

ENCORE CAPITAL GROUP INC

Form 10-K

February 26, 2015

Table of Contents

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, 2014 or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

48-1090909

(IRS Employer Identification No.)

3111 Camino Del Rio North, Suite 103 San Diego, California 92108

(Address of principal executive offices)

(Zip code)

(877) 445-4581

(Registrant's telephone number, including area code)

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

Title of Each Class

Common Stock, \$.01 Par Value Per Share

Name of Each Exchange on Which Registered

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.

Edgar Filing: ENCORE CAPITAL GROUP INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant totaling 23,830,170 shares was approximately \$1,082,366,321 at June 30, 2014, based on the closing price of the common stock of \$45.42 per share on such date, as reported by the NASDAQ Global Select Market.

The number of shares of our Common Stock outstanding at February 11, 2015, was 25,804,077.

Documents Incorporated by Reference

Portions of the registrant’s proxy statement in connection with its annual meeting of stockholders to be held in 2015 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, 2014.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	<u>1</u>
<u>Item 1—Business</u>	<u>1</u>
<u>Item 1A—Risk Factors</u>	<u>13</u>
<u>Item 1B—Unresolved Staff Comments</u>	<u>27</u>
<u>Item 2—Properties</u>	<u>27</u>
<u>Item 3—Legal Proceedings</u>	<u>27</u>
<u>Item 4—Mine Safety Disclosures</u>	<u>27</u>
 <u>PART II</u>	 <u>28</u>
<u>Item 5—Market for the Registrant’s Common Equity Securities, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>28</u>
<u>Item 6—Selected Financial Data</u>	<u>30</u>
<u>Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 7A—Quantitative and Qualitative Disclosures about Market Risk</u>	<u>68</u>
<u>Item 8—Financial Statements and Supplementary Data</u>	<u>68</u>
<u>Item 9—Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>68</u>
<u>Item 9A—Controls and Procedures</u>	<u>69</u>
<u>Item 9B—Other Information</u>	<u>71</u>
 <u>PART III</u>	 <u>71</u>
<u>Item 10—Directors, Executive Officers and Corporate Governance</u>	<u>71</u>
<u>Item 11—Executive Compensation</u>	<u>71</u>
<u>Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>71</u>
<u>Item 13—Certain Relationships and Related Transactions, and Director Independence</u>	<u>71</u>
<u>Item 14—Principal Accountant Fees and Services</u>	<u>71</u>
 <u>PART IV</u>	 <u>72</u>
<u>Item 15—Exhibits and Financial Statement Schedules</u>	<u>72</u>
<u>SIGNATURES</u>	<u>82</u>

Table of Contents

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 for consumers and property owners across a broad range of financial assets.

Portfolio Purchase and Recovery Business

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

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

On August 6, 2014, the Company acquired all of the outstanding equity interests of Atlantic Credit & Finance, Inc. ("Atlantic"). Atlantic specializes in collecting fresh, higher-balance receivables by forging collaborative relationships with consumers. These capabilities complement our existing strength in collecting on later-stage debt and enable our combined organizations to deploy additional capital.

Europe

Through our controlling interest in United Kingdom-based Cabot Credit Management Limited ("Cabot"), we are a market leader in debt management in the United Kingdom and Ireland. Historically, Cabot specialized in collecting higher balance, "semi-performing" accounts (i.e., debt portfolios in which over 50% of the accounts have received a payment in three of the last four months immediately prior to the portfolio purchase). On February 7, 2014, Cabot acquired Marlin Financial Group Limited ("Marlin"), a leading acquirer of non-performing consumer debt in the United Kingdom. Marlin is differentiated by its use of litigation-enhanced collections for non-paying financial services receivables, which complements Cabot's management of semi-performing accounts.

On April 1, 2014, we acquired a majority ownership interest in Grove Holdings ("Grove"). Through its subsidiaries Grove is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies in the United Kingdom (in particular, individual voluntary arrangements, or IVAs) and bank and non-bank receivables in Spain. To date, operating results from Grove have been immaterial to our total consolidated operating results. As a result, descriptions of our European operations in Part I - Item 1 of this Form 10-K will focus substantially on our combined Cabot and Marlin operations and will not include detailed discussion of our Grove operations.

Latin America

Through our majority ownership interest in Refinancia S.A. ("Refinancia"), we are a market leader in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including providing financial solutions to individuals who have previously defaulted on their obligations, payment plan guarantee and factoring services to merchants and loan guarantee services to financial institutions. In addition to operations in Colombia and Peru, we evaluate the purchase of non-performing loans in other countries in Latin America from time to time. To date, operating results from our Latin American operations have been immaterial to our total consolidated operating results. As a result, descriptions of our international operations in Part 1 - Item 1 of this Form 10-K will not include detailed discussion of our Latin American operations.

Accounts originated in the United States are serviced through our call centers in the United States, India and Costa Rica. Beginning in January 2014, our India call center also began to service Cabot's United Kingdom accounts. The balance of our accounts is serviced in the country of origin. 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 call 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.

1

Table of Contents

Tax Lien Business

Through our subsidiary, Propel Financial Services, LLC and its subsidiaries (collectively, “Propel”), we acquire and service residential and commercial tax liens on real property. To the extent permitted by local law, Propel works directly with property owners to structure affordable payment plans by paying delinquent property taxes on behalf of the property owners in exchange for payment agreements collateralized by a tax lien on the property. Through Propel, we also purchase tax liens directly from taxing authorities in various other states. On May 2, 2014, Propel completed the acquisition of a portfolio of tax liens and other assets, expanding its footprint to 22 states.

Keys to Success

The foundation of our success is our people, our organizational agility, and our integrity. This foundation supports strengths in four key areas, which we refer to as our pillars:

- Superior Analytics, including our extensive investments in data and behavioral science and our use of sophisticated predictive modeling techniques;
- Operational Scale and Cost Leadership, driven by our specialized call centers, efficient international operations, and the continuing expansion of our internal legal platform;
- Strong Capital Stewardship, underpinned by our sustained ability to raise and deploy capital prudently; and
- Extendable Business Model, driven by our scalable platform that supports strategic investment opportunities in new asset classes and geographic areas.

Although we have enabled millions of consumers to retire a portion of their outstanding debt, one of the debt collection industry’s most formidable challenges is that many financially distressed consumers will never make a payment, much less retire their total debt obligation. In fact, we generate payments from less than one percent of our accounts every month. To address these challenges, we evaluate portfolios of receivables that are available for purchase using robust, account-level valuation methods, and we employ proprietary statistical and behavioral models across all our operations. We believe these business practices contribute to our ability to value portfolios accurately, avoid buying portfolios that are incompatible with our methods or goals, and align the accounts we purchase with our operational channels to maximize future collections. We also have one of the industry’s largest databases of financially distressed consumers. We believe that our specialized knowledge, along with our investments in data and analytic tools, have enabled us to realize significant returns from the receivables we have acquired. We maintain strong relationships with many of the largest credit providers in the United States. In addition, through our international subsidiaries, we maintain strong relationships with many of the largest credit providers in the European and the Latin American markets we serve.

Seasonality

United States

While seasonality does not have a material impact on our portfolio purchasing and recovery segment, 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 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 with respect to our portfolio purchasing and recovery segment 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 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

2

Table of Contents

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 conduct business through two reportable segments: portfolio purchasing and recovery, and tax liens. Financial information regarding our operating segments and geographic operations is set forth in Note 15 "Segment Information" to our consolidated financial statements.

Company Information

We were incorporated in Delaware in 1999. 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. 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>).

Our Competitive Advantages

Analytic Strength. We believe that success in our portfolio purchase and recovery 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 recent 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.

