt collectors' and debt buyers' communications practices and consumer disclosures.

The Dodd-Frank Act also gave the CFPB supervisory and examination authority over a variety of institutions that may engage in debt collection, including us. Accordingly, the CFPB is authorized to supervise and conduct examinations of our business practices. The prospect of supervision has increased the potential consequences of noncompliance with federal consumer financial law.

The CFPB can conduct hearings, adjudication proceedings, and investigations, either unilaterally or jointly with other state and federal regulators, to determine if federal consumer financial law has been violated. The CFPB has authority to impose monetary penalties for violations of applicable federal consumer financial laws (including the CFPA, FDCPA, and FCRA, among other consumer protection statutes), require remediation of practices, and pursue enforcement actions. The CFPB also has authority to obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief), costs, and monetary penalties ranging from \$5,000 per day for ordinary violations of federal consumer financial laws to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. In addition, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations implemented under Title X of the Dodd-Frank Act, the Dodd-Frank Act empowers state Attorneys General and state regulators to bring civil actions to remedy violations of state law. The CFPB has been active in its supervision, examination and enforcement of financial services companies, including bringing enforcement actions, imposing fines and mandating large refunds to customers of several financial institutions for practices relating to debt collection practices.

On September 9, 2015, we entered into a consent order (the "Consent Order") with the CFPB in which we settled allegations arising from our practices between 2011 and 2015. The Consent Order includes obligations on us to, among other things: (1) follow certain specified operational requirements, substantially all of which are already part of our current operations; (2) submit to the CFPB for review a comprehensive plan designed to ensure that our debt collection practices comply with all applicable federal consumer financial laws and the terms of the Consent Order; (3) pay redress to certain specified groups of consumers; and (4) pay a civil monetary penalty. We will continue to cooperate and engage with the CFPB and work to ensure compliance with the Consent Order. In addition, we are subject to ancillary state attorney general investigations related to similar debt collection practices.

In addition, the CFPB has issued guidance in the form of bulletins on debt collection and credit furnishing activities generally, including one that specifically addresses representations regarding credit reports and credit scores during the debt collection process, another that focuses on the application of the CFPA's prohibition of "unfair, deceptive, or abusive" acts or practices on debt collection and another that discusses the risks that in-person collection of consumer debt may create in violating the FDPCA and CFPA. The CFPB also accepts debt collection consumer complaints and released template letters for consumers to use when corresponding with debt collectors. The CFPB makes publicly available its data on consumer complaints. The Dodd-Frank Act also mandates the submission of multiple studies and reports to Congress by the CFPB, and CFPB staff regularly make speeches on topics related to credit and debt. All of these activities could trigger additional legislative or regulatory action. In addition, the CFPB has engaged in enforcement activity in sectors adjacent to our industry, impacting credit originators, collection firms, and payment processors, among others. The CFPB's enforcement activity in these spaces, especially in the absence of clear rules or regulatory expectations, can be disruptive to third parties as they attempt to define appropriate business practices. As a result, certain commercial relationships we maintain may be disrupted or impacted by changes in third-parties'

business practices or perceptions of elevated risk relating to the debt collection industry.

Our activities are also subject to federal and state laws concerning identity theft, privacy, data security, the use of automated dialing equipment, and other laws related to consumers and consumer protection. In response to petitions filed by third parties, in July 2015, the Federal Communications Commission (“FCC”) released a declaratory ruling interpreting the TCPA, which could impact the way consumers may be contacted on their cellular phones and could impact our operations and financial results.

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In addition to the federal statutes detailed above, many states have general consumer protection statutes, laws, regulations, or court rules that apply to debt purchasing and collection. In a number of states and cities, we must maintain licenses to perform debt recovery services and must satisfy related bonding requirements. It is our policy to comply with all material licensing and bonding requirements. Our failure to comply with existing licensing requirements, changing interpretations of existing requirements, or adoption of new licensing requirements, could restrict our ability to collect in regions, subject us to increased regulation, increase our costs, or adversely affect our ability to collect our receivables.

State laws, among other things, also may limit the interest rate and the fees that a credit originator may impose on our consumers, limit the time in which we may file legal actions to enforce consumer accounts, and require specific account information for certain collection activities. By way of example, the California Fair Debt Buying Practices Act that directly applies to debt buyers, applies to accounts sold after January 1, 2014. The law requires debt buyers operating in the state to have in their possession specific account information before debt collection efforts can begin, among other requirements. Moreover, the New York State Department of Financial Services issued new debt collection regulations, which took effect in September 2015 and established new requirements for collecting debt in the state. In addition, other state and local requirements and court rulings in various jurisdictions may also affect our ability to collect.

The relationship between consumers and credit card issuers is also extensively regulated by federal and state consumer protection and related laws and regulations. These laws may affect some of our operations because the majority of our receivables originate through credit card transactions. The laws and regulations applicable to credit card issuers, among other things, impose disclosure requirements when a credit card account is advertised, when it is applied for and when it is opened, at the end of monthly billing cycles, and at year-end. Federal law requires, among other things, that credit card issuers disclose to consumers the interest rates, fees, grace periods, and balance calculation methods associated with their credit card accounts. Some laws prohibit discriminatory practices in connection with the extension of credit. If the originating institution fails to comply with applicable statutes, rules, and regulations, it could create claims and rights for consumers that would reduce or eliminate their obligations related to those receivables. When we acquire receivables, we generally require the credit originator or portfolio reseller to represent that they have complied with applicable statutes, rules, and regulations relating to the origination and collection of the receivables before they were sold to us.

Federal statutes further provide that, in some cases, consumers cannot be held liable for, or their liability is limited with respect to, charges to their credit card accounts that resulted from unauthorized use of their credit cards. These laws, among others, may give consumers a legal cause of action against us, or may limit our ability to recover amounts owing with respect to the receivables, whether or not we committed any wrongful act or omission in connection with the account.

These laws and regulations, and others similar to the ones listed above, as well as laws applicable to specific types of debt, impose requirements or restrictions on collection methods or our ability to enforce and recover certain of our receivables. Effects of the law, including those described above, and any new or changed laws, rules, or regulations, and reinterpretation of the same, may adversely affect our ability to recover amounts owing with respect to our receivables or the sale of receivables by creditors and resellers.

### International

Our international operations are affected by foreign statutes, rules and regulations. It is our policy to comply with these laws in all of our recovery activities.

The debt collection and debt purchase industries in the United Kingdom are highly regulated by a number of different governmental bodies and firms operating within it are subject to high standards of monitoring and compliance, particularly following the transition in regulatory regimes from the Office of Fair Trading (“OFT”) to the Financial Conduct Authority (“FCA”) in April 2014. The key entities and regulations that govern Cabot’s business are set out below.

Financial Conduct Authority Regulation. U.K. debt purchase and collections businesses are principally regulated by the FCA, the UK Information Commissioner’s Office (“ICO”) and the UK Office of Communications (“OFCOM”). In March 2016, Cabot Credit Management Group Limited (“CCMG”), a Cabot subsidiary, was granted FCA authorization

to conduct debt purchase and debt collection activities, as well as exercising the right of a lender. CCMG appointed other Cabot subsidiaries to carry out debt-collecting and debt administration services on its behalf. CCMG assumes full regulatory responsibility for such entities. The FCA regards debt collection as a “high risk” activity and may therefore dedicate special resources to more intensive monitoring of businesses in this sector. The FCA Handbook sets out the FCA rules and other provisions. Firms wishing to carry on regulated consumer credit activities must comply with all applicable sections of the FCA Handbook as well as the applicable consumer credit laws and regulations. The FCA has applied its rules to consumer credit firms in a number of areas, including its high-level principles and conduct of business standards. The FCA has substantially greater powers than the OFT and given the FCA has only been

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responsible for regulating consumer credit since April 2014, it is likely that the regulatory requirements applicable to the debt purchase industry will continue to increase, as the FCA deepens its understanding of the industry through continued supervision. In addition, it is likely that the compliance framework that will be needed to continue to satisfy the FCA requirements will demand incremental investment and resources in Cabot's compliance governance framework. For example, the FCA have now confirmed that the UK Senior Managers and Certification Regime ("SMCR") will be extended to all sectors of the financial services industry (including consumer credit firms), at which point the majority of CCMG's senior management team below the executive committee is expected to become certified persons, which could result in additional costs for CCMG. The objective of the legislation is to raise standards of conduct in financial services. The final implementation date for SMCR has not been published, although it is expected to be in 2018 or 2019.

Companies authorized by the FCA must be able to demonstrate that they meet the threshold conditions for authorization and comply on an ongoing basis with the FCA's high level standards for authorized firms, such as its Principles for Business (including the principle of "treating customers fairly"), and rules and guidance on Systems and Controls. In addition to the full authorization of its business with the FCA, CCMG has appointed certain individuals who have significant control or influence over the management of the business, known as "Approved Persons," and are jointly and severally liable for the acts and omissions of CCMG and its business affairs. Approved Persons are subject to statements of principle and codes of practice established and enforced by the FCA.

The FCA has significantly greater powers than the OFT, including, but not limited to, the ability to impose significant fines, ban certain individuals from carrying on trade within the financial services industry, impose requirements on a firm's permission, cease certain products from being collected upon and in extreme circumstances remove permissions to trade.

In addition to the permissions granted as part of this FCA authorization, in February 2017, CCMG was granted a variation of permissions from the FCA in order to administer regulated mortgage contracts.

Debt Pre-Action Protocol. In September 2014, the Civil Procedure Rules Committee ("CPRC"), a subcommittee to the Ministry of Justice of the United Kingdom, issued a consultation on proposals to introduce a designated pre-action protocol for court claims for the recovery of debt that requires all debt collection entities to make significant changes to their court and litigation processes. The objectives of the debt pre-action protocol are, among others, to encourage parties to use alternative dispute resolution procedures and to encourage the full exchange of information between parties at an early stage in proceedings. It requires a significant amount of information, if requested, to be disclosed to consumers, including copies of credit agreements where any aspect of the debt is disputed between the parties (including, but not limited to, the debt's existence, enforceability and amount). The new Debt Pre-Action Protocol came into force on October 1, 2017.

Consumer protection. The regulatory regime in the United Kingdom relating to the protection of consumers from unfair terms and practices changed in 2015. In October 2015, the U.K. Parliament introduced new laws that reformed most of the previous U.K. consumer laws and was largely driven by the European Commission's Directive for Consumer Rights. The U.K. Consumer Rights Act 2015 introduced enhanced consumer measures that can be imposed on businesses and gives greater protection to U.K. consumers from unfair business practices and unfair terms in consumer agreements.

Additionally, the Consumer Credit Act of 1974 (and its related regulations) and the U.K. Consumer Rights Act 2015 set forth requirements for the entry into and ongoing management of consumer credit arrangements in the United Kingdom. A failure to comply with these requirements can make agreements unenforceable or can result in a requirement that charged and collected interest be repaid.

Data protection. In addition to these regulations on debt collection and debt purchase activities, Cabot must comply with requirements established by the Data Protection Act of 1998 in relation to processing the personal data of its consumers. In September 2017, the U.K. government published the Data Protection Bill 2017, which is anticipated to become law in 2018. This will substantially replace the Data Protection Act of 1998 and address further detail and increase the regulation which will be brought in by the E.U. General Data Protection Regulation ("GDPR"). The GDPR came into effect in May 2016 and will be applicable to member states of the E.U. from May 2018. The GDPR will introduce significant changes to the data protection regime including but not limited to: the conditions for obtaining

consent to process personal data; transparency and providing information to individuals regarding the processing of their personal data; enhanced rights for individuals; notification obligations for personal data breach; and new supervisory authorities, including a European Data Protection Board (“EDPB”). We have analyzed the GDPR requirements and are working to ensure that we become compliant.

Ireland. The regulatory regime in the Republic of Ireland has been subject to significant changes. In July 2015, the Irish Parliament introduced the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015, which requires credit servicing firms to be regulated by the Central Bank of Ireland to ensure regulatory protection for consumers following loan book sales. The Consumer Protection (Regulation of Credit Servicing Firms) Act 2015 seeks to address concerns regarding the loss of regulatory protections for borrowers when portfolio of loans are sold and/or serviced to/by an unregulated entity. Cabot



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is registered with and regulated by the Central Bank of Ireland for credit servicing activities and its activities are subject to detailed rules on consumer protection and was issued an unconditional authorization in May 2017. Cabot was already contractually obligated to ensure compliance with the relevant consumer protection codes through its debt sale and management agreements and is audited on a regular basis against such obligations.

In June 2016, the United Kingdom held a referendum in which voters approved the United Kingdom's withdrawal from the E.U., commonly referred to as "Brexit." In March 2017, the United Kingdom formally served notice on the European Council of its intention to withdraw from the E.U. The United Kingdom is expected to exit the E.U. by no later than April 2019. Brexit has created significant uncertainty about the future relationship between the United Kingdom and the E.U., including with respect to the laws and regulations that will apply as the United Kingdom determines which E.U. laws to replace or replicate in the event of a withdrawal. Additionally, Brexit could, among other outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the E.U., undermine bilateral cooperation in key policy areas and significantly disrupt trade between the United Kingdom and the E.U. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications Brexit will have and how it will affect us.

In addition, the other markets in which we currently operate are subject to local laws and regulations, and we have implemented compliance programs to facilitate compliance with all applicable laws and regulations in those markets. Our operations outside the United States are subject to the U.S. Foreign Corrupt Practices Act, which prohibits U.S. companies and their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in order to obtain an unfair advantage, to help, obtain, or retain business.

### Employees

As of December 31, 2017, we had approximately 8,200 employees worldwide. None of our employees in North America are represented by a labor union or subject to the terms of a collective bargaining agreement. We have employees in the U.K., Spain and New Zealand who are represented by a collective bargaining agreement. We believe that our relations with our employees in all locations are good.

### Item 1A—Risk Factors

There are risks and uncertainties in our business that could cause our actual results to differ from those anticipated. We urge you to read these risk factors carefully in connection with evaluating our business and in connection with the forward-looking statements and other information contained in this Annual Report on Form 10-K. Any of the risks described herein could affect our business, financial condition, or future results and the actual outcome of matters as to which forward-looking statements are made. The list of risks is not intended to be exhaustive, and the order in which the risks appear is not intended as an indication of their relative weight or importance. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may adversely affect our business, financial condition and/or operating results.

#### Risks Related to Our Business and Industry

Financial and economic conditions affect the ability of consumers to pay their obligations, which could harm our financial results.

Economic conditions globally and locally directly affect unemployment, credit availability, and real estate values. Adverse conditions, economic changes, and financial disruptions place financial pressure on the consumer, which may reduce our ability to collect on our consumer receivable portfolios and may adversely affect the value of our consumer receivable portfolios. Further, increased financial pressures on the financially distressed consumer may result in additional regulatory requirements or restrictions on our operations and increased litigation filed against us. These conditions could increase our costs and harm our business, financial condition, and operating results.

Our operating results may be affected by factors that could cause them to fluctuate significantly in the future.

Our operating results will likely vary in the future due to a variety of factors that could affect our revenues and operating expenses. We expect that our operating expenses as a percentage of collections will fluctuate in the future as we expand into new markets, increase our business development efforts, hire additional personnel, and incur increased insurance and regulatory compliance costs. In addition, our operating results have fluctuated and may continue to fluctuate as a result of the factors described below and elsewhere in this Annual Report on Form 10-K:

the timing and ability of consumers to make payments, including the effects of seasonality and macroeconomic conditions on their ability to pay;

- any charge to earnings resulting from an allowance against the carrying value of our receivable portfolios;

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• increases in operating expenses associated with the growth or change of our operations or compliance with increased regulatory and other legal requirements;  
• the cost of credit; and  
• the supply of receivables portfolios for sale on acceptable terms.