Cost Leadership. Cost efficiency is central to our collection and purchasing strategies. We experience considerable cost advantages, stemming from our operations in India and Costa Rica, our enterprise-wide, activity-level cost database, 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 discounts and 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.

3

Table of Contents

Our Strategy

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

Continue to Invest in our Core Businesses. Our core domestic portfolio purchase and recovery and tax lien operations remain critical to our success. In recent periods, we have seen a reduction in the supply of portfolios offered for sale directly by credit issuers within the United States coupled with continued demand for portfolios in the marketplace, resulting in elevated pricing. Supply and demand dynamics in this market have fluctuated over time and will likely continue to do so. To position ourselves to continue to generate strong risk-adjusted returns in this environment, we continue to make investments in analytics, technology, risk management, compliance, and initiatives to enhance our relationships with consumers and improve liquidation rates on our portfolios. We intend to continue to deploy a meaningful amount of capital in our core domestic markets. Our 2014 acquisition of Atlantic reflects a strategic decision to expand our core domestic portfolio purchase and recovery presence. Atlantic is a leader in the market for buying freshly charged-off debt, which was not an area of strength for us prior to the acquisition. Combined with our expertise in later stage collections, we believe Atlantic will allow us to be more competitive in the market.

Expand into New Geographies. We believe we are well-positioned to take a leading role, worldwide, in the distressed debt and subprime consumer financial sectors. Our current footprint includes our industry-leading U.S. and U.K. core debt recovery businesses, our presence in Spain, our entrance into the Latin American debt market, and our international operations through our India and Costa Rica locations. In addition, we are constantly evaluating additional investments in, or acquisitions of, complementary businesses in order to expand into new geographic markets. For example, we have announced plans to commence portfolio purchase and recovery operations in India. As portfolio prices fluctuate and the complexity of our industry continues to increase, we expect that our international operations will continue to provide a significant competitive advantage.

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 new types of defaulted consumer receivables. We believe that our existing underwriting and collection processes can be extended to a variety of consumer receivables. These capabilities may allow us to develop and provide complementary products or services to specified financially distressed consumer segments.

Acquisition of Portfolio Purchase and Recovery Receivables

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 and portfolio resellers 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, savings, or payment behavior. Our Decision Science team, responsible for asset

valuation, statistical analysis, and forecasting, then analyzes this information to determine the expected value of each potential new consumer. Our collection expectations are based on these demographic data, account characteristics, and economic variables, which we use to predict a consumer's willingness and ability to repay his or her debt. The expected value of collections for each account is aggregated to calculate an overall value for the portfolio. Additional adjustments 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.

Table of Contents

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

Through Cabot, we maintain strong relationships with many of the largest financial service providers in the United Kingdom. Cabot primarily acquires receivable portfolios in negotiated spot transactions, but it also participates in auctions on occasion. In addition, Cabot purchases a small number of portfolios by entering into forward flow agreements, although it has substantially moved away from these arrangements.

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 paying model for semi-performing accounts and a regression model 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 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.

All purchases require approval by the pricing committee. Cabot’s pricing committee includes its Chief Executive Officer, Chief Financial Officer and Chief Investment Officer. We believe that Cabot’s significant industry and management experience enable it to make informed decisions about the portfolios we acquire through Cabot.

Portfolio Purchase and Recovery Collection Approach

United States

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. Generally, we pursue collection activities on only a fraction of the accounts we purchase, through one or more of our collection channels. 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 would prevent them from making payments, are excluded from our collection process. It is our practice to assess each consumer’s willingness to pay through analytics, phone calls and/or letters. Despite our efforts to reach consumers and work out a settlement plan, only a small number of consumers who we contact choose to engage with us. Those who do are often offered discounts on their obligations or are presented with payment plans that are intended to suit their needs. However, the majority of consumers we contact do not respond to our calls and our letters and we must then make the decision about whether to pursue collections through legal action. Throughout our ownership period, we periodically refine our collection approach to determine the most effective collection strategy to pursue for each account. These strategies consist of:

Inactive. We strive to use our financial resources judiciously and efficiently by not deploying resources on accounts where the prospects of collection are remote. For example, for accounts where we believe that the consumer is currently unemployed, overburdened by debt, incarcerated, or deceased, no collection method of any sort is assigned.

Direct Mail. We develop innovative, low-cost mail campaigns offering consumers appropriate discounts to encourage settlement of their accounts.

Call Centers. We maintain domestic collection call centers in San Diego, California, Phoenix, Arizona, St. Cloud, Minnesota, Warren, 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. During our new hire training period, we educate account managers to understand and apply

Table of Contents

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.

Skip Tracing. If a consumer's phone number proves inaccurate when an account manager calls an account, or if current contact information for a consumer is not available at the time of account purchase, then the account is automatically routed to our skip tracing process. We currently use a number of different skip tracing companies to provide phone numbers and addresses.

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 his or her 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, management 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 collection firm, we evaluate the firm's compliance with consumer credit laws and regulations, operations, financial condition, and experience, among other key criteria. The law firms we have hired 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.

Sale. We do not resell accounts to third parties in the ordinary course of our business.

We also offer an online payment portal that enhances consumer convenience. Through this portal, consumers can interact with us, including by making payments and sending inquiries.

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. In recent years, Cabot has concentrated on buying portfolios that are described as semi-performing in which over 50% of accounts have made a payment in three of the last four months immediately prior to the portfolio purchase. Cabot will try to establish contact with these consumers in order to transfer payment arrangements and gauge the willingness of these consumers to pay. Consumers who Cabot believes are financially incapable of making any payments, those having negative disposable income, or those experiencing hardship (such as medical issues or mental incapacity), are handled outside of normal collections processes.

The remaining pool of accounts then receives further evaluation. At that point, Cabot analyzes and determines a consumer's perceived willingness to pay. Based on that analysis, Cabot pursues collections through letters and/or phone calls to its consumers. Where contact is made and consumers indicate a willingness to pay, a patient approach of forbearance is applied using regulatory protocols within the United Kingdom to assess affordability and ensure that repayment plans are fair and balanced and therefore sustainable. Where 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 or a third-party collection agency or legal action. Historically, legal action was only used by Cabot as a last-resort collection strategy and was typically outsourced to third parties. The acquisition of Marlin now provides Cabot with robust internal legal collection capabilities. Like Cabot, Marlin uses analytics to segment accounts and determine a consumer's willingness and ability to pay. We believe the combined Cabot and Marlin organization will have the opportunity to further improve account collection strategies by sharing industry expertise and addressing consumers across the entire willingness to pay spectrum.

Tax Lien Business

Propel acquires and services residential and commercial tax liens on real property. These liens take priority over most other liens. By funding tax liens, Propel provides state and local taxing authorities and governments with much needed tax revenue. To the extent permitted by local law, Propel works directly with property owners to structure affordable payment plans designed to allow them to keep their property while paying their property tax obligation over time. In such cases, Propel pays

6

Table of Contents

their tax lien obligation to the taxing authority and the property owner pays Propel at a lower interest rate or over a longer period of time than the taxing authority would ordinarily permit. Propel also purchases tax liens in various states directly from taxing authorities, securing rights to outstanding property tax payments, interest and penalties. In most cases, such tax liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase. Based in San Antonio, Texas, Propel is the largest tax lien transfer company in the state of Texas and one of the largest in the nation.

Enterprise Risk Management, Legal and Compliance Oversight United States

Our legal and compliance oversight functions are divided between our legal, compliance and enterprise risk management departments. Our legal department manages regulatory oversight, litigation, corporate transactions, and compliance with our internal ethics policy, while our compliance department tests and monitors adherence to State and Federal regulations and enterprise risk management manages risk and internal audit.