Because we recognize revenue on the basis of projected collections on purchased portfolios, we may experience variations in quarterly revenue and earnings due to the timing of portfolio purchases.

We may not be able to purchase receivables at favorable prices, which could limit our growth or profitability.

Our ability to continue to operate profitably depends upon the continued availability of receivable portfolios that meet our purchasing standards and are cost-effective based upon projected collections exceeding our costs. Due, in part, to fluctuating prices for receivable portfolios and competition within the marketplace, there has been considerable variation in our purchasing volume and pricing from quarter to quarter and we expect that to continue. The volume of our portfolio purchases may be limited when prices are high, and may or may not increase when portfolio pricing is more favorable to us. Further, our rates of return may decline when portfolio prices are high. We do not know how long portfolios will be available for purchase on terms acceptable to us, or at all.

The availability of receivable portfolios at favorable prices depends on a number of factors, including:

- defaults in consumer debt;
- continued origination of loans by originating institutions at sufficient volumes;
- continued sale of receivable portfolios by originating institutions and portfolio resellers at sufficient volumes and acceptable price levels;
- competition in the marketplace;
- our ability to develop and maintain favorable relationships with key major credit originators and portfolio resellers;
- our ability to obtain adequate data from credit originators or portfolio resellers to appropriately evaluate the collectability of, estimate the value of, and collect on portfolios; and
- changes in laws and regulations governing consumer lending, bankruptcy, and collections.

We enter into “forward flow” contracts, which are commitments to purchase receivables over a duration that is typically three to twelve months with a specifically defined volume, frequency, and pricing. In periods of decreasing prices, we may end up paying an amount higher for such debt portfolios in a forward flow contract than we would otherwise agree to pay at the time for a spot purchase, which could result in reduced returns. We would likely only be able to terminate such forward flow agreements in certain limited circumstances.

In addition, because of the length of time involved in collecting charged-off consumer receivables on acquired portfolios and the volatility in the timing of our collections, we may not be able to identify trends and make changes in our purchasing strategies in a timely manner. Ultimately, if we are unable to continually purchase and collect on a sufficient volume of receivables to generate cash collections that exceed our costs or to generate satisfactory returns, our business, financial condition and operating results will be adversely affected.

A significant portion of our portfolio purchases during any period may be concentrated with a small number of sellers, which could adversely affect our volume and timing of purchases.

A significant percentage of our portfolio purchases for any given fiscal quarter or year may be concentrated with a few large sellers, some of which may also involve forward flow arrangements. We cannot be certain that any of our significant sellers will continue to sell charged-off receivables to us on terms or in quantities acceptable to us, or that we would be able to replace these purchases with purchases from other sellers.

A significant decrease in the volume of purchases available from any of our principal sellers on terms acceptable to us would force us to seek alternative sources of charged-off receivables. Further, we have historically complemented our portfolio purchases from credit originators by purchasing portfolios from resellers or through the acquisition of portfolios from competitors looking to exit the market. As consolidation in the market continues, there may be fewer competitors to acquire on favorable terms. In addition, as the regulatory market continues to evolve, increased documentation requirements for collecting



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on portfolios may make purchasing accounts through resellers more difficult. Several larger issuers have also begun to prohibit resale of portfolios.

We may be unable to find alternative sources from which to purchase charged-off receivables, and even if we could successfully replace these purchases, the search could take time and the receivables could be of lower quality, cost more, or both, any of which could adversely affect our business, financial condition and operating results.

We face intense competition that could impair our ability to maintain or grow our purchasing volumes.

The charged-off receivables purchasing market is highly competitive and fragmented. We compete with a wide range of other purchasers of charged-off consumer receivables. To the extent our competitors are able to better maximize recoveries on their assets or are willing to accept lower rates of return, we may not be able to grow or sustain our purchasing volumes or we may be forced to acquire portfolios at expected rates of return lower than our historical rates of return. Some of our competitors may obtain alternative sources of financing at more favorable rates than those available to us, the proceeds from which may be used to fund expansion and to increase the amount of charged-off receivables they purchase.

Barriers to entry into the consumer debt collection industry have traditionally been low. More recently, increased regulatory standards have made entry into the market more difficult and have resulted in sellers of charged-off consumer receivables being more selective with buyers in the marketplace. Companies with greater financial resources than we have may elect at a future date to enter the market for charged-off consumer receivables. We believe that the entrance of new market participants in our industry could lead to additional upward pricing pressure on charged-off consumer receivables as a result of increased demand, but also because new purchasers may pay higher prices for the portfolios than more experienced purchasers would due to a lack of experience, data and analytics necessary to properly assess risks and return potential of the portfolios or a desire to add size to their existing operations.

We face bidding competition in our acquisition of charged-off consumer receivables. We believe that successful bids are predominantly awarded based on price and, to a lesser extent, based on service, reputation, and relationships with the sellers of charged-off receivables. Some of our current competitors, and potential new competitors, may have more effective pricing and collection models, greater adaptability to changing market needs, and more established relationships in our industry than we do. Moreover, our competitors may elect to pay prices for portfolios that we determine are not economically sustainable and, in that event, we may not be able to continue to offer competitive bids for charged-off receivables.

If we are unable to develop and expand our business or to adapt to changing market needs as well as our current or future competitors, we may experience reduced access to portfolios of charged-off consumer receivables in sufficient face value amounts at appropriate prices, which could adversely affect our business, financial condition and operating results.

We may purchase receivable portfolios that are unprofitable or we may not be able to collect sufficient amounts to recover our costs and to fund our operations.

We acquire and service charged-off receivables that the obligors have failed to pay and the sellers have deemed uncollectible and have written off. The originating institutions and/or portfolio resellers generally make numerous attempts to recover on these nonperforming receivables, often using a combination of their in-house collection and legal departments, as well as third-party collection agencies. In order to operate profitably over the long term, we must continually purchase and collect on a sufficient volume of charged-off receivables to generate revenue that exceeds our costs. These receivables are difficult to collect, and we may not be successful in collecting amounts sufficient to cover the costs associated with purchasing the receivables and funding our operations. If we are not able to collect on these receivables, collect sufficient amounts to cover our costs or generate satisfactory returns, this may adversely affect our business, financial condition and operating results.

We may experience losses on portfolios consisting of new types of receivables or receivables in new geographies due to our lack of collection experience with these receivables, which could harm our business, financial condition and operating results.

We continually look for opportunities to expand the classes of assets that make up the portfolios we acquire.

Therefore, we may acquire portfolios consisting of assets with which we have little or no collection experience or

portfolios of receivables in new geographies where we do not historically maintain an operational footprint. Our lack of experience with these assets may hinder our ability to generate expected levels of profits from these portfolios. Further, our existing methods of collections may prove ineffective for these new receivables, and we may not be able to collect on these portfolios. Our inexperience with these receivables may have an adverse effect on our business, financial condition and operating results.

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The statistical models we use to project remaining cash flows from our receivable portfolios may prove to be inaccurate and, if so, our financial results may be adversely affected.

We use internally developed models to project the remaining cash flows from our receivable portfolios. These models consider known data about our consumers' accounts, including, among other things, our collection experience and changes in external consumer factors, in addition to data known when we acquired the accounts. However, we may not be able to achieve the collections forecasted by our models. If we are not able to achieve the levels of forecasted collection, our revenues will be reduced or we may be required to record an allowance charge, which may adversely affect our business, financial condition and operating results.

A significant portion of our collections relies upon our success in individual lawsuits brought against consumers and our ability to collect on judgments in our favor.

We generate a significant portion of our revenue by collecting on judgments that are granted by courts in lawsuits filed against consumers. A decrease in the willingness of courts to grant these judgments, a change in the requirements for filing these cases or obtaining these judgments, or a decrease in our ability to collect on these judgments could have an adverse effect on our business, financial condition and operating results. As we increase our use of the legal channel for collections, our short-term margins may decrease as a result of an increase in upfront court costs and costs related to counter claims. We may not be able to collect on certain aged accounts because of applicable statutes of limitations and we may be subject to adverse effects of regulatory changes. Further, courts in certain jurisdictions require that a copy of the account statements or applications be attached to the pleadings in order to obtain a judgment against consumers. If we are unable to produce those account documents, these courts could deny our claims, and our business, financial condition and operating results may be adversely affected.

Increases in costs associated with our collections through collection litigation can raise our costs associated with our collection strategies and the individual lawsuits brought against consumers to collect on judgments in our favor.

We hire in-house counsel and contract with a nationwide network of attorneys that specialize in collection matters. In connection with collection litigation, we advance certain out-of-pocket court costs that are recoverable from the consumer, which we refer to as deferred court costs. These court costs may be difficult or impossible to collect, and we may not be successful in collecting amounts sufficient to cover the amounts deferred in our financial statements. If we are not able to recover these court costs, our business, financial condition and operating results may be adversely affected.

Further, we have substantial collection activity through our legal channel and, as a consequence, increases in deferred court costs, increases in costs related to counterclaims, and an increase in other court costs may increase our costs in collecting on these accounts, which may have an adverse effect on our business, financial condition and operating results.

Sellers may deliver portfolios that contain accounts that do not meet our account collection criteria and cannot be returned, which could have an adverse effect on our cash flows and our operations.

In the normal course of portfolio acquisitions, some accounts may be included in the portfolios that fail to conform to the terms of the purchase agreements and we may seek to return these accounts to the sellers for refund. However, we generally have a limited time in which to return these accounts to the sellers under the terms of our purchase agreements. In addition, sellers may not be able to meet their contractual obligations to buy these accounts back from us. Accounts that we are unable to return to sellers may yield no return. If sellers deliver portfolios containing too many accounts that do not conform to the terms of the purchase agreements, we may be unable to collect a sufficient amount and the portfolio purchase could generate lower returns or be unprofitable, which would have an adverse effect on our cash flows and our operations. If cash flows from operations are less than anticipated, our ability to satisfy our debt obligations and purchase new portfolios and, correspondingly, our business, financial condition and operating results, may be adversely affected.

We are subject to audits conducted by sellers of debt portfolios, and may be required to implement specific changes to our policies and practices as a result of adverse findings by such sellers as a part of the audit process, which could limit our ability to purchase debt portfolios from them in the future, which could materially and adversely affect our business.

Pursuant to purchase contracts, we are subject to audits that are conducted by sellers of debt portfolios. Such audits may occur with little notice and the assessment criteria used by each seller varies based on their own requirements, policies and standards. Although much of the assessment criteria is based on regulatory requirements, we may be asked to comply with additional terms and conditions that are unique to particular debt originators. From time to time, sellers may believe that we are not in compliance with certain of their criteria and in such cases, we may be required to dedicate resources and to incur expenses to address such concerns, including the implementation of new policies and procedures. In addition, to the extent that we are unable to satisfy the requirements of a particular seller, such seller could remove us from their panel of preferred purchasers, which could limit our ability to purchase debt portfolios from that seller in the future, which could adversely affect our business, financial condition and operating results.



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We are dependent upon third parties to service a substantial portion of our consumer receivable portfolios. We use outside collection services to collect a substantial portion of our charged-off receivables. We are dependent upon the efforts of third-party collection agencies and attorneys to help service and collect our charged-off receivables. Our third-party collection agencies and attorneys could fail to perform collection services for us adequately, remit those collections to us or otherwise perform their obligations adequately. In addition, one or more of those third-party collection agencies or attorneys could cease operations abruptly or become insolvent, or our relationships with such collection agencies or attorneys may otherwise change adversely. Further, we might not be able to secure replacement third-party collection agencies or attorneys or promptly transfer account information to our new third-party collection agencies, attorneys or in-house in the event our agreements with our third-party collection agencies and attorneys were terminated. Any of the foregoing factors could cause our business, financial condition and operating results to be adversely affected.

We may incur allowance charges based on the authoritative accounting guidance for loans and debt securities acquired with deteriorated credit quality.

We account for our portfolio revenue in accordance with the authoritative accounting guidance for loans and debt securities acquired with deteriorated credit quality. The authoritative guidance limits the revenue that may be accrued to the excess of the estimate of expected future cash flows over a portfolio's initial cost and requires that the excess of the contractual cash flows over the expected cash flows not be recognized as an adjustment of revenue, expense, or on the balance sheet. The authoritative accounting guidance maintains the IRR originally estimated when the receivable portfolios are purchased and, rather than lower the estimated IRR if the expected future cash flow estimates are decreased, the carrying value of our receivable portfolios would be written down to maintain the then-current IRR. Increases in expected future cash flows would be recognized prospectively through an upward adjustment of the IRR over a portfolio's remaining life. Any increased yield then becomes the new benchmark for allowance testing. Since the authoritative accounting guidance does not permit yields to be lowered, there is an increased probability of us having to incur allowance charges in the future, which would adversely affect our business, financial condition and operating results.

Changes in accounting standards and their interpretations could adversely affect our operating results.

U.S. GAAP are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC, and various other bodies that promulgate and interpret appropriate accounting principles. These principles and related implementation guidelines and interpretations can be highly complex and involve subjective estimates. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. For example, in June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 applies a current expected credit loss model which is a new impairment model based on expected losses rather than incurred losses. ASU 2016-13 eliminates the current accounting model for loans and debt securities acquired with deteriorated credit quality under Accounting Standards Codification ("ASC") 310-30, which provides authoritative guidance for the accounting of the Company's investment in receivable portfolios. Under this new standard, entities will gross up the initial amortized cost for the purchased financial assets with credit deterioration ("PCD assets"), the initial amortized cost will be the sum of (1) the purchase price and (2) the estimate of credit losses as of the date of acquisition. After initial recognition of PCD assets and the related allowance, any change in estimated cash flows (favorable or unfavorable) will be immediately recognized in the income statement because the yield on PCD assets would be locked. ASU 2016-13 is effective for reporting periods beginning after December 15, 2019 with early adoption permitted for reporting periods beginning after December 15, 2018. We are in the process of determining the effects the adoption will have on our consolidated financial statements as well as whether to adopt the new guidance early. ASU 2016-13 and additional new accounting standards could have an adverse effect on our reported financial results, which could in turn cause our stock price to decline.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

As of December 31, 2017, we carry approximately \$929.0 million in goodwill and approximately \$75.7 million in amortizable intangible assets. Under authoritative guidance, we review our goodwill for potential impairment at least annually, and review our amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may indicate that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include adverse changes in estimated future cash flows, growth rates and discount rates. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, which could adversely affect our business, financial condition and operating results.

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Our business is subject to extensive laws and regulations, which have increased and may continue to increase. As noted in detail in “Item 1 - Part 1 - Business - Government Regulation” of this Annual Report on Form 10-K, extensive laws and regulations directly apply to key portions of our business. Our failure or the failure of third-party agencies and attorneys, or the credit originators or portfolio resellers selling receivables to us, to comply with existing or new laws, rules, or regulations could limit our ability to recover on receivables, affect the willingness of financial institutions to sell portfolios to us, cause us to pay damages to consumers or result in fines or penalties, which could reduce our revenues, or increase our expenses, and consequently adversely affect our business, financial condition and operating results.

We sometimes purchase accounts in asset classes that are subject to industry-specific and/or issuer-specific restrictions that limit the collection methods that we can use on those accounts. Further, we have seen a trend in laws, rules and regulations requiring increased availability of historic information about receivables in order to collect. If credit originators or portfolio resellers are unable or unwilling to meet these evolving requirements, we may be unable to collect on certain accounts. Our inability to collect sufficient amounts from these accounts, through available collections methods, could adversely affect our business, financial condition and operating results.

In addition, the CFPB has engaged in enforcement activity in sectors adjacent to our industry, impacting credit originators, collection firms, and payment processors, among others. Enforcement activity in these spaces by the CFPB or others, especially in the absence of clear rules or regulatory expectations, may be disruptive to third parties as they attempt to define appropriate business practices. As a result, certain commercial relationships we maintain may be disrupted or impacted by changes in third-parties’ business practices or perceptions of elevated risk relating to the debt collection industry, which could reduce our revenues, or increase our expenses, and consequently adversely affect our business, financial condition and operating results.

Additional consumer protection or privacy laws, rules and regulations may be enacted, or existing laws, rules or regulations may be reinterpreted or enforced in a different manner, imposing additional restrictions or requirements on the collection of receivables.

Failure to comply with government regulation could result in the suspension or termination of our ability to conduct business, may require the payment of significant fines and penalties, or require other significant expenditures.

The collections industry is heavily regulated under various federal, state, and local laws, rules, and regulations. Many states and several cities require that we be licensed as a debt collection company. The CFPB, FTC, state Attorneys General and other regulatory bodies have the authority to investigate a variety of matters, including consumer complaints against debt collection companies, and can bring enforcement actions and seek monetary penalties, consumer restitution, and injunctive relief. If we, or our third-party collection agencies or law firms fail to comply with applicable laws, rules, and regulations, including, but not limited to, identity theft, privacy, data security, the use of automated dialing equipment, laws related to consumer protection, debt collection, and laws applicable to specific types of debt, it could result in the suspension or termination of our ability to conduct collection operations, which would adversely affect us. Further, our ability to collect our receivables may be affected by state laws, which require that certain types of account documentation be presented prior to the institution of any collection activities. In addition, new federal, state or local laws or regulations, or changes in the ways these rules or laws are interpreted or enforced, could limit our activities in the future and/or significantly increase the cost of regulatory compliance. Finally, our operations outside the United States are subject to foreign and U.S. laws and regulations that apply to our international operations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and other local laws prohibiting corrupt payments to government officials. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, prohibitions on the conduct of our business and reputational damage. Any of the foregoing could have an adverse effect on our business, financial condition and operating results.

Failure to comply with the regulatory regime to which Cabot is subject may adversely affect our business, financial condition and operating results.

The debt purchase and collections sector and the broader consumer credit industry in the United Kingdom and the other jurisdictions in which Cabot operates is highly regulated under various laws and regulations. These laws and regulations are also subject to review from time to time and may be subject to significant change. In addition, this legislation is principles-based and therefore the interpretation of compliance is complex and may change over time.

Failure to comply with such legislation or regulation may adversely affect the enforceability of the credit agreements underlying Cabot's debt portfolios.

UK debt purchase and collections businesses are principally regulated by the FCA, the ICO and the OFCOM. In March 2016, CCMG was granted FCA authorization to conduct debt purchase and debt collection activities, as well as exercising the right of a lender. In addition to the full authorization of its business with the FCA, CCMG has appointed certain individuals who have significant control or influence over the management of the business, known as "Approved Persons," and who will jointly and severally be liable for the acts and omissions of the company and its business affairs. Approved Persons

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will be subject to statements of principle and codes of practice established and enforced by the FCA. The FCA regards debt collection as a “high risk” activity and therefore dedicates special resources to more intensive monitoring of businesses in this sector. The FCA Handbook has a specialist consumer credit sourcebook (“CONC”) for the consumer credit sector, which includes rules and guidance in relation to, inter alia, the handling of vulnerable customers; communications with customers; arrears, default and recovery of debt; debt advice and statute barred debt. While UK debt purchase and collection businesses are principally regulated by the FCA and the provisions of the FSMA, there is additional legislation and regulation that governs consumer credit, including the Consumer Credit Act 1974 (as amended) (“CCA”) which imposes various obligations on lenders, and any person who exercises the rights and duties of lenders, including to provide post contract information such as statements of account, notices of sums in arrears and default notices. Any failure to comply with such legislation or regulation could result in FCA action. The FCA and the previous regulator, the UK Office of Fair Trading (the “OFT”), have already taken action against, and have imposed requirements on, a number of well known financial institutions, other financial institutions and debt management companies. In addition, Cabot is subject to various regulations concerning consumer protection and data protection, among others, as well as regulations in the other jurisdictions in which it operates.

Compliance with this extensive regulatory framework is expensive and labor-intensive. Failure to comply with any applicable laws, regulations, rules or contractual compliance obligations could result in investigations, information gathering, public censures, financial penalties, disciplinary measures, liability and/or enforcement actions being brought against Cabot, including licenses or permissions that Cabot needs to do business not being granted or being revoked or the suspension or termination of its ability to conduct collections. In addition, Cabot’s debt purchase contracts with vendors include certain conditions. Failure to comply or revocation of a permission or authorization, or other actions taken by Cabot that may damage the reputation of the vendor, may entitle the vendor to terminate any agreements with Cabot and/or to repurchase debt portfolios Cabot previously purchased from it. Damage to Cabot’s reputation, whether because of a failure to comply with applicable laws, regulations or rules, revocation of a permission or authorization, any other regulatory action or Cabot’s failure to comply with contractual compliance obligations, could deter vendors from choosing Cabot as their debt purchase or collections provider. Failure to comply with any of the requirements issued by the FCA or the requirements of any applicable legislation or regulation is likely to have serious consequences. For example, the FCA may undertake investigations and information-gathering in connection with any aspect of Cabot’s operations. The FCA may also commence disciplinary action against authorized entities within Cabot or an Approved Person, which may include public censure or instituting a ban on conducting business within the consumer credit sector. The FCA may revoke or impose restrictions or temporary suspensions on CCMG’s authorization, which would be publicly known and involve serious reputational damage, as well as significantly impact our business. The FCA may impose requirements demanding changes in Cabot’s business practices, which may interfere with Cabot’s ability to carry on regulated activities and adversely affect its reputation and ability to acquire additional purchased loan portfolios.

Cabot’s subsidiary entities in Ireland are subject to the Consumer Protection (Regulation of Credit Servicing Firms) Act, as amended (the “Irish Credit Servicing Act 2015”). Cabot Financial (Ireland) Limited received confirmation of its authorization from the CBI in May 2017 and is contractually obligated to ensure compliance with the relevant consumer protection codes through its debt sale and collection agreements. Failure to comply with any of the requirements issued by the CBI or the requirements of any applicable legislation or regulation is likely to have serious consequences, including investigations being carried out and /or disciplinary actions (including public censure, restrictions on operations or the suspension of regulatory authorizations) being imposed on Cabot.

As a debt purchaser, Cabot must comply with the requirements established by the Data Protection Act 1998 (as amended) (the “Data Protection Act”) in relation to processing the personal data of customers. Failure to maintain the appropriate data protection registrations with the ICO or to comply with an ICO enforcement notice could result in criminal proceedings and could negatively impact our ability to otherwise comply with the requirements of the Data Protection Act. Cabot’s ability to price debt portfolios, trace consumers and develop tailored repayment plans depends on its ability to use personal data in its consumer data intelligence systems. Depending on their nature and scope, changes to data protection laws, practices, regulations and guidance could require additional investments and resources in Cabot’s compliance governance framework, or could alter the way in which Cabot obtains, collects and

uses data. The General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) (the “EU Data Protection Regulation”) came into effect in May 2016 and will become directly applicable in Member States from May 2018. The EU Data Protection Regulation introduces substantial changes to the EU data protection regime and will impose a substantially higher compliance burden on Cabot, may increase its data protection costs and may restrict its ability to use data. Examples of this higher burden include expanding the requirement for informed opt in consent by customers to processing of personal data and granting customers a “right to be forgotten,” restrictions on the use of personal data for profiling purposes, disclosure requirements of data sources to customers, the possibility of having to deal with a higher number of subject access requests, among other requirements.

Any of the developments described above, including the FCA’s imposition of additional requirements on Cabot’s operations or failure by Cabot to maintain FCA authorization for its collection activities, the addition, reinterpretation or

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enforcement of any laws, rules, regulations, or protocols, or increased enforcement of existing consumer protection or privacy laws, rules and regulations, may adversely affect our ability to collect on receivables and may increase our costs associated with regulatory compliance, which could adversely affect our business, financial condition and operating results.

Economic conditions and regulatory changes leading up to and following the United Kingdom's expected exit from the European Union could have a material adverse effect on our business, financial condition and results of operations. In June 2016, the United Kingdom held a referendum in which voters approved the United Kingdom's exit from the E.U., commonly referred to as "Brexit." In March 2017, the United Kingdom formally served notice on the European Council of its intention to withdraw from the E.U. The United Kingdom is expected to exit the E.U. by no later than April 2019. Brexit has created significant uncertainty about the future relationship between the United Kingdom and the E.U., including with respect to the laws and regulations that will apply as the United Kingdom determines which E.U. laws to replace or replicate in the event of a withdrawal. Additionally, Brexit could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the E.U., undermine bilateral cooperation in key policy areas and significantly disrupt trade between the U.K. and the E.U. Consequences such as deterioration in economic conditions, volatility in currency exchange rates or changes in regulation may adversely affect our business, financial condition and operating results.

Our business, financial condition and operating results may be adversely affected if consumer bankruptcy filings increase or if bankruptcy laws change.

Our business model may be uniquely vulnerable to an economic recession, which typically results in an increase in the amount of defaulted consumer receivables, thereby contributing to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings, a consumer's assets are sold to repay credit originators, with priority given to holders of secured debt. Since the defaulted consumer receivables we purchase are generally unsecured, we often are not able to collect on those receivables. In addition, since we purchase receivables that may have been delinquent for a long period of time, this may be an indication that many of the consumers from whom we collect will be unable to pay their debts going forward and are more likely to file for bankruptcy in an economic recession. Furthermore, potential changes to existing bankruptcy laws could contribute to an increase in consumer bankruptcy filings. We cannot be certain that our collection experience would not decline with an increase in consumer bankruptcy filings. If our actual collection experience with respect to a defaulted consumer receivable portfolio is significantly lower than we projected when we purchased the portfolio, our business, financial condition and operating results could be adversely affected.

We are subject to ongoing risks of regulatory investigations and litigation, including individual and class action lawsuits, under consumer credit, consumer protection, theft, privacy, collections, and other laws, and we may be subject to awards of substantial damages or be required to make other expenditures or change our business practices as a result.

We operate in an extremely litigious climate and currently are, and may in the future be, named as defendants in litigation, including individual and class action lawsuits under consumer credit, consumer protection, theft, privacy, data security, automated dialing equipment, debt collections, and other laws. Many of these cases present novel issues on which there is no clear legal precedent, which increases the difficulty in predicting both the potential outcomes and costs of defending these cases. We are subject to ongoing risks of regulatory investigations, inquiries, litigation, and other actions by the CFPB, FTC, state Attorneys General, or other governmental bodies relating to our activities. These litigation and regulatory actions involve potential compensatory or punitive damage claims, fines, costs, sanctions, civil monetary penalties, consumer restitution, or injunctive relief, as well as other forms of relief, that could require us to pay damages, make other expenditures or result in changes to our business practices. Any changes to our business practices could result in lower collections, increased cost to collect or reductions in estimated remaining collections. Actual losses incurred by us in connection with judgments or settlements of these matters may be more than our associated reserves. Further, defending lawsuits and responding to governmental inquiries or investigations, regardless of their merit, could be costly and divert management's attention from the operation of our business. All of these factors could have an adverse effect on our business, financial condition and operating results.

Negative publicity associated with litigation, governmental investigations, regulatory actions, and other public statements could damage our reputation.

From time to time there are negative news stories about our industry or company, especially with respect to alleged conduct in collecting debt from consumers. These stories may follow the announcements of litigation or regulatory actions involving us or others in our industry. Negative publicity about our alleged or actual debt collection practices or about the debt collection industry in general could adversely affect our stock price, our position in the marketplace in which we compete, and our ability to purchase charged-off receivables, any of which could have an adverse effect on our business, financial condition and operating results.



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We may make acquisitions that prove unsuccessful and any mergers, acquisitions, dispositions or joint venture activities may change our business and financial results and introduce new risks.

From time to time, we may make acquisitions of, or otherwise invest in, other companies that could complement our business, including the acquisition of entities in diverse geographic regions and entities offering greater access to businesses and markets that we do not currently serve. The acquisitions we make may be unprofitable or may take some time to achieve profitability. In addition, we may not successfully operate the businesses that we acquire, or may not successfully integrate these businesses with our own, which may result in our inability to maintain our goals, objectives, standards, controls, policies, culture, or profitability. Also, minority shareholders in certain entities that we have acquired have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value, while others have the right to force a sale of the entity if we choose not to purchase their interests at fair value, which could result in additional constraints on our resources. Through acquisitions, we may enter markets in which we have limited or no experience. Any acquisition may result in a potentially dilutive issuance of equity securities, and the incurrence of additional debt which could reduce our profitability. We also pursue dispositions and joint ventures from time to time. Any such transactions could change our business lines, geographic reach, financial results or capital structure. Our company could be larger or smaller after any such transactions and may have a different investment profile.

We may consume resources in pursuing business opportunities, financings or other transactions that are not consummated, which may strain or divert our resources.

We anticipate that the investigation of various transactions, and the negotiation, drafting, and execution of relevant agreements, disclosure documents and other instruments with respect to such transactions, will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors.

If a decision is made not to consummate a specific transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific transaction, we may fail to consummate the transaction for any number of reasons, including those beyond our control. Any such event could consume significant management time and result in a loss to us of the related costs incurred, which could adversely affect our financial position and our business.

We are dependent on our management team for the adoption and implementation of our strategies and the loss of its services could have an adverse effect on our business.

Our management team has considerable experience in finance, banking, consumer collections, and other industries. We believe that the expertise of our executives obtained by managing businesses across numerous other industries has been critical to the enhancement of our operations. Our management team has created a culture of new ideas and progressive thinking, coupled with increased use of technology and statistical analysis. The management teams at each of our operating subsidiaries are also important to the success of their respective operations. The loss of the services of one or more key members of management could disrupt our collective operations and seriously impair our ability to continue to acquire or collect on portfolios of charged-off receivables and to manage and expand our business, any of which could have an adverse effect on business, financial condition and operating results.

We may not be able to manage our growth effectively, including the expansion of our foreign operations.

We have expanded significantly in recent years. Continued growth will place additional demands on our resources, and we cannot be sure that we will be able to manage our growth effectively. For example, continued growth could place strains on our management, operations, and financial resources that our infrastructure, facilities, and personnel may not be able to adequately support. In addition, the recent expansion of our foreign operations subjects us to a number of additional risks and uncertainties, including:

- compliance with and changes in international laws, including regulatory and compliance requirements that could affect our business;
- differing accounting standards and practices;
- increased exposure to U.S. laws that apply abroad, such as the Foreign Corrupt Practices Act, and exposure to other anti-corruption laws such as the U.K. Bribery Act;
- social, political and economic instability or recessions;
- fluctuations in foreign economies and currency exchange rates;

difficulty in hiring, staffing and managing qualified and proficient local employees and advisors to run international operations;

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the difficulty of managing and operating an international enterprise, including difficulties in maintaining effective communications with employees due to distance, language, and cultural barriers;

- difficulties implementing and maintaining effective internal controls and risk management and compliance initiatives;
- potential disagreements with our joint venture business partners;
- differing labor regulations and business practices; and
- foreign and, in some circumstances, U.S. tax consequences.