The legal department is responsible for interpreting and administering our Standards of Business Conduct (the “Standards”), which apply to all of our directors, officers, and employees and outlines our commitment to a culture of professionalism and ethical behavior. The Standards promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, compliance with applicable laws, rules and regulations, and full and fair disclosure in reports that we file with, or submit to, the SEC and in other public communications made by us. As described in the Standards, we have also established a toll-free Accounting and Fraud Hotline to allow directors, officers, and employees to report any detected or suspected fraud, misappropriations, or other fiscal irregularities, any good faith concern about our accounting and/or auditing practices, or any other violations of the Standards.

We continually monitor applicable changes to laws governing statutes of limitations and disclosures to consumers. We maintain policies, system controls, and processes designed to ensure that accounts past the applicable statute of limitations do not get placed into legal collections. Additionally, in written and verbal communications with consumers, we provide disclosures to the consumer that the account is past its applicable statute of limitations and, therefore, we will not pursue collections through legal means.

The compliance department is responsible for promoting compliance with applicable laws and regulations. The compliance department facilitates oversight by our Board of Directors and management, formulates policies and procedures, and engages in training, risk assessments, testing, monitoring and corrective action, complaint response, and compliance audits.

The enterprise risk management department is responsible for the development and administration of internal policies, procedures, periodic risk assessments and controls which apply to all of our business units and for performing internal audits to evaluate the level of compliance to both regulations, such as Sarbanes-Oxley 404, and standards of internal control for internal operations. 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, which 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. 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.

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.

Table of Contents

Predictive Dialer Technology. Our upgraded predictive dialer technology continues to accommodate our call centers. The 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 an effort to keep us compliant 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 an industry-leading strong process and control environment. These governance, risk management, and control protocols govern all areas of the enterprise: from physical security and cyber security, to change management, data protection, and segregation of duties.

Competition

United States

The consumer credit recovery industry is highly competitive and fragmented. We compete with a wide range of collection and financial services companies. We also compete with 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 addition, some of our competitors may have signed forward flow contracts under which credit originators or portfolio resellers have agreed to transfer charged-off receivables to them in the future, which could restrict those credit originators or portfolio resellers from selling receivables to us. 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 the price paid for receivable portfolios, 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 are facing difficulties in the portfolio purchasing market because of the higher cost to operate due to increased regulatory pressure and because sellers of charged-off consumer receivables are being more selective with buyers in the marketplace, resulting in consolidation within the portfolio purchasing and recovery industry. We believe this favors larger participants in this market, such as the Company, because the larger market participants are better able to adapt to these pressures. As smaller competitors limit their participation in or exit the market, it may provide additional opportunities for us to purchase receivables from competitors or to acquire competitors directly.

The tax lien industry is highly competitive and fragmented. In Texas, Propel competes primarily on the basis of interest rate, the ease of negotiating and closing the tax liens with the municipality and the consumer, and the

reputation with respect to the quality of services that Propel provides. Outside of Texas, liens are usually sold individually or in bulk to the most competitive bidders, although sometimes the local governments consider non-monetary factors when awarding bulk liens.

International

When purchasing receivables in the United Kingdom market, Cabot competes on the basis of the price paid for receivable portfolios, the ease of negotiating and closing the prospective portfolio purchases with Cabot, its ability to obtain funding, and its reputation with respect to the quality of services it provides. We believe that Cabot's ability to compete effectively in this market is also dependent upon, among other things, Cabot's relationships with credit originators and financial services

Table of Contents

companies, its ability to segment portfolios effectively, its high level of compliance governance controls, and its ability to provide quality collection strategies in compliance with applicable laws.

Similar to certain trends we are observing in the United States, we believe that smaller competitors in the United Kingdom are facing difficulties in the portfolio purchasing market because of the higher cost to operate due to the increased regulatory environment and scrutiny applied by regulators, and also because sellers of charged-off consumer receivables are being more selective with buyers in the marketplace, resulting in consolidation within the portfolio purchasing and recovery industry and the exit of portfolio purchasing and recovery companies from the marketplace. As in the United States, we believe this favors larger participants in the market, such as Cabot, because the larger market participants are better able to adapt to these pressures. As smaller competitors limit their participation in or exit the market, it may provide additional opportunities for us to purchase receivables from competitors or to acquire competitors directly, as we did through Cabot’s acquisition of Marlin in February 2014.

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 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”)
 Electronic Fund Transfer Act
 Equal Credit Opportunity Act
 Fair Credit Billing Act
 Fair Credit Reporting Act (“FCRA”)
 Federal Trade Commission Act (“FTCA”)
 Gramm-Leach-Bliley Act
 Health Insurance Portability and Accountability Act

Servicemembers’ Civil Relief Act
 Telephone Consumer Protection Act
 Truth In Lending Act
 U.S. Bankruptcy Code
 Wire Act
 Credit CARD Act
 Foreign Corrupt Practices 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 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. On November 12, 2013, the CFPB published in the Federal Register an Advance Notice of Proposed Rulemaking seeking comments, data, and information from the public about debt collection practices to help it determine what rules and other CFPB actions, if any, would be useful under the FDCPA and the CFPA.

Table of Contents

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 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. 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. The CFPB is currently examining the collection practices of participants in the consumer debt buying industry. We are currently engaged in discussions with the staff of the CFPB regarding practices and controls relating to our engagement with consumers that could result in a negotiated settlement or litigation. As a result of these discussions or other supervisory or regulatory actions taken by the CFPB, we could agree to pay penalties or restitution and could recognize significant one-time charges or could agree to additional terms that may materially impact our future operations, collections or financial results.

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, and another that focuses on the application of the CFPA's prohibition of "unfair, deceptive, or abusive" acts or practices on debt collection. 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 to the federal statutes detailed above, many states have general consumer protection statutes, and 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 that take effect in 2015, which establish new requirements for collecting debt in the state. In addition, other state, local requirements and court rulings in various jurisdictions also may affect our ability to collect. Moreover, the relationship between consumers and credit card issuers is 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

Table of Contents

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. In June 2013, we completed our merger with Asset Acceptance Capital Corp. (“AACC”), another leading provider of debt recovery solutions in the United States. In January 2012, Asset Acceptance, LLC, a subsidiary of AACC, entered into a consent decree with the FTC. The consent decree ended an FTC investigation into Asset Acceptance, LLC’s compliance with the FTCA, FDCPA, and FCRA. As part of the consent decree, Asset Acceptance, LLC agreed to undertake certain consumer protection practices, including, among other things, furnishing additional disclosures to consumers when collecting debt past the statute of limitations, and paid a civil penalty of \$2,500,000. These practices continue to apply to the portfolios we purchased as a result of the merger with Asset Acceptance Capital Corp. (the “AACC Merger”). We do not expect compliance with the consent decree to have a material effect on our business. 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. 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.

In order to conduct the tax lien business in the State of Texas, our Propel subsidiary is subject to regulation and licensing by the State of Texas Office of Consumer Credit Commissioner. Tax lien transfers and servicing across all markets Propel services are also subject to consumer protection, privacy, and related laws and regulations, including laws and regulations similar to the federal laws and regulations listed above. In addition, there have been assertions that various provisions of the Truth in Lending Act and its implementing regulations apply to Propel’s business operations in certain states, depending on the method by which the Tax Liens are acquired. Propel believes these assertions are without merit.

International

As we expand our international footprint, our operations are increasingly affected by foreign statutes, rules and regulations. It is our policy to comply with these laws in all of our recovery activities. For example, debt collection and debt purchase activities in the United Kingdom are highly regulated by a number of different governmental bodies.