To support our growth and improve our international operations, we continue to make investments in infrastructure, facilities, and personnel in our operations; however, these additional investments may not be successful or our investments may not produce profitable results. If we cannot manage our growth effectively, our business, financial condition and operating results may be adversely affected.

If our technology and telecommunications systems were to fail, or if we are not able to successfully anticipate, invest in, or adopt technological advances within our industry, it could have an adverse effect on our operations.

Our success depends in large part on sophisticated computer and telecommunications systems. The temporary or permanent loss of our computer and telecommunications equipment and software systems, through casualty, operating malfunction, software virus, or service provider failure, could disrupt our operations. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to properly bid on prospective acquisitions of receivable portfolios and to access, maintain, and expand the databases we use for our collection activities. Any simultaneous failure of our information systems and their backup systems would interrupt our business operations.

In addition, our business relies on computer and telecommunications technologies, and our ability to integrate new technologies into our business is essential to our competitive position and our success. We may not be successful in anticipating, investing in, or adopting technological changes on a timely or cost-effective basis. Computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles.

We continue to make significant modifications to our information systems to ensure that they continue to be adequate for our current and foreseeable demands and continued expansion, and our future growth may require additional investment in these systems. These system modifications may exceed our cost or time estimates for completion or may be unsuccessful. If we cannot update our information systems effectively, our business, financial condition and operating results may be adversely affected.

In the event of a cyber security breach or similar incident, our business and operations could suffer.

We rely on information technology networks and systems to process and store electronic information. We collect and store sensitive data, including personally identifiable information of our consumers, on our information technology networks. Despite the implementation of security measures, our information technology networks and systems may be vulnerable to disruptions and shutdowns due to attacks by hackers or breaches due to malfeasance by contractors, employees and others who have access to our networks and systems. The occurrence of any of these cyber security events could compromise our networks and the information stored on our networks could be accessed. Any such access could disrupt our operations or result in legal claims, liability, reputational damage or regulatory penalties under laws protecting the privacy of personal information, any of which could adversely affect our business, financial condition and operating results.

We rely on third parties to provide us with services in connection with certain aspects of our business, and any failure by these third parties to perform their obligations, or our inability to arrange for alternative third party providers for such services, could have an adverse effect on our business, financial condition and operating results.

We have entered into agreements with third parties to provide us with services in connection with our business, including payment processing, credit card authorization and processing, payroll processing, record keeping for retirement and benefit plans and certain information technology functions. Any failure by a third party to provide us with contracted services on a timely basis or within service level expectations and performance standards may have an adverse effect on our business, financial condition and operating results. In addition, we may be unable to find, or enter into agreements with, suitable replacement third party providers for such services, which could adversely affect our business, financial condition and operating results.



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We may not be able to adequately protect the intellectual property rights upon which we rely and, as a result, any lack of protection may diminish our competitive advantage.

We rely on proprietary software programs and valuation and collection processes and techniques, and we believe that these assets provide us with a competitive advantage. We consider our proprietary software, processes, and techniques to be trade secrets, but they are not protected by patent or registered copyright. We may not be able to protect our technology and data resources adequately, which may diminish our competitive advantage, which may, in turn, adversely affect our business, financial condition and operating results.

Exchange rate fluctuations could adversely affect our business, financial condition and operating results.

Because we conduct some business in currencies other than U.S. dollars but report our financial results in U.S. dollars, we face exposure to fluctuations in currency exchange rates upon translation of these business results into U.S. dollars. In the normal course of business, we employ various strategies to manage these risks, including the use of derivative instruments. These strategies may not be effective in protecting us against the effects of fluctuations from movements in foreign exchange rates. Fluctuations in the foreign currency exchange rates could adversely affect our business, financial condition and operating results.

Taxes could adversely affect our results of operations, cash flows and financial condition.

We are subject to taxes in the United States and in foreign jurisdictions. Significant judgment is required in determining our worldwide provision for taxes. We regularly are under audit by tax authorities, and economic and political pressures to increase tax revenues in various jurisdictions may make resolving tax disputes more difficult. The final determination of tax audits and any related litigation could be different from our historical income tax provisions and accruals. In addition, potential adverse tax consequences could limit our ability to repatriate funds held in jurisdictions outside of the United States. Moreover, there may be unfavorable changes in the tax laws (or in the interpretation thereof) in the future. Accordingly, taxes could have an adverse effect on our results of operations, cash flows and financial condition.

Recent U.S. tax legislation may materially adversely affect our financial condition, results of operations and cash flows.

On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Reform Act”) was signed into law by President Trump. The Tax Reform Act has significantly changed the U.S. federal income taxation of U.S. corporations, including, but not limited to, reducing the U.S. corporate income tax rate, eliminating the corporate alternative minimum tax, limiting interest deductions, permitting immediate expensing of certain capital expenditures, adopting elements of a territorial tax system, imposing a one-time transition tax (or “repatriation tax”) on all undistributed earnings and profits of certain U.S.-owned foreign corporations, revising the rules governing net operating losses and the rules governing foreign tax credits, and introducing new anti-base erosion provisions. Many of these changes are effective beginning with our 2018 taxable year, without any transition periods or grandfathering for existing transactions. The Tax Reform Act is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the U.S. Treasury Department and Internal Revenue Service (“IRS”), any of which could lessen or increase certain adverse impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities.

While some of the changes made by the Tax Reform Act may adversely affect the Company in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis. We continue to work with our tax advisors and auditors to determine the full impact that the Tax Reform Act will have on us. We urge our investors to consult with their legal and tax advisors with respect to such legislation.

### Risks Related to Our Indebtedness and Common Stock

Our significant indebtedness could adversely affect our financial health and could harm our ability to react to changes to our business.

As described in greater detail in Note 9, “Debt” to our consolidated financial statements, as of December 31, 2017, our total long-term indebtedness outstanding was approximately \$3.4 billion, which includes \$2.0 billion of debt at our Cabot subsidiary. Our substantial indebtedness could have important consequences to investors. For example, it could: increase our vulnerability to general economic downturns and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

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place us at a competitive disadvantage compared to competitors that have less debt;

- increase our exposure to market and regulatory changes that could diminish the amount and value of our inventory that we borrow against under our secured credit facilities; and

limit, along with the financial and other restrictive covenants contained in the documents governing our indebtedness, our ability to borrow additional funds, make investments and incur liens, among other things.

Any of these factors could adversely affect our business, financial condition and operating results. If we do not have sufficient earnings to service our debt, we may be required to refinance all or part of our existing debt, sell assets, borrow more money, or sell securities, none of which we can guarantee we will be able to do.

Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness or to make cash payments in connection with any conversion of our convertible notes depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our indebtedness and make necessary capital expenditures. If we are unable to generate adequate cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring indebtedness or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at that time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations which could, in turn, adversely affect our business, financial condition and operating results.

Despite our current indebtedness levels, we may still incur substantially more indebtedness or take other actions which would intensify the risks discussed above.

Despite our current consolidated indebtedness levels, we and our subsidiaries may be able to incur substantial additional indebtedness in the future, some of which may be secured indebtedness under our Third Amended and Restated Credit Agreement (as amended, the "Restated Credit Agreement"), subject to the restrictions contained in our debt instruments. We are not restricted under the terms of the indentures governing our convertible notes from incurring additional indebtedness, securing existing or future indebtedness, recapitalizing our indebtedness or taking a number of other actions that could have the effect of diminishing our ability to make payments on our indebtedness. Although the Restated Credit Agreement and some of our other existing debt currently limit the ability of us and certain of our subsidiaries to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, additional indebtedness incurred in compliance with these restrictions, including additional secured indebtedness, could be substantial. Also, these restrictions will not prevent us from incurring obligations that do not constitute indebtedness. To the extent new indebtedness or other new obligations are added to our current levels, the risks described above could intensify. Moreover, if the facilities under the Restated Credit Agreement are repaid or mature, we may not be subject to similar restrictions under the terms of any subsequent indebtedness.

We may not be able to continue to satisfy the covenants in our debt agreements.

Our debt agreements impose a number of covenants, including restrictive covenants on how we operate our business. Failure to satisfy any one of these covenants could result in negative consequences including the following, each of which could have an adverse effect on our business, financial condition and operating results:

- acceleration of outstanding indebtedness;
- exercise by our lenders of rights with respect to the collateral pledged under certain of our outstanding indebtedness;
- our inability to continue to purchase receivables needed to operate our business; or
- our inability to secure alternative financing on favorable terms, if at all.

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Increases in interest rates could adversely affect our business, financial condition and operating results.

Portions of our outstanding debt bear interest at a variable rate. Increases in interest rates could increase our interest expense which would, in turn, lower our earnings. We may periodically evaluate whether to enter into derivative financial instruments, such as interest rate swap agreements, to reduce our exposure to fluctuations in interest rates on variable interest rate debt and their impact on earnings and cash flows. These strategies may not be effective in protecting us against the effects of fluctuations from movements in interest rates. Increases in interest rates could adversely affect our business, financial condition and operating results.

Our common stock price may be subject to significant fluctuations and volatility.

The market price of our common stock has been subject to significant fluctuations. Since the beginning of fiscal year 2017, our stock price has ranged from a low of \$27.80 on January 9, 2017 to a high of \$52.00 on November 3, 2017. These fluctuations could continue. Among the factors that could affect our stock price are:

- our operating and financial performance and prospects;
- our ability to repay our debt;
- our access to financial and capital markets to refinance our debt;
- investor perceptions of us and the industry and markets in which we operate;
- future sales of equity or equity-related securities;
- changes in earnings estimates or buy/sell recommendations by analysts;
- changes in the supply of, demand for or price of portfolios;
- our acquisition activity, including our expansion into new markets;
- regulatory changes affecting our industry generally or our business and operations;
- general financial, domestic, international, economic and other market conditions; and
- the number of short positions on our stock at any particular time.

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price of our common stock could fluctuate significantly for many reasons, including in response to the risks described in this Annual Report on Form 10-K, elsewhere in our filings with the SEC from time to time or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability.

The price of our common stock could also be affected by possible sales of our common stock by investors who view our convertible notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock.

If securities or industry analysts have a negative outlook regarding our stock or our industry, or our operating results do not meet their expectations, our stock price could decline. The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us. If one or more of the analysts who cover our company downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

Future sales of our common stock or the issuance of other equity securities may adversely affect the market price of our common stock.

In the future, we may sell additional shares of our common stock or other equity or equity-related securities to raise capital or issue equity securities to finance acquisitions. In addition, a substantial number of shares of our common stock are reserved for issuance upon the exercise of stock options or vesting of restricted stock awards, upon conversion of our convertible notes and the warrant transactions entered into in connection with certain of our convertible notes. We are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock.

The liquidity and trading volume of our common stock is limited. The issuance or sale of substantial amounts of our common stock or other equity or equity-related securities (or the perception that such issuances or sales may occur) could





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adversely affect the market price of our common stock as well as our ability to raise capital through the sale of additional equity or equity-related securities. We cannot predict the effect that future issuances or sales of our common stock or other equity or equity-related securities would have on the market price of our common stock. We may not have the ability to raise the funds necessary to repurchase our convertible notes upon a fundamental change or to settle conversions in cash, and our future indebtedness may contain limitations on our ability to pay cash upon conversion of our convertible notes.

Holders of our convertible notes will have the right to require us to repurchase their convertible notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. In addition, upon a conversion of convertible notes, unless we elect to deliver solely shares of our common stock to settle the conversion (other than paying cash in lieu of delivering any fractional shares of our common stock), we will be required to make cash payments for each \$1,000 in principal amount of convertible notes converted of at least the lesser of \$1,000 and the sum of certain daily conversion values. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of convertible notes surrendered therefor or to settle conversions in cash. In addition, our Restated Credit Agreement contains certain restrictive covenants that limit our ability to engage in specified types of transactions, which may affect our ability to repurchase our convertible notes. Further, our ability to repurchase our convertible notes or to pay cash upon conversion may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase convertible notes or to pay cash upon conversion of the convertible notes at a time when the repurchase or cash payment upon conversion is required by any indenture pursuant to which the convertible notes were offered would constitute a default under the relevant indenture. Such default could constitute a default under another indenture, our Restated Credit Agreement or other agreements governing our future indebtedness. If the repayment of any indebtedness were to be accelerated, we may not have sufficient funds to repay such indebtedness and repurchase the convertible notes.

The conditional conversion feature of our convertible notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of any of our convertible notes is triggered, holders of those convertible notes will be entitled to convert the convertible notes at any time during specified periods at their option. Even if holders do not elect to convert their convertible notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the relevant series of convertible notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as our convertible notes, could have a material effect on our reported financial results.

Under U.S. generally accepted accounting principles, or GAAP, an entity must separately account for the debt component and the embedded conversion option of convertible debt instruments that may be settled entirely or partially in cash upon conversion, such as our convertible notes, in a manner that reflects the issuer's economic interest cost. The effect of the accounting treatment for such instruments is that the value of such embedded conversion option would be treated as original issue discount for purposes of accounting for the debt component of the convertible notes, and that original issue discount is amortized into interest expense over the term of the convertible notes using an effective yield method. As a result, we will be required to record a greater amount of non-cash interest expense as a consequence of the amortization of the original issue discount to face amount of the convertible notes over the respective terms of the convertible notes and as a consequence of the amortization of the debt issuance costs.

Accordingly, we will report lower net income in our financial results because of the recognition of both the current period's amortization of the debt discount and the coupon interest of the convertible notes, which could adversely affect our reported or future financial results and the trading price of our common stock.

Under certain circumstances, convertible debt instruments (such as our convertible notes) that may be settled entirely or partially in cash are evaluated for their impact on earnings per share utilizing the treasury stock method, the effect of which is that any shares issuable upon conversion of the convertible notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the convertible notes exceeds their respective principal amount. Under the treasury stock method, for diluted earnings per share purposes, the convertible

debt instrument is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be certain that the accounting standards in the future will continue to permit the use of the treasury stock method, as is currently the case with our convertible notes. If we are unable to use the treasury stock method in accounting for any shares issuable upon conversion of our convertible notes, then our diluted earnings per share could be further adversely affected. In addition, if the conditional conversion feature of our convertible notes is triggered, even if holders of such notes do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the

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outstanding principal of such notes as a current rather than long-term liability, which could result in a reduction of our net working capital.

Provisions in our charter documents and Delaware law may delay or prevent acquisition of us, which could decrease the value of shares of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include advance notice provisions, limitations on actions by our stockholders by written consent and special approval requirements for transactions involving interested stockholders. We are authorized to issue up to five million shares of preferred stock, the relative rights and preferences of which may be fixed by our Board of Directors, subject to the provisions of our articles of incorporation, without stockholder approval. The issuance of preferred stock could be used to dilute the stock ownership of a potential hostile acquirer. The provisions that discourage potential acquisitions of us and adversely affect the voting power of the holders of common stock may adversely affect the price of our common stock and the value of the Convertible Notes.

We do not intend to pay dividends on our common stock for the foreseeable future.

We have never declared or paid cash dividends on our common stock. In addition, we must comply with the covenants in our credit facilities if we want to pay cash dividends. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon our financial condition, operating results, capital requirements, restrictions contained in current or future financing instruments and such other factors as our Board of Directors deems relevant. As a result, receiving a return on an investment in Encore's common stock may only occur if the trading price of our common stock increases.

## Item 1B—Unresolved Staff Comments

None.

## Item 2—Properties

We lease the following properties with more than 30,000 square feet:

Location	Primary use	Approximate square footage
San Diego, CA	Corporate headquarters, internal legal and consumer support services	118,000
United Kingdom	Cabot corporate office, call center, internal legal and consumer support services	210,000
India	Call center and administrative offices	146,000
Troy, MI	Call center and administrative offices	62,000
St. Cloud, MN	Call center and administrative offices	46,000
Spain	Call center and administrative offices	46,000
Roanoke, VA	Call center and administrative offices	40,000
Australia	Baycorp corporate office, call center, and administrative offices	33,000
Costa Rica		32,000

	Call center and administrative offices	
Phoenix, AZ	Call center and administrative offices	31,000

The properties listed in the table above are our principal properties. We also lease other immaterial office space in the United States, Ireland, France, Italy, Colombia, Peru, New Zealand, and the Philippines.

We believe that our current leased facilities are generally well maintained and in good operating condition. We believe that these facilities are suitable and sufficient for our operational needs. Our policy is to improve, replace, and supplement the facilities as considered appropriate to meet the needs of our operations.

Item 3—Legal Proceedings

Information with respect to this item may be found in Note 13, “Commitments and Contingencies” to the consolidated financial statements in Item 8, which is incorporated herein by reference.

Item 4—Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5—Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol “ECPG.”

The high and low sales prices of our common stock, as reported by NASDAQ Global Select Market for each quarter during our two most recent fiscal years, are reported below:

	Market Price	
	High	Low
Fiscal Year 2017		
First Quarter	\$35.93	\$27.80
Second Quarter	41.38	29.80
Third Quarter	44.95	37.30
Fourth Quarter	52.00	42.00
Fiscal Year 2016		
First Quarter	\$29.44	\$16.09
Second Quarter	29.02	21.45
Third Quarter	25.52	20.32
Fourth Quarter	30.40	17.66

The closing price of our common stock on February 8, 2018, was \$39.70 per share and there were 8 stockholders of record. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners of our stock represented by these stockholders of record.

## Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each, as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the total cumulative stockholder return on our common stock for the period from December 31, 2012 through December 31, 2017, with the cumulative total return of (a) the NASDAQ Composite Index and (b) Asta Funding, Inc. and PRA Group, Inc., which we believe are comparable companies. The comparison assumes that \$100 was invested on December 31, 2012, in our common stock and in each of the comparison indices (including reinvestment of dividends). The stock price performance reflected in the following graph is not necessarily indicative of future stock price performance.

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	12/12	12/13	12/14	12/15	12/16	12/17
Encore Capital Group, Inc.	\$100.00	\$164.14	\$145.00	\$94.97	\$93.57	\$137.49
NASDAQ Composite Index	\$100.00	\$141.63	\$162.09	\$173.33	\$187.19	\$242.29
Peer Group	\$100.00	\$144.52	\$158.11	\$96.53	\$109.35	\$92.30

**Dividend Policy**

As a public company, we have never declared or paid dividends on our common stock. However, the declaration, payment, and amount of future dividends, if any, is subject to the discretion of our Board of Directors, which may review our dividend policy from time to time in light of the then existing relevant facts and circumstances. Under the terms of our revolving credit facility, we are permitted to declare and pay dividends in an amount not to exceed, during any fiscal year, 20% of our audited consolidated net income for the then most recently completed fiscal year, so long as no default or unmatured default under the facility has occurred and is continuing or would arise as a result of the dividend payment. We may also be subject to additional dividend restrictions under future debt agreements or the terms of securities we may issue in the future.

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Share Repurchases

On August 12, 2015, our Board of Directors approved a \$50.0 million share repurchase program. Repurchases under this program are expected to be made with cash on hand and may be made from time to time, subject to market conditions and other factors, in the open market, through private transactions, block transactions, or other methods as determined by the management and our Board of Directors, and in accordance with market conditions, other corporate considerations, and applicable regulatory requirements. The program does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at the Company's discretion. As of December 31, 2017, we had not made any repurchases under the share repurchase program.

Recent Sales of Unregistered Securities

In March 2017, we sold \$150.0 million of 3.25% convertible senior notes due March 15, 2022 in a private placement transaction. Information regarding this transaction is set forth in our Form 8-K filed on March 3, 2017.



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## Item 6—Selected Financial Data

This table presents selected historical financial data of Encore Capital Group, Inc. and its consolidated subsidiaries. This information should be carefully considered in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K, including the acquisitions described therein that materially affected our results. The selected financial data in this section are not intended to replace the consolidated financial statements. The selected financial data (except for “Selected Operating Data”) in the table below, as of December 31, 2015, 2014 and 2013 and for the years ended December 31, 2014 and 2013, were derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. The selected financial data as of December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016, and 2015, were derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The Selected Operating Data were derived from our books and records (in thousands, except per share data):

	As of and For The Year Ended December 31,				
	2017	2016	2015	2014	2013
Revenues					
Revenue from receivable portfolios, net <sup>(1)</sup>	\$1,094,609	\$946,615	\$1,072,436	\$992,832	\$744,870
Other revenues	92,429	82,643	57,531	50,597	11,407
Total revenues	1,187,038	1,029,258	1,129,967	1,043,429	756,277
Operating expenses					
Salaries and employee benefits	315,742	281,097	262,281	238,942	159,319
Cost of legal collections	200,058	200,855	229,847	205,661	186,959
Other operating expenses	104,938	100,737	93,210	89,934	63,229
Collection agency commissions	43,703	36,141	37,858	33,343	33,097
General and administrative expenses	158,080	134,046	191,357	139,977	106,813
Depreciation and amortization	39,977	34,868	33,160	27,101	13,057
Total operating expenses	862,498	787,744	847,713	734,958	562,474
Income from operations	324,540	241,514	282,254	308,471	193,803
Other (expense) income					
Interest expense	(204,161 )	(198,367 )	(186,556 )	(166,942 )	(73,269 )
Other income (expense)	10,847	14,228	2,235	113	(4,225 )
Total other expense	(193,314 )	(184,139 )	(184,321 )	(166,829 )	(77,494 )
Income from continuing operations before income taxes	131,226	57,375	97,933	141,642	116,309
Provision for income taxes	(52,049 )	(38,205 )	(27,162 )	(48,569 )	(43,653 )
Income from continuing operations	79,177	19,170	70,771	93,073	72,656
(Loss) income from discontinued operations, net of tax	(199 )	(2,353 )	(23,387 )	5,205	1,084
Net income	78,978	16,817	47,384	98,278	73,740
Net loss (income) attributable to noncontrolling interest	4,250	59,753	(2,249 )	5,448	1,559
Net income attributable to Encore Capital Group, Inc. stockholders	\$83,228	\$76,570	\$45,135	\$103,726	\$75,299
Amounts attributable to Encore Capital Group, Inc.:					
Income from continuing operations	83,427	78,923	68,522	98,521	74,215
(Loss) income from discontinued operations, net of tax	(199 )	(2,353 )	(23,387 )	5,205	1,084
Net income	\$83,228	\$76,570	\$45,135	\$103,726	\$75,299

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	As of and For The Year Ended December 31,				
	2017	2016	2015	2014	2013
Earnings (loss) per share attributable to Encore Capital Group, Inc.:					
Basic earnings (loss) per share from:					
Continuing operations	\$3.21	\$3.07	\$2.66	\$3.81	\$3.01
Discontinued operations	\$(0.01)	\$(0.09)	\$(0.91)	\$0.20	\$0.04
Net basic earnings per share	\$3.20	\$2.98	\$1.75	\$4.01	\$3.05
Diluted earnings (loss) per share from:					
Continuing operations	\$3.16	\$3.05	\$2.57	\$3.58	\$2.83
Discontinued operations	\$(0.01)	\$(0.09)	\$(0.88)	\$0.19	\$0.04
Net diluted earnings per share	\$3.15	\$2.96	\$1.69	\$3.77	\$2.87
Weighted-average shares outstanding:					
Basic	25,972	25,713	25,722	25,853	24,659
Diluted	26,405	25,909	26,647	27,495	26,204
Selected operating data:					
Purchases of receivable portfolios, at cost	\$1,058,235	\$906,719	\$1,023,722	\$1,251,360	\$1,204,779
Gross collections for the period	1,767,644	1,685,604	1,700,725	1,607,497	1,279,506
Consolidated statements of financial condition data:					
Cash and cash equivalents	\$212,139	\$149,765	\$123,993	\$91,519	\$118,539
Investment in receivable portfolios, net	2,890,613	2,382,809	2,440,669	2,143,560	1,590,249
Total assets	4,490,712	3,670,497	4,174,819	3,711,631	2,657,208
Total debt	3,446,876	2,805,983	2,944,063	2,550,646	1,654,301
Total liabilities	3,766,801	3,069,982	3,526,331	3,046,692	2,054,737
Total Encore equity	581,862	559,304	596,453	623,000	571,897

Includes net allowance reversal of \$41.2 million for the year ended December 31, 2017, net allowance charge of (1) \$84.2 million for the year ended December 31, 2016, and net allowance reversals of \$6.8 million, \$17.4 million and \$12.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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### Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

#### Our Business

We are an international specialty finance company providing debt recovery solutions and other related services for consumers across a broad range of financial assets. We purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies.

Defaulted receivables may also include receivables subject to bankruptcy proceedings.

#### United States

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

#### Europe

Cabot Credit Management plc (together with its subsidiaries, “Cabot”), our largest international subsidiary, is one of the largest credit management services providers in Europe and is a market leader in the United Kingdom and Ireland. We control Cabot via our majority ownership interest in the indirect holding company of Cabot, Janus Holdings S.a r.l. (“Janus Holdings”).

In addition, we have certain subsidiaries that focus on (a) consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or “IVAs”) in the United Kingdom and bank and non-bank receivables in Spain and (b) credit management services in Spain (collectively, “Grove”).

#### Latin America

Our majority-owned subsidiary Refinancia S.A. (together with its subsidiaries, “Refinancia”) is a market leader in debt collection and management in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including point-of-purchase lending to consumers and providing financial solutions to individuals who have previously defaulted on their credit obligations.

In addition to operations in Colombia and Peru, we evaluate and purchase non-performing loans in other countries in Latin America, including Mexico and Brazil. We also invest in non-performing secured residential mortgages in Latin America.

#### Asia Pacific

Our subsidiary Baycorp Holdings Pty Limited (together with its subsidiaries, “Baycorp”) specializes in the management of non-performing loans in Australia and New Zealand. In addition to purchasing defaulted receivables, Baycorp offers portfolio management services to banks for non-performing loans. We acquired a majority ownership interest in Baycorp in October 2015 and acquired the remaining minority equity ownership interest in Baycorp in January 2018.

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In India, we have invested in Encore Asset Reconstruction Company (“EARC”), which has completed initial immaterial purchases.

To date, operating results from our international operations on an individual basis, other than from Cabot, have not been significant to our total consolidated operating results. Our long-term growth strategy involves continuing to invest in our core portfolio purchasing and recovery business, strengthening and developing our international businesses, and leveraging our core competencies to explore expansion into adjacent asset classes.

### Additional Developments

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

In the first quarter of 2017, we and our co-investor in Cabot, J.C. Flowers & Co. LLC (“J.C. Flowers”), began exploring options in relation to a potential initial public offering (“IPO”) by Cabot. In October 2017, Cabot announced its intention to proceed with an IPO and to apply for admission of its ordinary shares to the premium listing segment of the Official List of the Financial Conduct Authority and to trade on the main market for listed securities of the London Stock Exchange. In November 2017, Cabot decided to not go forward with the IPO as a result of poor performance of other IPOs on the London Stock Exchange and unfavorable equity market conditions in the U.K., as a result, all direct costs related to the IPO were recognized in the fourth quarter of 2017. Cabot continues to assess options and ensure readiness in relation to a potential IPO.

In November 2017, Cabot completed the acquisition of Wescot Credit Services Limited (“Wescot”), a leading U.K. contingency debt collection and business process outsourcing (BPO) services company.

### Government Regulation

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.

Additionally, our international operations are affected by foreign statutes, rules and regulations regarding debt collection and debt purchase activities. These statutes, rules, regulations, ordinances, guidelines and procedures are modified from time to time by the relevant authorities charged with their administration, which could affect the way we conduct our business. See “Part I - Item 1 - Business - Government Regulation” in this Annual Report on Form 10-K.

### Portfolio Purchasing and Recovery

#### United States

We purchase receivables based on robust, account-level valuation methods and employ proprietary statistical and behavioral models across our U.S. operations. These methods and models allow us to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with our methods or 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.

While seasonality does not have a material impact on our business, collections are generally strongest in our first calendar quarter, slower in the second and third calendar quarters, and slowest in the fourth calendar quarter.

Relatively higher collections in the first quarter could result in a lower cost-to-collect ratio compared to the other quarters, as our fixed costs are relatively constant and applied against a larger collection base. The seasonal impact on our business may also be influenced by our purchasing levels, the types of portfolios we purchase, and our operating strategies.

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

calendar quarter).

In addition, seasonality could have an impact on the relative level of quarterly earnings. In quarters with stronger collections, total costs are higher as a result of the additional efforts required to generate those collections. Since revenue for each pool group declines steadily over time, in quarters with higher collections and higher costs (e.g., the first calendar

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quarter), all else being equal, earnings could be lower than in quarters with lower collections and lower costs (e.g., the fourth calendar quarter). Additionally, in quarters where a greater percentage of collections come from our legal and agency outsourcing channels, cost to collect will be higher than if there were more collections from our internal collection sites.

### International

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

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

### Purchases and Collections

#### Portfolio Pricing, Supply and Demand

##### United States

Industry delinquency and charge-off rates, which had been at historic lows, have continued to increase, creating higher volumes of charged-off accounts that are sold. In addition, issuers have continued to increase the amount of fresh portfolios in their sales. Fresh portfolios are portfolios that are generally sold within six months of the consumer's account being charged-off by the financial institution. Meanwhile, prices for portfolios offered for sale started to decrease after several years of elevated pricing, especially for fresh portfolios. We believe the softening in pricing, especially for fresh portfolios, was primarily due to this growth, and anticipated future growth, in supply. In addition to selling a higher volume of charged-off accounts, issuers sold their volume earlier in the calendar year than they had in the past.

We believe that smaller competitors continue to face difficulties in the portfolio purchasing market because of the high cost to operate due to regulatory pressure and because issuers are being more selective with buyers in the marketplace, resulting in consolidation within the portfolio purchasing and recovery industry. We believe this favors larger participants, such as Encore, because the larger market participants are better able to adapt to these pressures.

##### International

The U.K. market for charged-off portfolios has grown significantly in recent years driven by a consolidation of sellers and a material backlog of portfolio coming to market from credit issuers who are selling an increasing proportion of their non-performing loans. Prices for portfolios offered for sale directly from credit issuers remain at levels higher than historical averages. We expect that as a result of an increase in available funding to industry participants, and lower return requirements for certain debt purchasers, pricing will remain elevated. However, we believe that with our competitive advantages, we will continue to be able to generate strong risk adjusted returns in the U.K. market.

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

The Spanish debt market continues to be one of the largest in Europe with a significant amount of debt to be sold and serviced. In particular, we anticipate strong debt purchasing and servicing opportunities in the secured and small and medium enterprise asset classes given the backlog of non-performing debt that has accumulated in these sectors.

Additionally, financial institutions continue to experience both market and regulatory pressure to dispose of non-performing loans which should further increase debt purchasing opportunities in Spain.