The regulatory regime to which Cabot is subject is currently experiencing a number of substantial changes. The most significant changes include the transfer of responsibility for the regulation of consumer credit businesses in the United Kingdom from the Office of Fair Trading (“OFT”) to the Financial Conduct Authority (“FCA”) which occurred on April 1, 2014; the proposal to have a dedicated pre-action protocol before commencing debt recovery claims in court; and the proposal by the European Commission that substantial changes be made to the European Union data protection regime.

The FCA implemented an interim permission regime whereby businesses that held a consumer credit license were required to register with the FCA for interim permission before March 31, 2014 in order to continue consumer credit activities after April 1, 2014. The interim permission regime is expected to continue until April 1, 2016, and during this time businesses will be called upon at different intervals to apply for authorization to be fully regulated by the FCA. Cabot currently has all regulatory licenses, permissions, registrations, and authorizations in place with the relevant regulatory bodies in order to provide and continue debt purchase and collection activities, including holding interim permission with the FCA. Cabot is in the process of preparing to apply for full authorization with the FCA in order to be fully regulated by the FCA. The FCA may take any one of the following actions with Cabot’s application: (1) the FCA may authorize Cabot to continue debt purchasing, collecting and associated credit activities without further conditions; (2) the FCA may authorize Cabot subject to certain conditions, which will require Cabot to take certain actions to either remediate or comply with the FCA’s conditions; (3) the FCA may require that certain improvements to Cabot’s processes be made as a precursor to authorization, or appoint a skilled person elected by the FCA to investigate, examine and oversee Cabot’s operations, at Cabot’s cost; or (4) the FCA may decline to authorize

Cabot. In addition to the authorization of the business with the FCA, Cabot will be required to apply to the FCA to appoint certain individuals that have significant control or influence over the management of the business, known as “Approved Persons,” who will jointly and severally be liable for the acts and omissions of the company and its business affairs. Approved Persons will be subject to statements of principle and codes of practice established and enforced by the FCA. The FCA may take the following action in connection with the application for Approved Persons: (a) authorize the Approved Person without further conditions; (b) refuse to authorize the Approved Person; (c) request that the applicant undertake further qualifications before it authorizes a person to become an Approved Person; or (d) ban a person from acting as an Approved Person for a period of time or for life.

Table of Contents

The FCA has adopted detailed rules relating to conducting consumer credit activities, in addition to putting in place high level principles and conditions to which it expects businesses and Approved Persons in the sector to adhere. 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, and cease certain products from being collected upon.

Furthermore, the manner in which court claims are conducted in England and Wales in connection with the recovery of debt may be subject to significant changes. In September 2014, the Civil Procedure Rules Committee ("CPRC"), an advisory public body set up by statute and sponsored by the U.K. Ministry of Justice, issued a consultation on proposals to introduce a designated pre-action protocol for court claims for the recovery of debt that would, if adopted in its current form, require all debt collection entities and law firms instructed and acting on behalf of such entities to disclose significant amounts of information relating to the credit agreement and the state of such credit agreement to a consumer prior to being able to progress a claim to court. In some circumstances, issuers of debt may not be able to provide this information, and as neither Cabot nor its competitors currently maintain such documentation to satisfy such obligations, the protocol may limit Cabot's ability to commence Court proceedings to recover a debt. Certain other requirements are proposed, which may significantly increase costs and time in order to initiate a court claim. Cabot, together with other key industry representatives and trade bodies who are all affected by the proposals, has issued a response to the consultation, which is still under consideration. It is anticipated that the CPRC will wish to create a dedicated sub-committee to the pre-action protocol allowing for more engagement of industry stakeholders and consumer group representatives. It is expected that the debt protocol will be released during 2015 or 2016.

In addition, the regulatory regime in the United Kingdom relating to the protection of consumers from unfair terms and practices is subject to change. In January 2014, a Consumer Rights Bill was introduced to the U.K. House of Commons and is currently progressing through the Parliamentary process to become an Act and formal legislation. The Bill represents the most significant overhaul of U.K. consumer law reform in decades and is largely driven by the European Commission's Directive for Consumer Rights. Subject to U.K. Parliamentary approval, it is envisaged that the Bill will become law in October 2015, and once fully enacted it will reform and consolidate much of the general consumer protection law in the United Kingdom and introduce enhanced consumer measures that can be imposed on businesses. Certain elements of the European Commission's Directive for Consumer Rights were incorporated into U.K. law, through regulations, in June 2014 in order for the United Kingdom to comply with the European Union's timescales for implementing certain consumer protection measures while the draft Consumer Rights Bill progresses through Parliament.

Additionally, the Consumer Credit Act of 1974 (and its related regulations) and the Unfair Terms in Consumer Contracts Regulations of 1999 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.

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.

The regulatory regime in the Republic of Ireland is also undergoing significant changes. An Irish Bill, The Consumer Protection (Regulation of Credit Servicing Firms) Bill 2015, released with the intention of regulating credit servicing firms to ensure regulatory protection for consumers following loan book sales was published in January 2015. The bill seeks to address concerns regarding the loss of regulatory protections for borrowers when portfolio of loans are sold and/or serviced to an unregulated entity. It is expected that the Bill will be passed as law in 2015. The bill would require unregulated credit servicing entities to be regulated by the Central Bank of Ireland and adopt regulatory consumer protection codes into their practices, policies and procedures. It is currently proposed that firms will have a three month window in order to apply to become regulated once the bill has been passed as law. Cabot is currently 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. However, it is fully anticipated that Cabot will have to apply to become regulated by the Central Bank for credit servicing activities

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 United States Foreign Corrupt Practices Act, which prohibits United States 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.

12

Table of Contents

Employees

As of December 31, 2014, we had approximately 5,400 employees worldwide. None of our employees is represented by a labor union. We believe that our relations with our employees 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;
- 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 and tax liens 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;

Table of Contents

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.

In recent periods, portfolio prices have been elevated above historical levels, particularly for fresh portfolios, which are those portfolios transacted within six months of the consumers' accounts being charged off by the financial institution. We believe this elevated pricing is due to a reduction in the supply of charged-off accounts and continued strong demand in the marketplace. We believe that the reduction in supply is partially due to shifts in underwriting standards by financial institutions, which have resulted in lower volumes of charged-off accounts. We believe that this reduction in supply is also the result of certain financial institutions temporarily halting or curtailing their sales of charged-off accounts in response to increased regulatory pressure on financial institutions. Although we have seen moderation in certain instances, we expect pricing will remain at elevated levels for some period of time. We are unable to predict the extent to which these financial institutions will re-commence selling charged-off accounts. Financial institutions might not return to selling charged-off accounts at historical levels and certain of them could elect to stop selling charged-off accounts permanently. We are taking measures to improve liquidation rates on our purchased portfolios so that we can achieve satisfactory returns on recently purchased portfolios despite their elevated prices. However, there can be no assurance that these measures will be effective in maintaining returns in line with historical levels, or at all.

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.

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.

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 to generate satisfactory returns, this may adversely affect 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 us. Accounts that we are unable to return to sellers may yield no

Table of Contents

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.

A significant portion of our portfolio purchases during any period may be concentrated with a small number of sellers or resellers, 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 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.

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.

For our U.S. accounts, we use our internally developed statistical 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. For our accounts serviced by Cabot, we use Cabot's internally developed models to project the remaining cash flows from its receivable portfolios. If we are not able to

Table of Contents

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.

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 also freezes 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.

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

As of December 31, 2014, we carry approximately \$897.9 million in goodwill and approximately \$19.6 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.

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 our receivables, 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.