Although pricing has been elevated, we believe that as our European businesses increase in scale and expand to other markets, and with anticipated improvements in liquidation and improved efficiencies in collections, our margins will

remain competitive. Additionally, Cabot's continuing investment in its litigation liquidation channel has enabled them to collect from

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consumers who have the ability to pay, but have so far been unwilling to do so. This enables Cabot to mitigate some of the impact of elevated pricing.

## Purchases by Type and Geographic Location

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

	Year Ended December 31,		
	2017	2016	2015
United States:			
Credit card	\$511,656	\$517,590	\$481,759
Other	24,250	43,953	24,373
Subtotal	535,906	561,543	506,132
Europe:			
Credit card	461,577	237,473	396,364
Other	2,559	27,240	27,200
Subtotal	464,136	264,713	423,564
Other geographies:			
Credit card	45,941	70,902	86,638
Other	12,252	9,561	7,388
Subtotal	58,193	80,463	94,026
Total purchases	\$1,058,235	\$906,719	\$1,023,722

During the year ended December 31, 2017, we invested \$1,058.2 million to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating \$10.1 billion, for an average purchase price of 10.5% of face value.

During the year ended December 31, 2016, we invested \$906.7 million to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating \$9.8 billion, for an average purchase price of 9.2% of face value. During the year ended December 31, 2015, we invested \$1,023.7 million to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating \$12.7 billion, for an average purchase price of 8.0% of face value. Purchases of charged-off credit card portfolios in Europe include \$216.0 million of receivables acquired in connection with Cabot's acquisition of Hillesden Securities Ltd and its subsidiaries ("dlc") in June 2015. Purchases of charged-off credit card portfolios in other geographies include \$60.3 million acquired in connection with the acquisition of Baycorp.

The decrease in capital deployment in the United States for the year ended December 31, 2017, as compared to 2016, was primarily the result of our disciplined approach to capital deployment. Due to the improved pricing environment in the United States and our progress on liquidation improvement initiatives, we were able to deploy capital on portfolios with higher returns enabling us to purchase similar amounts of total estimated gross collections for less. The increase in capital deployment in Europe for the year ended December 31, 2017, as compared to 2016, was due to our continued strategic expansion in the European debt purchasing market.

The increase in capital deployment in the United States for the year ended December 31, 2016, as compared to 2015, was primarily the result of increased purchasing volume due to the improved pricing environment. The decrease in capital deployment in Europe for the year ended December 31, 2016, as compared to 2015, was due to the \$216.0 million of receivable portfolios acquired in connection with the acquisition of dlc in June 2015. Excluding the portfolios acquired in connection with the acquisition of dlc, capital deployment in Europe increased during the year ended December 31, 2016 as compared to 2015, primarily as a result of Cabot's investment in Spain, France and Portugal as part of its European expansion strategy.

Typically the average purchase price, as a percentage of face value, is higher for fresh portfolios as compared to more seasoned portfolios because fresh paper generally has higher returns. As a result, in periods that we purchase a higher percentage of fresh paper (such as was the case in 2017), we expect that our purchase price as a percentage of face value would be higher than would be in periods where a higher ratio of seasoned paper was purchased.



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## Collections by Channel and Geographic Location

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

	Year Ended December 31,		
	2017	2016	2015
United States:			
Collection sites	\$503,086	\$470,898	\$480,485
Legal collections	546,423	557,250	633,166
Collection agencies	51,432	53,572	68,283
Subtotal	1,100,941	1,081,720	1,181,934
Europe:			
Collection sites	300,545	250,036	234,904
Legal collections	116,620	122,392	92,464
Collection agencies	137,155	121,572	148,758
Subtotal	554,320	494,000	476,126
Other geographies:			
Collection sites	88,129	79,680	38,334
Legal collections	7,892	9,936	1,145
Collection agencies	16,362	20,268	3,186
Subtotal	112,383	109,884	42,665
Total collections	\$1,767,644	\$1,685,604	\$1,700,725

Gross collections increased by \$82.0 million, or 4.9%, to \$1,767.6 million during the year ended December 31, 2017, from \$1,685.6 million during the year ended December 31, 2016. The increase of collections in the United States was primarily due to the acquisition of portfolios with higher returns in recent periods and our continued effort in improving liquidation, partially offset by delays in collections on portfolios impacted by the hurricanes. The increase in collections in Europe was primarily the result of increased purchasing volume and implementing certain liquidation improvement initiatives. The increase was partially offset by the unfavorable impact of foreign currency translation, primarily driven by the weakening of the British Pound against the U.S. dollar, based on average exchange rates during the periods.

Gross collections decreased \$15.1 million, or 0.9%, to \$1,685.6 million during the year ended December 31, 2016, from \$1,700.7 million during the year ended December 31, 2015. The decrease was primarily due to decreased collections in the United States, offset by increased collections in Europe and other geographies. The increase in collections in Europe was primarily the result of increased purchasing volume and implementing certain liquidation improvement initiatives. The increase was partially offset by the unfavorable impact of foreign currency translation, primarily driven by the weakening of the British Pound against the U.S. dollar. In other geographies, collections continued to increase as we expand internationally. The decrease of collections in the United States was primarily due to a decrease in legal collections resulting from temporary delays in receiving media from issuers required to initiate the legal process for a number of accounts.

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## Results of Operations

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

	Year Ended December 31,					
	2017		2016		2015	
<b>Revenues</b>						
Revenue from receivable portfolios, net	\$1,094,609	92.2 %	\$946,615	92.0 %	\$1,072,436	94.9 %
Other revenues	92,429	7.8 %	82,643	8.0 %	57,531	5.1 %
Total revenues	1,187,038	100.0 %	1,029,258	100.0 %	1,129,967	100.0 %
<b>Operating expenses</b>						
Salaries and employee benefits	315,742	26.6 %	281,097	27.3 %	262,281	23.2 %
Cost of legal collections	200,058	16.9 %	200,855	19.5 %	229,847	20.3 %
Other operating expenses	104,938	8.8 %	100,737	9.8 %	93,210	8.2 %
Collection agency commissions	43,703	3.7 %	36,141	3.5 %	37,858	3.5 %
General and administrative expenses	158,080	13.3 %	134,046	13.0 %	191,357	16.9 %
Depreciation and amortization	39,977	3.4 %	34,868	3.4 %	33,160	2.9 %
Total operating expenses	862,498	72.7 %	787,744	76.5 %	847,713	75.0 %
Income from operations	324,540	27.3 %	241,514	23.5 %	282,254	25.0 %
<b>Other (expense) income</b>						
Interest expense	(204,161)	(17.2)%	(198,367)	(19.3)%	(186,556)	(16.5)%
Other income	10,847	1.0 %	14,228	1.4 %	2,235	0.2 %
Total other expense	(193,314)	(16.2)%	(184,139)	(17.9)%	(184,321)	(16.3)%
Income from continuing operations before income taxes	131,226	11.1 %	57,375	5.6 %	97,933	8.7 %
Provision for income taxes	(52,049)	(4.5)%	(38,205)	(3.7)%	(27,162)	(2.4)%
Income from continuing operations	79,177	6.6 %	19,170	1.9 %	70,771	6.3 %
Loss from discontinued operations, net of tax	(199)	0.0 %	(2,353)	(0.3)%	(23,387)	(2.1)%
Net income	78,978	6.6 %	16,817	1.6 %	47,384	4.2 %
Net loss (income) attributable to noncontrolling interest	4,250	0.4 %	59,753	5.8 %	(2,249)	(0.2)%
Net income attributable to Encore Capital Group, Inc. stockholders	\$83,228	7.0 %	\$76,570	7.4 %	\$45,135	4.0 %

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## Results of Operations—Cabot

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

	Year Ended December 31, 2017		
	Janus Holdings	Encore Europe <sup>(1)</sup>	Consolidated
Total revenues	\$399,875	\$—	\$ 399,875
Total operating expenses	(230,401 )	—	(230,401 )
Income from operations	169,474	—	169,474
Interest expense-non-PEC	(105,634 )	—	(105,634 )
PEC interest (expense) income	(50,787 )	24,888	(25,899 )
Other income	7,373	—	7,373
Income before income taxes	20,426	24,888	45,314
Provision for income taxes	(17,218 )	—	(17,218 )
Net income	3,208	24,888	28,096
Net income attributable to noncontrolling interest	(643 )	(1,280 )	(1,923 )
Net income attributable to Encore Capital Group, Inc. stockholders	\$2,565	\$23,608	\$ 26,173
	Year Ended December 31, 2016		
	Janus Holdings	Encore Europe <sup>(1)</sup>	Consolidated
Total revenues	\$242,114	\$ —	\$ 242,114
Total operating expenses	(197,341 )	—	(197,341 )
Income from operations	44,773	—	44,773
Interest expense-non-PEC	(109,178 )	—	(109,178 )
PEC interest (expense) income	(47,646 )	23,349	(24,297 )
Other income	15,270	—	15,270
(Loss) income before income taxes	(96,781 )	23,349	(73,432 )
Income tax benefit	12,073	—	12,073
Net (loss) income	(84,708 )	23,349	(61,359 )
Net loss attributable to noncontrolling interest	11,863	36,350	48,213
Net (loss) income attributable to Encore Capital Group, Inc. stockholders	\$(72,845 )	\$ 59,699	\$(13,146 )

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

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	Year Ended December 31, 2015		
	Janus Holdings	Encore Europe <sup>(1)</sup>	Consolidated
Total revenues	\$349,379	\$—	\$ 349,379
Total operating expenses	(188,296 )	—	(188,296 )
Income from operations	161,083	—	161,083
Interest expense-non-PEC	(106,318 )	—	(106,318 )
PEC interest (expense) income	(48,013 )	23,529	(24,484 )
Other income	591	—	591
Income before income taxes	7,343	23,529	30,872
Income tax benefit	1,294	—	1,294
Net income	8,637	23,529	32,166
Net income attributable to noncontrolling interest	(1,211 )	(3,705 )	(4,916 )
Net income attributable to Encore Capital Group, Inc. stockholders	\$7,426	\$ 19,824	\$ 27,250

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

For all periods presented, Janus Holdings recognized all interest expense related to the outstanding preferred equity certificates (“PECs”) owed to Encore and other minority shareholders, while the interest income from PECs owed to Encore was recognized at Janus Holdings’ parent company, Encore Europe Holdings, S.a r.l. (“Encore Europe”), which is a wholly-owned subsidiary of Encore.

#### Comparison of Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

#### Revenues

Our revenues consist of portfolio revenue and other revenue.

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

Total revenues were \$1,187.0 million during the year ended December 31, 2017, an increase of \$157.7 million, or 15.3%, compared to total revenues of \$1,029.3 million during the year ended December 31, 2016.

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the

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relative to other foreign currencies has an unfavorable impact on our international revenues, and the weakening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international revenues. Our revenues were unfavorably impacted by foreign currency translation, primarily by the weakening of the British Pound, which devalued, based on average exchange rates, against the U.S. dollar by 4.9%, during the year ended December 31, 2017 as compared to the year ended December 31, 2016.

Portfolio revenue was \$1,094.6 million during the year ended December 31, 2017, an increase of \$148.0 million, or 15.6%, compared to revenue of \$946.6 million during the year ended December 31, 2016. The increase in portfolio revenue during the year ended December 31, 2017 compared to 2016 was due to the allowance charge of \$94.0 million on certain pool groups in Europe recorded during year ended December 31, 2016 and a \$45.7 million reversal during the year ended December 31, 2017 of a portion of the previously recorded portfolio allowance as a result of sustained improvements in portfolio collections driven by liquidation improvement initiatives. These increases were partially offset by an allowance charge of \$11.4 million recorded on pool groups in the United States, primarily due to two pool groups that were heavily concentrated in Puerto Rico for which collections have been impacted as a result of hurricanes and the unfavorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.



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

	Year Ended December 31, 2017				As of December 31, 2017				
	Collections <sup>(1)</sup>	Gross Revenue <sup>(2)</sup>	Revenue Recognition Rate <sup>(3)</sup>	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR		
United States:									
ZBA <sup>(4)</sup>	\$ 139,373	\$ 132,746	95.2	% \$ 6,942	12.6	% \$—	—		
2007 <sup>(5)</sup>	1,548	210	13.6	% —	0.0	% —	—		
2008	4,636	1,891	40.8	% 613	0.2	% 1,497	5.2	%	
2009 <sup>(5)</sup>	—	—	—	—	—	—	—		
2010 <sup>(5)</sup>	1,106	299	27.0	% —	0.0	% —	—		
2011	20,173	16,928	83.9	% —	1.6	% 4,598	25.0	%	
2012	71,301	51,300	71.9	% (2,337 )	4.8	% 16,432	18.6	%	
2013	139,329	97,720	70.1	% —	9.3	% 48,735	16.0	%	
2014	142,147	77,566	54.6	% (9,028 )	7.4	% 112,788	4.5	%	
2015	186,391	77,785	41.7	% —	7.4	% 202,747	2.6	%	
2016	283,035	140,367	49.6	% —	13.3	% 369,851	2.6	%	
2017	111,902	72,515	64.8	% —	6.9	% 494,880	2.7	%	
Subtotal	1,100,941	669,327	60.8	% (3,810 )	63.5	% 1,251,528	3.7	%	
Europe:									
2013	146,993	96,093	65.4	% 41,716	9.1	% 269,999	3.1	%	
2014	137,806	82,532	59.9	% 4,012	7.9	% 288,430	2.4	%	
2015	103,823	52,969	51.0	% —	5.0	% 231,691	2.0	%	
2016	97,587	47,285	48.5	% —	4.5	% 213,514	2.0	%	
2017	68,111	37,200	54.6	% —	3.5	% 451,222	1.6	%	
Subtotal	554,320	316,079	57.0	% 45,728	30.0	% 1,454,856	2.1	%	
Other geographies:									
ZBA <sup>(4)</sup>	11,409	11,388	99.8	% —	1.1	% —	—		
2013	881	—	0.0	% —	0.0	% 140	0.0	%	
2014	7,808	16,622	212.9	% —	1.6	% 57,727	2.3	%	
2015	41,500	22,073	53.2	% —	2.1	% 34,589	5.0	%	
2016	35,313	14,411	40.8	% (682 )	1.4	% 45,058	2.4	%	
2017	15,472	3,473	22.4	% —	0.3	% 46,715	1.2	%	
Subtotal	112,383	67,967	60.5	% (682 )	6.5	% 184,229	2.5	%	
Total	\$ 1,767,644	\$ 1,053,373	59.6	% \$ 41,236	100.0	% \$ 2,890,613	3.0	%	

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

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

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

ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group (4) is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%. ZBA gross revenue includes an immaterial amount of accounts that are returned to the seller in accordance with the respective purchase agreement (“Put-Backs”).

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



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	Year Ended December 31, 2016					As of December 31, 2016			
	Collections <sup>(1)</sup>	Gross Revenue <sup>(2)</sup>	Revenue Recognition Rate <sup>(3)</sup>	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR		
United States:									
ZBA <sup>(4)</sup>	\$ 137,287	\$ 130,627	95.1	% \$ 6,820	12.7	% \$—	—		
2007	2,200	748	34.0	% 795	0.1	% 941	4.5	%	
2008	8,687	4,301	49.5	% 2,219	0.4	% 3,631	5.2	%	
2009 <sup>(5)</sup>	—	—	—	—	—	—	—		
2010	10,402	7,493	72.0	% —	0.7	% 807	25.0	%	
2011	54,991	35,643	64.8	% —	3.4	% 7,866	17.7	%	
2012	113,068	72,877	64.5	% —	7.1	% 38,886	11.7	%	
2013	196,752	126,666	64.4	% —	12.3	% 90,720	9.1	%	
2014	216,356	112,554	52.0	% —	10.9	% 187,083	4.1	%	
2015	231,101	103,073	44.6	% —	10.0	% 313,089	2.4	%	
2016	110,876	65,639	59.2	% —	6.4	% 515,260	2.4	%	
Subtotal	1,081,720	659,621	61.0	% 9,834	64.0	% 1,158,283	3.7	%	
Europe:									
2013	165,616	127,606	77.0	% (76,018 )	12.4	% 256,725	3.0	%	
2014	156,666	93,657	59.8	% (13,150 )	9.1	% 308,568	2.1	%	
2015	127,083	62,769	49.4	% (4,843 )	6.1	% 255,445	1.6	%	
2016	44,635	24,733	55.4	% —	2.4	% 230,225	1.8	%	
Subtotal	494,000	308,765	62.5	% (94,011 )	30.0	% 1,050,963	2.1	%	
Other geographies:									
ZBA <sup>(4)</sup>	7,552	7,433	98.4	% —	0.7	% —	—		
2013	1,548	—	0.0	% —	0.0	% 1,008	0.0	%	
2014	17,443	17,675	101.3	% —	1.7	% 56,691	2.2	%	
2015	57,055	27,810	48.7	% —	2.7	% 51,758	3.5	%	
2016	26,286	9,488	36.1	% —	0.9	% 64,106	1.9	%	
Subtotal	109,884	62,406	56.8	% —	6.0	% 173,563	2.4	%	
Total	\$ 1,685,604	\$ 1,030,792	61.2	% \$ (84,177 )	100.0	% \$ 2,382,809	2.9	%	

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

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

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

ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group (4) is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%. ZBA gross revenue includes an immaterial amount of accounts that are returned to the seller in accordance with the respective purchase agreement (“Put-Backs”).

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

Other revenues were \$92.4 million and \$82.6 million for the years ended December 31, 2017 and 2016, respectively. Other revenues primarily consist of fee-based income earned at our international subsidiaries that provide portfolio management services to credit originators for non-performing loans. The increases in other revenues were primarily attributable to additional fee-based income earned from recently acquired fee-based service providers, including Wescot, which was acquired by Cabot in November 2017. These increases were partially offset by the unfavorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.



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## Operating Expenses

Total operating expenses were \$862.5 million during the year ended December 31, 2017, an increase of \$74.8 million, or 9.5%, compared to total operating expenses of \$787.7 million during the year ended December 31, 2016.

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

Operating expenses are explained in more detail as follows:

## Salaries and Employee Benefits

Salaries and employee benefits increased \$34.6 million, or 12.3%, to \$315.7 million during the year ended December 31, 2017, from \$281.1 million during the year ended December 31, 2016. The increase was primarily the result of an increase in headcount at our domestic sites as part of initiatives to increase collections capacity and an increase at our international subsidiaries resulting from recent acquisitions. The increase was partially offset by the impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar. Stock-based compensation decreased \$2.2 million, or 17.6%, to \$10.4 million during the year ended December 31, 2017, from \$12.6 million during the year ended December 31, 2016. The decrease was primarily attributable to larger expense reversals during the current year as compared to the corresponding periods in the prior year resulting from adjustments to estimated vesting of certain performance-based awards and reversals for current period actual forfeitures.

## Cost of Legal Collections

Cost of legal collections includes primarily contingent fees paid to our network of attorneys and the cost of litigation. We pursue legal collections using a network of attorneys that specialize in collection matters and through our internal legal channel. Under the agreements with our contracted attorneys, we advance certain out-of-pocket court costs, or Deferred Court Costs. We capitalize these costs in the consolidated financial statements and provide a reserve for those costs that we believe will ultimately be uncollectible. We determine the reserve based on an estimated court cost recovery rate based on our analysis of historical court costs recovery data. Based on trends of historical court costs recovery data during the year ended December 31, 2016, we noted a decrease in the estimated court cost recovery rate in the United Kingdom. Based on the revised estimated court cost recovery rate, we recorded an additional court costs reserve in the cost of legal collections of approximately \$11.3 million during the year ended December 31, 2016. The cost of legal collections decreased slightly by \$0.8 million, or 0.4%, to \$200.1 million during the year ended December 31, 2017, compared to \$200.9 million during the year ended December 31, 2016. Cost of legal collections in the United States increased by \$9.8 million, or 6.0%, while cost of legal collections in Europe decreased by \$11.0 million, or 30.0% as compared to the prior year. The cost of legal collections as a percentage of gross collections through this channel increased to 29.8% during the year ended December 31, 2017, from 29.1% during the year ended December 31, 2016. The cost as a percentage of legal collections in the United States increased to 31.5% during the year ended December 31, 2017 from 29.1% during the prior year and the cost as a percentage of legal collections in Europe decreased to 22.0% during the year ended December 31, 2017 from 29.9% during the prior year.

The increases in the cost of legal collections and the cost of legal collections as a percentage of gross collections in the United States during the periods presented were due to increased placements in the legal channel. During the first three quarters in 2016, we experienced temporary delays in receiving media from issuers required to initiate the legal process for a number of accounts, as a result, the volume of accounts placed in our legal channel was reduced during that period. Since those temporary delays subsided in the fourth quarter of 2016, we have increased placement volume in the legal channel and expect increased volume in our legal channel in the near future.

The decreases in the cost of legal collections and the cost of legal collections as a percentage of gross collections in Europe during the periods presented were due to the recording of an approximately \$11.3 million additional court cost reserve during the year ended December 31, 2016 as discussed above, and reduction in upfront court costs as a result of fewer accounts placed in this channel.

## Other Operating Expenses

Other operating expenses increased \$4.2 million, or 4.2%, to \$104.9 million during the year ended December 31, 2017, from \$100.7 million during the year ended December 31, 2016. The increase in other operating expenses was primarily due to an increase in new domestic marketing programs and mailing initiatives and increase at our international subsidiaries resulting

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from recent acquisitions. The increase was partially offset by the impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

**Collection Agency Commissions**

During the year ended December 31, 2017, we incurred \$43.7 million in commissions to third-party collection agencies, or 21.3% of the related gross collections of \$204.9 million. During the period, the commission rate as a percentage of related gross collections was 7.3% and 24.6% for our collection outsourcing channels in the United States and Europe, respectively. During the year ended December 31, 2016, we incurred \$36.1 million in commissions, or 18.5%, of the related gross collections of \$195.4 million. During 2016, the commission rate as a percentage of related gross collections was 9.0% and 22.7% for our collection outsourcing channels in the United States and Europe, respectively.

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

**General and Administrative Expenses**

General and administrative expenses increased \$24.1 million, or 17.9%, to \$158.1 million during the year ended December 31, 2017, from \$134.0 million during the year ended December 31, 2016. The increase was primarily due to expenses related to Cabot's withdrawn IPO of \$13.4 million, reduction in gain on reversal of acquisition-related contingent consideration of approximately \$5.3 million, and additional infrastructure costs at our domestic sites. The increase was partially offset by reduction in settlement fees and related administrative expenses of \$6.3 million, and the impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

**Depreciation and Amortization**

Depreciation and amortization expense increased \$5.1 million, or 14.7%, to \$40.0 million during the year ended December 31, 2017, from \$34.9 million during the year ended December 31, 2016. The increase was primarily due to write-off of certain long-lived and intangible assets in connection with integrating our operating platforms and increase in fixed assets and intangibles at our international subsidiaries resulting from recent acquisitions.

**Interest Expense**

Interest expense increased \$5.8 million to \$204.2 million during the year ended December 31, 2017, from \$198.4 million during the year ended December 31, 2016.

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

	Year Ended December 31,				
	2017	2016	\$ Change	% Change	
Stated interest on debt obligations	\$157,287	\$159,883	\$(2,596)	(1.6)	%
Interest expense on preferred equity certificates	25,899	24,297	1,602	6.6	%
Amortization of loan fees and other loan costs	13,502	12,618	884	7.0	%
Amortization of debt discount	10,338	10,520	(182)	(1.7)	%
Accretion of debt premium	(2,865)	(8,951)	6,086	(68.0)	%
Total interest expense	\$204,161	\$198,367	\$5,794	2.9	%

The payment of the accumulated interest on the PECs issued in connection with the acquisition of a controlling interest in Cabot will only be satisfied in connection with the disposition of the noncontrolling interest of J.C. Flowers and management.

The increase in interest expense during the year ended December 31, 2017 as compared to the corresponding period in 2016 was primarily attributable to higher interest expense in the United States related to our recent issuance of convertible debt, senior notes and higher weighted interest rates. The increase was partially offset by lower interest expense in our international





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subsidiaries due to various refinancing transactions and the favorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

Other Income

Other income 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 \$10.8 million during the year ended December 31, 2017, down from \$14.2 million during the year ended December 31, 2016. The decrease was primarily due to lower net gain recognized on foreign exchange contracts in the current period compared to prior year.

In 2016, Encore and Cabot collectively began entering into currency exchange forward contracts to reduce the effects of currency exchange rate fluctuations between the British Pound and Euro. These derivative contracts generally mature within one to three months and are not designated as hedge instruments for accounting purposes. The gains or losses on these derivative contracts are recognized in other income or expense based on the changes in fair value.

Provision for Income Taxes

During the years ended December 31, 2017 and 2016, we recorded income tax provisions for income from continuing operations of \$52.0 million and \$38.2 million, respectively.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Reform Act”) was signed into law by President Trump. The Tax Reform Act significantly revised the U.S. corporate income tax regime by, among other things, lowering the U.S. corporate tax rate from a top rate of 35% to a flat rate of 21% effective January 1, 2018, while also repealing the deduction for domestic production activities, implementing elements of a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Shortly after enactment, the SEC staff issued Staff Accounting Bulletin (“SAB”) 118, which provides guidance on accounting for the Tax Reform Act’s impact. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Reform Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Reform Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. As a result of the Tax Reform Act, we recorded an additional net tax expense of \$1.2 million during the year ended December 31, 2017. This net tax expense represents a provisional amount and our current best estimate. The provisional amount incorporates assumptions made based upon our current interpretation of the Tax Reform Act and may change as we receive additional clarification and implementation guidance. We did not record any deemed repatriation tax on unremitted foreign earnings and profits (“E&P”) due to the deficit in accumulated foreign E&P as of December 31, 2017.

Because of the complexity of the new Global Intangible Low-Taxed Income (“GILTI”) tax rules, we continue to evaluate this and other provisions of the Tax Reform Act and the application of Accounting Standards Codification 740, “Income Taxes.” Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into our measurement of its deferred taxes (the “deferred method”). We have not yet adopted an accounting policy with respect to GILTI at December 31, 2017.

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

	Year Ended December 31,			
	2017		2016	
Federal provision	35.0	%	35.0	%
State provision	0.5	%	2.3	%
Foreign rate differential <sup>(1)</sup>	(20.0	)%	(3.6	)%
Transaction costs <sup>(2)</sup>	5.0	%	0.0	%
Tax reserves	0.0	%	(3.2	)%
Permanent items <sup>(3)</sup>	10.2	%	14.7	%
Change in valuation allowance <sup>(4)</sup>	8.2	%	20.7	%
Other <sup>(5)</sup>	0.8	%	0.7	%
Effective rate	39.7	%	66.6	%

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

(2) Relates primarily to the effect of certain costs related to the withdrawn Cabot IPO that are disallowed for U.K. tax purposes.

(3) Represents a provision for nondeductible expenses including interest expense reported in a foreign subsidiary and certain foreign income subject to tax in the U.S. under Internal Revenue Code Section 951 (Subpart F).

(4) Valuation allowance recorded as a result of certain foreign subsidiaries' cumulative operating losses for tax purposes.

(5) Includes the impact from the Tax Reform Act for the year ended December 31, 2017.

The effective tax rate for the year ended December 31, 2017 decreased to 39.7% as compared to 66.6% for the year ended December 31, 2016. The decrease in effective tax rate was primarily the result of a lower tax rate on income attributable to international operations and reduced impact of changes in valuation allowances related to certain foreign subsidiaries.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory tax rates and higher than anticipated in countries that have higher statutory tax rates.

#### Cost per Dollar Collected

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

	Year Ended	
	December 31,	
	2017	2016
United States	44.2%	40.5%
Europe	28.2%	32.8%
Other geographies	48.6%	44.1%
Overall cost per dollar collected	39.5%	38.5%

Our overall cost per dollar collected (or "cost-to-collect") for the year ended December 31, 2017 was 39.5%, up 100 basis points from 38.5% during the prior period. Cost-to collect increased in the United States and other geographies and decreased in Europe during the periods presented.

Cost-to-collect in the United States increased due to a combination of (a) increased legal spending resulting from increased placements in the legal channel due to the ceasing of prior temporary delays in receiving media from issuers required to initiate the legal process, (b) the acquisition of an increased volume of accounts, which generates increased near-term expenses from account manager hiring, legal placements, and letter volumes and (c) increased investments to increase collection capacity.



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

Cost-to-collect in Europe decreased primarily due to the recording of a large court costs reserve in the United Kingdom during the year ended December 31, 2016. Refer to “Cost of Legal Collections” in the operating expenses section above for further details.

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

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

#### Revenues

Total revenues were \$1,029.3 million during the year ended December 31, 2016, a decrease of \$100.7 million, or 8.9%, compared to total revenues of \$1,130.0 million during the year ended December 31, 2015.

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 impacted by foreign currency translation, primarily by the weakening of the British Pound, which devalued against the U.S. dollar by 11.4%, during the year ended December 31, 2016 as compared to the year ended December 31, 2015.

Portfolio revenue was \$946.6 million during the year ended December 31, 2016, a decrease of \$125.8 million, or 11.7%, compared to revenue of \$1,072.4 million during the year ended December 31, 2015. The decrease in portfolio revenue during the year ended December 31, 2016, compared to the year ended December 31, 2015 was the result of allowance charges recorded on certain pools in Europe and the negative impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

During the year ended December 31, 2016, we recorded a net allowance charge of \$84.2 million, compared to a net portfolio allowance reversal of \$6.8 million during the year ended December 31, 2015. During the quarter ended September 30, 2016, we recorded a portfolio allowance charges of \$94.0 million resulting from delays or shortfalls in near term collections against our forecasts for certain pools in Europe. These allowance charges, net of portfolio allowance reversals on other pools, attributed to the net portfolio allowance of \$84.2 million during the year ended December 31, 2016. The net portfolio allowance reversals recorded in 2015 were primarily due to the reversal of remaining allowance reserves for certain ZBA pool groups with cash collections, offset by an \$8.3 million portfolio allowance charge resulting from our settlement with the Consumer Financial Protection Bureau (“CFPB”).