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 or the facilitation of tax liens. For example, there have been assertions that various provisions of the Truth in Lending Act and its implementing regulations apply to Propel's business operations in certain states, depending on the method by which the Tax Liens are acquired. While Propel believes these assertions are without merit, a determination that the Truth in Lending Act applies to any of Propel's operations would subject Propel to new regulatory requirements, which could adversely affect Propel's business, financial condition and operating results.

The implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act has subjected and will continue to subject us to substantial additional federal regulation, and we cannot predict the effect of this regulation on our business, financial condition and operating results.

Federal and state consumer protection, privacy, and related laws and regulations extensively regulate the relationship between debt collectors and consumers. In addition, federal and state laws may limit our ability to purchase or recover on our consumer receivables regardless of any act or omission on our part. On July 21, 2010, the Dodd-Frank Act was enacted. Title X of the Dodd-Frank Act (also referred to as the Consumer Financial Protection act or “CFPA”) established the CFPB. Pursuant to the Dodd-Frank Act, the CFPB has rulemaking, supervisory, enforcement, and other authorities relating to consumer

Table of Contents

financial products and services, including debt collection. We generally are subject to the CFPB's rulemaking, supervisory, and enforcement authority.

Given the uncertainty associated with how provisions of the Dodd-Frank Act will be implemented and enforced by the CFPB and various regulatory agencies, the full extent of the impact that these requirements will have on us is unclear. Changes resulting from the Dodd-Frank Act may affect the profitability of business activities, require changes to certain business practices, or otherwise adversely affect our business. In particular, we expect an increase in the cost of operating due to greater regulatory oversight, supervision, and compliance with consumer debt servicing and collection practices.

Subject to the provisions of the Dodd-Frank Act, the CFPB has responsibility to implement and enforce "federal consumer financial law," and to examine regulated entities for compliance with such law. Those laws include, among others, (1) Title X itself, which prohibits unfair, deceptive, or abusive acts or practices in connection with consumer financial products and services, and (2) "enumerated consumer laws" (and their implementing regulations), which include the FDCPA, the FCRA, and others.

The CFPB's authorities include the ability to issue regulations under various federal statutes that affect the collection industry, including the FDCPA, FCRA, and others. This means, for example, that the CFPB has the ability to adopt rules that interpret any of the provisions of the FDCPA, potentially affecting all facets of debt collection, and our activities. On November 12, 2013, the CFPB published in the Federal Register an Advance Notice of Proposed Rulemaking seeking comments, data, and information from the public about debt collection practices to help it determine what rules and other CFPB actions, if any, would be useful under the FDCPA and the Dodd-Frank Act's general prohibition against unfair, deceptive, and abusive acts or 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, and another that focuses on the application of the CFPA's prohibition of "unfair, deceptive, or abusive" acts or practices on debt collection. 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, and consumer complaints against us could result in reputational damage to us. 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.

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 also conduct hearings and adjudication proceedings, conduct 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 Title X of the Dodd-Frank Act, 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. We are currently engaged in discussions with the staff of the CFPB regarding practices and controls relating to our engagement with consumers that could result in a negotiated settlement or litigation. As a result of these discussions or other supervisory or regulatory actions taken by the CFPB, we could agree to pay penalties or restitution and could recognize significant one-time charges or could agree to additional terms that may materially impact our future operations, collections or financial results.

If the CFPB, the FTC, acting under the FTCA or other applicable statute such as the FDCPA, or one or more state Attorneys General or state regulators believe that we have violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have an adverse effect on our business, financial condition and operating results.

We expect that we will be required to invest significant management attention and resources to continue to evaluate, develop, and make any changes to our policies and procedures necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act or other applicable laws, which may negatively affect our results of operations, cash flows, and our financial condition. However, we cannot predict the scope and substance of the regulations, guidance, and policies ultimately adopted by the CFPB related to our activities. The CFPB continues to initiate rulemakings, issue regulatory guidance and bulletins, and exercise its supervisory and enforcement authority. It is therefore unclear at this time what effect these regulations will have on financial markets generally, original creditors, or our business and service providers; the

Table of Contents

additional costs associated with compliance with these regulations; or what changes, if any, to our operations may be necessary to comply with the CFPB's expectations or the Dodd-Frank Act. Any of these factors could have an adverse effect on our business, financial condition and operating results.

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 U.S. 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.

Investigations or enforcement actions by governmental authorities may result in changes to our business practices, negatively affect our portfolio purchasing volume, make collections more difficult or expose us to the risk of fines, penalties, restitution payments and litigation.

Our business practices may be subject to review from time to time by various governmental authorities. These reviews may involve governmental authority consideration of individual consumer complaints, or could involve a broader review of our debt collection policies and practices. These investigations could lead to assertions by governmental authorities that we are not complying with applicable laws or regulations, in which case authorities may request or seek to impose a range of remedies that could involve potential compensatory or punitive damage claims, fines, restitutionary payments, sanctions or injunctive relief. Government authorities could also request, or we may agree to change, practices that we believe are compliant with applicable law and regulations in order to respond to the concerns of governmental authorities. In addition, negative publicity relating to investigations or proceedings brought by governmental authorities could have an adverse effect on our reputation, could impair our relationships with industry participants, and could result in financial institutions reducing or eliminating sales of portfolios to us. Further, responding to governmental inquiries and investigations and defending lawsuits or other proceedings could require significant expenditures and could divert management's attention from our business operations. Any of the foregoing could have an adverse effect on our business, financial condition and operating results.

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

Cabot's operations are subject to substantial regulations, and the regulatory regime to which it is subject is currently experiencing a number of substantial changes. The most significant changes include the transfer of responsibility for the regulation of consumer credit businesses in the United Kingdom from the Office of Fair Trading ("OFT") to the Financial Conduct Authority ("FCA") on April 1, 2014, and the proposal by the European Commission that substantial changes be made to the European Union data protection regime.

The FCA implemented an interim permission regime whereby businesses that held a consumer credit license with the OFT prior to the FCA taking over responsibility for regulating the consumer credit business must apply to the FCA for a new credit license before March 31, 2014 in order to continue consumer credit activities after April 1, 2014. The interim permission regime is expected to continue until April 1, 2016, and during this time businesses will be called

upon at different intervals to apply for authorization to be fully regulated by the FCA. Cabot currently has all regulatory licenses, permissions, registrations and authorizations in place with the relevant regulatory bodies in order to provide and continue debt purchase and collection activities, including holding interim permission with the FCA. Cabot is in the process of preparing to apply for full authorization with the FCA in order to be fully regulated by the FCA. The FCA may take any one of the following actions with Cabot's application: (1) the FCA may authorize Cabot to continue debt purchasing, collecting and associated credit activities without further conditions; (2) the FCA may authorize Cabot subject to certain conditions which will require Cabot to take certain actions to either remediate or comply with the

Table of Contents

FCA's conditions; (3) the FCA may require that certain improvements to Cabot's processes be made as a precursor to authorization, or appoint a skilled person elected by the FCA to investigate, examine and oversee Cabot's operations, at Cabot's cost; or (4) the FCA may decline to authorize Cabot. In addition to the authorization of the business with the FCA, Cabot will be required to apply to the FCA to appoint certain individuals that have significant control or influence over the management of the business, known as "Approved Persons," who will jointly and severally be liable for the acts and omissions of the company and its business affairs. Approved Persons will be subject to statements of principle and codes of practice established and enforced by the FCA. The FCA may take the following action in connection with the application for Approved Persons: (1) authorize the Approved Person without further conditions; (2) refuse to authorize the Approved Person; (3) request that the applicant undertake further qualifications before it authorizes a person to become an Approved Person; or (4) ban a person from acting as an Approved Person for a period of time or for life.