During the quarter ended September 30, 2016, we revised the forecasting methodology we use to value and calculate IRRs on certain portfolios in Europe by extending the collection forecast from 120 months to 180 months. This change was made as a result of (1) our observation that older portfolios in Europe have consistently experienced cash collections beyond 120 months, (2) an expectation that regulatory changes in the United Kingdom resulting in a reduction in the number of highly discounted near term one-time settlements, an increase in the number of payment plans, and an increase in the length of existing payment plans will cause a lengthening of our collections curve, (3) an expectation that, as a result of a higher percentage of semi-performing account purchases in the United Kingdom in recent years, newer vintages will have a larger percentage of collections after 120 months and (4) our increased confidence in our ability to forecast future cash collections to 180 months. The increase in the collection forecast from 120 months to 180 months was applied effective July 1, 2016, to certain portfolios in Europe for which we could accurately forecast through such term. In addition, during the three months ended September 30, 2016, we recorded allowance charges of approximately \$94.0 million resulting from delays or shortfalls in collections against the forecasts for certain pools in Europe. These changes in forecasted future cash flows resulted in an increase in the aggregate total estimated remaining collections (“ERC”) for the receivable portfolios of approximately \$296.5 million as of September 30, 2016. The increase in the collection forecast from 120 months to 180 months had the effect of reducing the allowance charges by approximately \$13.2 million. For portfolios in Europe that were not extended to

180 months, we will continue to include collection forecast to 120 months in calculating accretion revenue and in our estimated remaining collection disclosures. In the United States, we will continue to include collection forecast to 120 months in

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calculating accretion revenue. Expected collections beyond the 120-month collection forecast in the United States are included in our estimated remaining collection disclosures but are not included in the calculation of accretion revenue. The following tables summarize collections, revenue, end of period receivable balance and other related supplemental data, by year of purchase (in thousands, except percentages):

	Year Ended December 31, 2016					As of December 31, 2016			
	Collections <sup>(1)</sup>	Gross Revenue <sup>(2)</sup>	Revenue Recognition Rate <sup>(3)</sup>	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR		
United States:									
ZBA <sup>(4)</sup>	\$ 137,287	\$ 130,627	95.1 %	\$ 6,820	12.7 %	\$—	—		
2007	2,200	748	34.0 %	795	0.1 %	941	4.5 %		
2008	8,687	4,301	49.5 %	2,219	0.4 %	3,631	5.2 %		
2009 <sup>(5)</sup>	—	—	—	—	—	—	—		
2010	10,402	7,493	72.0 %	—	0.7 %	807	25.0 %		
2011	54,991	35,643	64.8 %	—	3.4 %	7,866	17.7 %		
2012	113,068	72,877	64.5 %	—	7.1 %	38,886	11.7 %		
2013	196,752	126,666	64.4 %	—	12.3 %	90,720	9.1 %		
2014	216,356	112,554	52.0 %	—	10.9 %	187,083	4.1 %		
2015	231,101	103,073	44.6 %	—	10.0 %	313,089	2.4 %		
2016	110,876	65,639	59.2 %	—	6.4 %	515,260	2.4 %		
Subtotal	1,081,720	659,621	61.0 %	9,834	64.0 %	1,158,283	3.7 %		
Europe:									
2013	165,616	127,606	77.0 %	(76,018 )	12.4 %	256,725	3.0 %		
2014	156,666	93,657	59.8 %	(13,150 )	9.1 %	308,568	2.1 %		
2015	127,083	62,769	49.4 %	(4,843 )	6.1 %	255,445	1.6 %		
2016	44,635	24,733	55.4 %	—	2.4 %	230,225	1.8 %		
Subtotal	494,000	308,765	62.5 %	(94,011 )	30.0 %	1,050,963	2.1 %		
Other geographies:									
ZBA <sup>(4)</sup>	7,552	7,433	98.4 %	—	0.7 %	—	—		
2013	1,548	—	—	—	—	1,008	0.0 %		
2014	17,443	17,675	101.3 %	—	1.7 %	56,691	2.2 %		
2015	57,055	27,810	48.7 %	—	2.7 %	51,758	3.5 %		
2016	26,286	9,488	36.1 %	—	0.9 %	64,106	1.9 %		
Subtotal	109,884	62,406	56.8 %	—	6.0 %	173,563	2.4 %		
Total	\$ 1,685,604	\$ 1,030,792	61.2 %	\$(84,177 )	100.0 %	\$ 2,382,809	2.9 %		

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

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

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

ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%. ZBA gross revenue includes an immaterial amount of Put-Backs.

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



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	Year Ended December 31, 2015					As of December 31, 2015			
	Collections <sup>(1)</sup>	Gross Revenue <sup>(2)</sup>	Revenue Recognition Rate <sup>(3)</sup>	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR		
United States:									
ZBA <sup>(4)</sup>	\$ 103,398	\$ 91,876	88.9	% \$ 11,765	8.6	% \$—	—		
2007	3,150	1,118	35.5	% 1,009	0.1	% 1,573	4.6	%	
2008	13,529	8,665	64.0	% 2,311	0.8	% 5,798	10.0	%	
2009 <sup>(5)</sup>	18,084	10,347	57.2	% —	1.0	% —	—		
2010	42,615	25,629	60.1	% —	2.4	% 3,742	21.2	%	
2011	112,753	85,303	75.7	% —	8.0	% 27,257	18.5	%	
2012	176,914	108,968	61.6	% —	10.2	% 79,973	8.6	%	
2013	298,068	176,878	59.3	% —	16.6	% 161,539	7.4	%	
2014	307,814	146,583	47.6	% —	13.8	% 291,402	3.6	%	
2015	105,609	47,300	44.8	% —	4.4	% 445,527	1.8	%	
Impact of CFPB settlement	—	—	—	(8,322)	—	—	—		
Subtotal	1,181,934	702,667	59.5	% 6,763	65.9	% 1,016,811	4.4	%	
Europe:									
2013	212,129	171,750	81.0	% —	16.1	% 439,619	3.1	%	
2014	198,127	122,490	61.8	% —	11.5	% 444,618	2.1	%	
2015	65,870	38,129	57.9	% —	3.6	% 384,231	1.9	%	
Subtotal	476,126	332,369	69.8	% —	31.2	% 1,268,468	2.4	%	
Other geographies:									
ZBA <sup>(4)</sup>	4,565	4,571	100.1	% —	0.4	% —	—		
2012 <sup>(5)</sup>	471	—	0.0	% —	0.0	% —	—		
2013	6,507	319	4.9	% —	0.0	% 2,480	0.0	%	
2014	16,062	19,910	124.0	% —	1.9	% 67,714	2.4	%	
2015	15,060	5,837	38.8	% —	0.5	% 85,196	2.9	%	
Subtotal	42,665	30,637	71.8	% —	2.9	% 155,390	2.6	%	
Total	\$ 1,700,725	\$ 1,065,673	62.7	% \$ 6,763	100.0	% \$ 2,440,669	3.2	%	

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

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

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

ZBA revenue typically has a 100% revenue recognition rate. However, collections on ZBA pool groups where a valuation allowance remains must first be recorded as an allowance reversal until the allowance for that pool group is zero. Once the entire valuation allowance is reversed, the revenue recognition rate will become 100%. ZBA gross revenue includes an immaterial amount of Put-Backs.

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

Other revenues were \$82.6 million and \$57.5 million for the years ended December 31, 2016 and 2015, respectively. The increase in other revenues was primarily attributable to fee-based income earned at our international subsidiaries that provide portfolio management services to credit originators for non-performing loans, offset by the negative impact of foreign currency translation. Most of our other revenues are from our international subsidiaries and therefore, other revenues were unfavorably impacted by the strengthening of the U.S. dollar relative to other foreign currencies during the periods presented.

Operating Expenses



Total operating expenses were \$787.7 million during the year ended December 31, 2016, a decrease of \$60.0 million, or 7.1%, compared to total operating expenses of \$847.7 million during the year ended December 31, 2015.

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Operating expenses are explained in more detail as follows:

**Salaries and Employee Benefits**

Salaries and employee benefits increased \$18.8 million, or 7.2%, to \$281.1 million during the year ended December 31, 2016, from \$262.3 million during the year ended December 31, 2015. The increase was primarily the result of increases in compensation expense of approximately \$33.4 million for our international subsidiaries, offset by a decrease of \$9.4 million in stock-based compensation expense and a net decrease in other salaries and employee benefits in our U.S. operations.

Stock-based compensation decreased \$9.4 million, or 42.6%, to \$12.6 million during the year ended December 31, 2016, from \$22.0 million during the year ended December 31, 2015. The decreases were primarily attributable to expense reversals resulting from adjustments to estimated vesting of certain performance-based awards and lower fair value of equity awards granted in recent periods.

**Cost of Legal Collections**

Cost of legal collections includes primarily contingent fees paid to our network of attorneys and the cost of litigation. We pursue legal collections using a network of attorneys that specialize in collection matters and through our internal legal channel. Under the agreements with our contracted attorneys, we advance certain out-of-pocket court costs, or Deferred Court Costs. We capitalize these costs in the consolidated financial statements and provide a reserve for those costs that we believe will ultimately be uncollectible. We determine the reserve based on an estimated court cost recovery rate based on our analysis of historical court costs recovery data. Based on recent trends of historical court costs recovery data, we noted a decrease in the estimated court cost recovery rate in the United Kingdom. Based on the revised estimated court cost recovery rate, we recorded an additional court costs reserve in the cost of legal collections of approximately \$11.3 million during the three months ended September 30, 2016.

The cost of legal collections decreased \$28.9 million, or 12.6%, to \$200.9 million during the year ended December 31, 2016, compared to \$229.8 million during the year ended December 31, 2015. Cost of legal collections in the United States decreased by \$39.6 million, or 19.6%, while cost of legal collections in Europe increased by \$8.9 million, or 32.3% as compared to the prior year. The cost of legal collections as a percentage of gross collections through this channel decreased to 29.1% during the year ended December 31, 2016, from 31.6% during the year ended December 31, 2015. During the year ended December 31, 2016, the cost of legal collections was 29.1% and 29.9% in the United States and Europe, respectively. During the year ended December 31, 2015, the cost of legal collections was 31.9% and 29.9% in the United States and Europe, respectively.

The decreases in the cost of legal collections and the cost of legal collections as a percentage of gross collections in the United States during the periods presented were due to a reduction in upfront court costs as a result of fewer accounts placed in this channel because of temporary delays in receiving media from issuers required to initiate the legal process for a number of accounts as compared to the corresponding period in the prior year. We began to see increased placement volume in the fourth quarter of 2016 and expect increased placements in our legal channel thereafter.

**Other Operating Expenses**

Other operating expenses increased \$7.5 million, or 8.1%, to \$100.7 million during the year ended December 31, 2016, from \$93.2 million during the year ended December 31, 2015. The increases in other operating expenses was primarily due to increased costs relating to acquired international subsidiaries offset by lower domestic expenses.

**Collection Agency Commissions**

During the year ended December 31, 2016, we incurred \$36.1 million in commissions to third-party collection agencies, or 18.5% of the related gross collections of \$195.4 million. During the period, the commission rate as a percentage of related gross collections was 9.0% and 22.7% for our collection outsourcing channels in the United States and Europe, respectively. During the year ended December 31, 2015, we incurred \$37.9 million in commissions, or 17.2%, of the related gross collections of \$220.2 million. During 2015, the commission rate as a percentage of related gross collections was 14.4% and 18.5% for our collection outsourcing channels in the United States and Europe, respectively.

Collections through this channel vary from period to period depending on, among other things, the number of accounts placed with an agency versus accounts collected internally. Commissions, as a percentage of collections in

this channel, also vary from period to period depending on, among other things, the amount of time that has passed since the charge-off of the accounts placed with an agency, the asset class, and the geographic location of the receivables. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time. Additionally, commission rates are lower in the United Kingdom, where most of the receivables in this channel are semi-performing loans

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and IVAs, while the commission rates are higher in other European countries where most of the receivables in this channel are non-performing loans.

**General and Administrative Expenses**

General and administrative expenses decreased \$57.4 million, or 30.0%, to \$134.0 million during the year ended December 31, 2016, from \$191.4 million during the year ended December 31, 2015. The decrease was primarily due to CFPB related expenses of approximately \$53.7 million recorded during the year ended December 31, 2015 and a reversal of an acquisition-related contingent consideration of approximately \$8.1 million recorded during the year ended December 31, 2016.

**Depreciation and Amortization**

Depreciation and amortization expense increased \$1.7 million, or 5.2%, to \$34.9 million during the year ended December 31, 2016, from \$33.2 million during the year ended December 31, 2015. The increase was primarily attributable to additional amortization expenses resulting from intangible assets acquired through our recent acquisitions.

**Interest Expense**

Interest expense increased \$11.8 million to \$198.4 million during the year ended December 31, 2016, from \$186.6 million during the year ended December 31, 2015.

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

	Year Ended December 31,				
	2016	2015	\$ Change	% Change	
Stated interest on debt obligations	\$159,883	\$151,617	\$8,266	5.5	%
Interest expense on preferred equity certificates	24,297	24,484	(187)	(0.8)	%
Amortization of loan fees and other loan costs	12,618	11,792	826	7.0	%
Amortization of debt discount	10,520	9,410	1,110	11.8	%
Accretion of debt premium	(8,951)	(10,747)	1,796	(16.7)	%
Total interest expense	\$198,367	\$186,556	\$11,811	6.3	%

The payment of the accumulated interest on the PECs issued in connection with the acquisition of a controlling interest in Cabot will only be satisfied in connection with the disposition of the noncontrolling interest of J.C. Flowers and management.

The increase in interest expense was primarily attributable to increased average debt levels in the United States and Europe and interest expense recognized by Baycorp, which was acquired in October 2015.

**Other Income**

Other income 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 \$14.2 million during the year ended December 31, 2016, up from \$2.2 million during the year ended December 31, 2015. The increase was primarily due to net gains recognized on foreign exchange contracts of approximately \$8.2 million.

In 2016, Encore and Cabot collectively began entering into currency exchange forward contracts to reduce the effects of currency exchange rate fluctuations between the British Pound and Euro. These derivative contracts generally mature within one to three months and are not designated as hedge instruments for accounting purposes. The gains or losses on these derivative contracts are recognized in other income or expense based on the changes in fair value.

Before the effect of income tax and noncontrolling interest, the net gain on these derivative contracts recognized in our consolidated statements of income was \$8.2 million during the year ended December 31, 2016.

**Provision for Income Taxes**

During the years ended December 31, 2016 and 2015, we recorded income tax provisions for income from continuing operations of \$38.2 million and \$27.2 million, respectively.

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

	Year Ended December 31,			
	2016		2015	
Federal provision	35.0	%	35.0	%
State provision	2.3	%	0.2	%
Foreign rate differential <sup>(1)</sup>	(3.6	)%	(7.8	)%
Tax reserves <sup>(2)</sup>	(3.2	)%	(2.0	)%
Permanent items <sup>(3)</sup>	14.7	%	6.0	%
Change in valuation allowance <sup>(4)</sup>	20.7	%	(5.6	)%
Other	0.7	%	1.9	%
Effective rate	66.6	%	27.7	%

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

(2) Represents release of reserves taken for a certain tax position.

Represents a provision for nondeductible items including interest expense reported in a foreign subsidiary. The

(3) Company incurred a \$10.0 million civil monetary penalty related to a settlement with the CFPB during the year ended December 31, 2015, which is not deductible for income tax purposes.

(4) Valuation allowance increased in 2016 due to a foreign subsidiary's cumulative operating losses for tax purposes. The effective tax rate for the year ended December 31, 2016 increased to 66.6% as compared to 27.7% for the year ended December 31, 2015. The increase in effective tax rate was primarily the result of the recording of a large valuation allowance at one of our foreign subsidiaries, nondeductible items including interest reported in a foreign subsidiary and proportionately less income realized in countries that have lower statutory tax rates than the U.S. federal rate.

During the year ended December 31, 2016, one of our foreign subsidiaries has incurred cumulative operating losses. Management did not have enough positive evidence to support the fact that the net operating loss carryforwards at this jurisdiction can be realized, therefore, we recorded a valuation allowance against the current and previously established deferred tax assets.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory tax rates and higher than anticipated in countries that have higher statutory tax rates.

#### Cost per Dollar Collected

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

	Year Ended	
	December 31,	December 31,
	2016	2015
United States	40.5%	42.0%
Europe	32.8%	