The FCA has adopted detailed rules relating to conducting consumer credit activities, in addition to putting in place high level principles and conditions to which it expects businesses and Approved Persons in the sector to adhere. 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, and cease certain products from being collected upon.

Furthermore, the regulatory regime in the United Kingdom relating to the protection of consumers from unfair terms and practices is subject to change. In January 2014, a Consumer Rights Bill was introduced to the U.K. House of Commons and is currently progressing through the Parliamentary process to become an Act and formal legislation. The Bill represents the most significant overhaul of U.K. consumer law reform in decades and is largely driven by the European Commission's Directive for Consumer Rights. It envisaged that the Bill will become law in October 2015, and once fully enacted it will reform and consolidate much of the general consumer protection law in the United Kingdom and introduce enhanced consumer measures that can be imposed on businesses. Certain elements of the European Commission's Directive for Consumer Rights were incorporated into U.K. law, through regulations, in June 2014 in order for the United Kingdom to comply with the European Union's timescales for implementing certain consumer protection measures while the draft Consumer Rights Bill progresses through Parliament.

Finally, the manner in which court claims are conducted in England and Wales in connection with the recovery of debt may be subject to significant changes. In September 2014, the Civil Procedure Rules Committee, an advisory public body set up by statute and sponsored by the U.K. Ministry of Justice, issued a consultation on proposals to introduce a designated pre-action protocol for court claims for the recovery of debt that would, if adopted in its current form, require all debt collection entities and law firms instructed and acting on behalf of such entities to disclose significant amounts of information relating to the credit agreement and the state of such credit agreement to a consumer prior to being able to progress a claim to court. In some circumstances, issuers of debt may not be able to provide this information, and as neither Cabot nor its competitors currently maintain such documentation to satisfy such obligations, the protocol may limit Cabot's ability to commence court proceedings to recover a debt.

It is not yet possible to predict the precise impact that the above-referenced changes will have on Cabot. It is likely that the rules and regulations applicable to Cabot, and the burden of regulatory scrutiny to which Cabot is subject, will continue to increase. The FCA's imposition of additional requirements on Cabot's operations or failure to authorize Cabot's collection activities, the addition or reinterpretation of any laws, rules, regulations, or protocols and the enforcement of them, 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.

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.

Table of Contents

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.

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, 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.

Our network of third-party agencies and attorneys may not utilize amounts collected on our behalf or amounts we advance for court costs in the manner for which they were intended.

In the normal course of operations, our third-party collection agencies and attorneys collect funds on our behalf. These third parties may fail to remit amounts owed to us in a timely manner or at all. Additionally, we advance court costs to our third-party attorneys, which are intended for their use in filing lawsuits on our behalf. These third-party attorneys may misuse some or all of the funds we advance to them. Our ability to recoup our funds may be diminished if these third parties become insolvent or enter into bankruptcy proceedings. If we are not able to recover these funds, our business, financial condition and operating results may be adversely affected.

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.

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

Table of Contents

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.

We may make acquisitions that prove unsuccessful or our time spent on mergers, acquisitions or joint venture activities may strain or divert our resources.

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. We may not be able to successfully acquire other businesses and 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. 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. In addition, our time spent on mergers and acquisitions activities and integrating acquired businesses may place additional constraints on our resources and divert the attention of our management from other business concerns, which may adversely affect our business, financial condition and operating results.

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.

Regulatory, political, and economic conditions in the foreign countries in which we operate or may operate in the future expose us to risk, including loss of business.

A significant element of our business strategy is to continue to develop and expand operations in countries outside of the United States. While wage costs in certain countries in which we operate or may operate in the future are significantly lower than in the United States, the United Kingdom and other industrialized countries for comparably skilled workers, wages are increasing at a faster rate than in the United States or the United Kingdom, and we experience or may experience higher employee turnover in operations in those countries than is typical in our U.S. or U.K. locations. The continuation of these trends could reduce the cost savings we sought to achieve by establishing a portion of our operations outside of the United States. We may be adversely affected by changes in inflation, exchange rate fluctuations, interest rates, tax provisions, social stability or other political, economic or diplomatic developments in or affecting these countries in the future. Changes in the business or regulatory climate of these countries could have an adverse effect on our 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

21

Table of Contents

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;
- increased exposure to U.S. laws that apply abroad, such as the Foreign Corrupt Practices Act and 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;
- 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 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 security breach, 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 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.

Table of Contents

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 or 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 may adversely affect our results of operations, cash flows or financial condition.

We are subject to taxes in the United States and, increasingly, 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. Accordingly, taxes could have an adverse effect on our results of operations, cash flows or financial condition.

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 10 “Debt” to our consolidated financial statements, as of December 31, 2014, our total long-term indebtedness outstanding was approximately \$2.8 billion, which includes \$1.5 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;

- 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

Table of Contents

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, subject to the restrictions contained in our debt instruments, (some of which may be secured indebtedness under our Second Amended and Restated Credit Agreement (the “Restated Credit Agreement”). We will not be 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 are not limited by the terms of the indentures governing our convertible notes that could have the effect of diminishing our ability to make payments on our indebtedness. Our revolving credit facility and term loan facility (the “Credit Facility”) under the Restated Credit Agreement currently limits the ability of us and certain of our subsidiaries to incur additional indebtedness; however, if that facility is repaid or matures, 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.

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.

Propel may be unable to securitize additional tax lien assets.

On May 6, 2014, Propel, through its subsidiaries, completed the securitization of a pool of approximately \$141.5 million in payment agreements and contracts relating to unpaid real property taxes, assessments, and other charges secured by liens on real property located in the State of Texas (the “Texas Tax Liens”). In connection with the securitization, investors purchased approximately \$134.0 million in aggregate principal amount of 1.44% notes collateralized by the Texas Tax Liens. The transaction provided capital to Propel at a lower cost than other available financing alternatives. Market conditions or other factors may dictate an inability for Propel to securitize additional tax lien assets in the future, in which case Propel may need to resort to other, more costly, sources of capital to fund its operations which could, in turn, adversely affect Propel’s 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 2014, our stock price has ranged from a low of \$39.62 on December 12, 2014 to a high of \$51.31 on February 14, 2014. 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;

Table of Contents

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-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 our convertible senior notes due 2017. 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. For the three months ended December 31, 2014, the average daily trading volume of our common stock was approximately 255,400 shares. 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 adversely affect the market price of our common 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 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

25

Table of Contents

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. A default under any indenture could constitute a default under another indenture or our Restated Credit Agreement, and any such default or the fundamental change itself could also lead to a default under the Restated Credit Agreement or agreements governing our future indebtedness which would, in turn, adversely affect our business.

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. 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 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

Table of Contents

condition, operating results, capital requirements, restrictions contained in current or future financing instruments and such other factors as our Board of Directors deems relevant.

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, call center, internal legal and consumer support services	136,000
Phoenix, AZ	Call center and administrative offices	32,000
St. Cloud, MN	Call center	46,000
Gurgaon, India	Call center and administrative offices	155,000
Warren, MI	Call center and internal legal	100,000
Roanoke, VA	Call center and administrative offices	40,000
San Jose, Costa Rica	Call center and administrative offices	32,000
United Kingdom	Cabot corporate office, call center, internal legal and consumer support services	73,000

The properties listed in the table above are our principal properties and are primarily used in our portfolio purchasing and recovery business. We also lease other immaterial office space in the United States, United Kingdom, Ireland, Spain, Colombia, and Peru.

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 14, “Commitments and Contingencies,” to the consolidated financial statements in Item 8, which is incorporated herein by reference.

Item 4—Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5—Market for the Registrant’s Common Equity Securities, 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 2014		
First Quarter	\$51.31	\$45.05
Second Quarter	46.78	40.62
Third Quarter	46.40	42.04
Fourth Quarter	46.18	39.62
Fiscal Year 2013		
First Quarter	\$33.07	\$27.88
Second Quarter	38.66	26.84
Third Quarter	46.97	32.68
Fourth Quarter	51.95	44.34

The closing price of our common stock on February 11, 2015, was \$40.30 per share and there were 9 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, 2009 through December 31, 2014, with the cumulative total return of (a) the NASDAQ 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, 2009, in our common stock and in each of the comparison indices. The stock price performance on the following graph is not necessarily indicative of future stock performance.

Table of Contents

	12/09	12/10	12/11	12/12	12/13	12/14
Encore Capital Group, Inc.	100.00	134.77	122.18	175.98	288.85	255.17
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
Peer Group	100.00	161.02	145.90	225.91	326.48	357.18

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 financing facilities.

Table of Contents

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 report. The selected 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, 2012, 2011, and 2010 and for the years ended December 31, 2011 and 2010, 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, 2014, and 2013 and for the years ended December 31, 2014, 2013, and 2012, 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,				
	2014	2013	2012	2011	2010
Revenues					
Revenue from receivable portfolios, net ⁽¹⁾	\$992,832	\$744,870	\$545,412	\$448,714	\$364,294
Other revenues	51,988	12,588	905	32	72
Net interest income	27,969	15,906	10,460	—	—
Total revenues	1,072,789	773,364	556,777	448,746	364,366
Operating expenses					
Salaries and employee benefits	246,247	165,040	101,084	77,805	64,077
Cost of legal collections	205,661	186,959	168,703	157,050	121,085
Other operating expenses	93,859	66,649	48,939	35,708	32,055
Collection agency commissions	33,343	33,097	15,332	14,162	20,385
General and administrative expenses	146,286	109,713	61,798	39,760	29,798
Depreciation and amortization	27,949	13,547	5,840	4,081	2,552
Total operating expenses	753,345	575,005	401,696	328,566	269,952
Income from operations	319,444	198,359	155,081	120,180	94,414
Other (expense) income					
Interest expense	(166,942)	) (73,269)	) (25,564)	) (21,116)	) (19,349)
Other income (expense)	113	(4,222)	) 808	(395)	) 296
Total other expense	(166,829)	) (77,491)	) (24,756)	) (21,511)	) (19,053)
Income from continuing operations before income taxes	152,615	120,868	130,325	98,669	75,361
Provision for income taxes	(52,725)	) (45,388)	) (51,754)	) (38,076)	) (27,967)
Income from continuing operations	99,890	75,480	78,571	60,593	47,394
(Loss) income from discontinued operations, net of tax	(1,612)	) (1,740)	) (9,094)	) 365	1,658
Net income	98,278	73,740	69,477	60,958	49,052
Net loss attributable to noncontrolling interest	5,448	1,559	—	—	—
Net income attributable to Encore Capital Group, Inc. stockholders	\$103,726	\$75,299	\$69,477	\$60,958	\$49,052
Amounts attributable to Encore Capital Group, Inc.:					
Income from continuing operations	105,338	77,039	78,571	60,593	47,394
(Loss) income from discontinued operations, net of tax	(1,612)	) (1,740)	) (9,094)	) 365	1,658
Net income	\$103,726	\$75,299	\$69,477	\$60,958	\$49,052

Table of Contents

	As of and For The Year Ended December 31,				
	2014	2013	2012	2011	2010
Earnings (loss) per share attributable to Encore Capital Group, Inc.:					
Basic earnings (loss) per share from:					
Continuing operations	\$4.07	\$3.12	\$3.16	\$2.47	\$1.98
Discontinued operations	\$(0.06)	) \$(0.07)	) \$(0.36)	) \$0.01	\$0.07
Net basic earnings per share	\$4.01	\$3.05	\$2.80	\$2.48	\$2.05
Diluted earnings (loss) per share from:					
Continuing operations	\$3.83	\$2.94	\$3.04	\$2.36	\$1.89
Discontinued operations	\$(0.06)	) \$(0.07)	) \$(0.35)	) \$0.01	\$0.06
Net diluted earnings per share	\$3.77	\$2.87	\$2.69	\$2.37	\$1.95
Weighted-average shares outstanding:					
Basic	25,853	24,659	24,855	24,572	23,897
Diluted	27,495	26,204	25,836	25,690	25,091
Selected operating data:					
Purchases of receivable portfolios, at cost	\$1,251,360	\$1,204,779	\$562,335	\$386,850	\$361,957
Gross collections for the period	1,607,497	1,279,506	948,055	761,158	604,609
Consolidated statements of financial condition data:					
Cash and cash equivalents	\$124,163	\$126,213	\$17,510	\$8,047	\$10,905
Investment in receivable portfolios, net	2,143,560	1,590,249	873,119	716,454	644,753
Total assets	3,750,135	2,685,274	1,171,340	812,483	736,468
Total debt	2,773,554	1,850,431	706,036	388,950	385,264
Total liabilities	3,085,196	2,082,803	765,524	440,948	433,771
Total Encore equity	623,000	571,897	405,816	371,535	302,697

Includes net allowance reversal of \$17.4 million, \$12.2 million and \$4.2 million for the years ended December 31, (1)2014, 2013 and 2012, respectively, and net allowance charges of \$10.8 million and \$22.2 million for the years ended December 31, 2011, and 2010, respectively.

Table of Contents

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 and Operating Segments

We are an international specialty finance company providing debt recovery solutions for consumers and property owners across a broad range of financial assets. We purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings. Through certain subsidiaries, we are a market leader in portfolio purchasing and recovery in the United States, including Puerto Rico. Our subsidiary, Janus Holdings Luxembourg S.a.r.l. (“Janus Holdings”), through its indirectly held United Kingdom-based subsidiary Cabot Credit Management Limited and its subsidiaries (“Cabot”), is a market leader in debt management in the United Kingdom, historically specializing in portfolios consisting of higher balance, semi-performing accounts (i.e., debt portfolios in which over 50% of the accounts have received a payment in three of the last four months immediately prior to the portfolio purchase). Cabot’s 2014 acquisition of Marlin Financial Group Limited (“Marlin”) provided Cabot with substantial litigation-enhanced collections capabilities for non-performing accounts. Our majority-owned subsidiary, Grove Holdings (“Grove”), is a U.K.-based leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or “IVAs”) in the United Kingdom and bank and non-bank receivables in Spain. Our majority-owned subsidiary, Refinancia S.A. (“Refinancia”), is a market leader in the management of non-performing loans in Colombia and Peru. In addition, through our subsidiary, Propel Financial Services, LLC and its subsidiaries (collectively, “Propel”), we assist property owners who are delinquent on their property taxes by structuring affordable monthly payment plans and purchase delinquent tax liens directly from selected taxing authorities.

We conduct business through two reportable segments: portfolio purchasing and recovery, and tax lien business. The operating results from our tax lien business segment are immaterial to our total consolidated operating results. However, the total segment assets are significant as compared to our total consolidated assets. As a result, in accordance with authoritative guidance on segment reporting, our tax lien business segment is determined to be a reportable segment.

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

As discussed in more detail under “Part I - Item1 - Business” in this Annual Report on Form 10-K, our U.S. debt purchasing business and collection activities are subject to federal, state and municipal statutes, rules, regulations and ordinances that establish specific guidelines and procedures that debt purchasers and collectors must follow when collecting consumer accounts, including among others, specific guidelines and procedures for communicating with consumers and prohibitions on unfair, deceptive or abusive debt collection practices. These rules, regulations, guidelines and procedures are

Table of Contents

modified from time to time by the relevant authorities charged with their administration which could affect the way we conduct our business. In particular, the Consumer Finance Protection Bureau (“CFPB”) may adopt new regulations that may affect our industry and our business. Additionally, the CFPB has supervisory, examination and enforcement authority over our business and is currently examining the collection practices of participants in the consumer debt buying industry. We are currently engaged in discussions with the staff of the CFPB regarding practices and controls relating to our engagement with consumers that could result in a negotiated settlement or litigation. As a result of these discussions or other supervisory or regulatory actions taken by the CFPB, it is reasonably possible that we could agree to pay penalties or restitution and could recognize pre-tax charges of in excess of \$35 million and or could agree to additional terms that may materially impact our future operations, collections or financial results.

Portfolio Purchasing and Recovery

United States. Our portfolio purchasing and recovery segment purchases receivables based on robust, account-level valuation methods and employs proprietary statistical and behavioral models across our U.S. operations. These investments allow us to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with our methods or goals and align the accounts we purchase with our business channels to maximize future collections. As a result, we have been able to realize significant returns from the receivables we acquire. We maintain strong relationships with many of the largest credit and telecommunication providers in the United States and believe we possess one of the industry’s best collection staff retention rates.

While seasonality does not have a material impact on our portfolio purchasing and recovery segment, 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 with respect to our portfolio purchasing and recovery segment 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.

On August 6, 2014, we acquired all of the outstanding equity interests of Atlantic Credit & Finance, Inc. (“Atlantic”) pursuant to a stock purchase agreement (the “Atlantic Acquisition”). Atlantic acquires and liquidates fresh consumer finance receivables originated and charged off by U.S. financial institutions.

Europe. Through Cabot, we purchase primarily semi-performing receivable portfolios using a proprietary pricing model that utilizes account-level statistical and behavioral data. This model allows Cabot to value portfolios accurately 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 service providers in the United Kingdom.

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.

On February 7, 2014, Cabot acquired Marlin (the “Marlin Acquisition”), a leading acquirer of non-performing consumer debt in the United Kingdom. Marlin is differentiated by its proven competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables. Marlin’s litigation capabilities have benefited and will continue to

Table of Contents

benefit Cabot's existing portfolio of non-performing accounts. Similarly, we have experienced synergies by applying Cabot's scoring model to Marlin's portfolio since the acquisition.

On April 1, 2014, we completed the acquisition of a controlling equity ownership interest in Grove. Grove, through its subsidiaries, is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, IVAs) in the United Kingdom and bank and non-bank receivables in Spain. To date, operating results from Grove have been immaterial to our total consolidated operating results.

Latin America. In December 2013, we acquired a majority ownership interest in Refinancia, a market leader in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including providing financial solutions to individuals who have previously defaulted on their obligations, payment plan guarantee and factoring services to merchants and loan guarantee services to financial institutions. In addition to our operations in Colombia and Peru, we evaluate the purchase of non-performing loans in other countries in Latin America from time to time. To date, operating results from Latin America have been immaterial to our total consolidated operating results.

Tax Lien Business

Our tax lien business segment focuses on the property tax financing industry. Propel acquires and services residential and commercial tax liens on real property. These liens take priority over most other liens. To the extent permitted by local law, Propel works directly with property owners to structure affordable payment plans designed to allow them to keep their property while paying their property tax obligation over time. In such cases, Propel pays their tax lien obligation to the taxing authority and the property owner pays Propel at a lower interest rate or over a longer period of time than the taxing authority would ordinarily permit. Propel also purchases tax liens in various states directly from taxing authorities, securing rights to outstanding property tax payments, interest and penalties. In most cases, such tax liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase. In May 2014, Propel acquired a portfolio of tax liens and other assets in a transaction valued at approximately \$43.0 million. The transaction strengthened Propel's established servicing platform and expanded Propel's operations to 22 states.

Revenue from our tax lien business segment comprised 3% and 2% of total consolidated revenues for each of the years ended December 31, 2014 and 2013, respectively. Operating income from our tax lien business segment comprised 3% and 2% of our total consolidated operating income for the years ended December 31, 2014 and 2013, respectively.

Purchases and Collections

Portfolio Pricing, Supply and Demand

United States Markets

Prices for portfolios offered for sale directly from credit issuers continued to remain elevated during 2014, especially for fresh portfolios. Fresh portfolios are portfolios that are generally transacted within six months of the consumer's account being charged-off by the financial institution. We believe this elevated pricing is due to a reduction in the supply of charged-off accounts and continued demand in the marketplace. We believe that the reduction in supply is partially due to shifts in underwriting standards by financial institutions, which have resulted in lower volumes of charged-off accounts. We believe that this reduction in supply is also the result of certain financial institutions temporarily halting their sales of charged-off accounts. Although we have seen moderation in certain instances, we expect pricing will remain at elevated levels for some period of time.

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

Table of Contents

European Markets

The United Kingdom market 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. We anticipate modest growth in supply in 2015. 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 also believe that as Cabot's business increases in scale, and with anticipated improvements in liquidation and improved efficiencies in collections, Cabot's margins will remain competitive. Additionally, the acquisition of Marlin resulted in a new liquidation channel for the Company through litigation, which is enabling Cabot to collect from consumers who have the ability to pay, but have so far been unwilling to do so. This further complements Cabot's strength in collecting on semi-performing debt, where consumers have a greater willingness to pay.

Purchases by Type

The following table summarizes the types of charged-off consumer receivable portfolios we purchased for the periods presented (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Europe:			
Credit card ⁽¹⁾	\$632,256	\$620,900	\$—
United States:			
Credit card ⁽²⁾	525,813	495,473	388,205
Consumer bankruptcy receivables ⁽²⁾	—	39,897	83,578
Telecom	—	18,876	83,353
Latin America:			
Mortgages ⁽³⁾	56,754	—	—
Credit card	36,537	29,633	7,199
	\$1,251,360	\$1,204,779	\$562,335

(1) Purchases of consumer portfolio receivables in Europe for the year ended December 31, 2014 include \$208.5 million acquired in connection with the Marlin Acquisition and \$5.4 million for IVAs. Purchases of consumer portfolio receivables in Europe for the year ended December 31, 2013 include \$559.0 million acquired in connection with our acquisition of a controlling interest in Cabot (the "Cabot Acquisition").

(2) Purchases of consumer portfolio receivables in the United States for the year ended December 31, 2014 include \$105.4 million acquired in connection with the Atlantic Acquisition. Purchases of consumer portfolio receivables in the United States for the year ended December 31, 2013 include \$383.4 million acquired in connection with the AACC Merger (\$347.7 million for credit card and \$35.7 million for consumer bankruptcy receivables).

(3) Beginning in December 2014 we began investing in non-performing secured residential mortgages in Latin America.

During the year ended December 31, 2014, we invested \$1.3 billion to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating \$13.8 billion, for an average purchase price of 9.1% of face value. Purchases of charged-off credit card portfolios include \$105.4 million acquired in connection with the Atlantic Acquisition. During the year ended December 31, 2013, we invested \$1.2 billion to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating \$84.9 billion, for an average purchase price of 1.4% of face value. Purchases of charged-off credit card portfolios include \$383.4 million and \$559.0 million acquired in connection with the AACC Merger and the Cabot Acquisition, respectively. During the year ended December 31, 2012, we invested \$562.3 million to acquire portfolios with a face value aggregating \$18.5 billion, for an average purchase price of 3.0% of face value.

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

portfolios. The \$384.3 million of portfolios we acquired through the AACC Merger significantly drove down the purchase price as a percentage of face value for portfolios acquired during the year ended December 31, 2013. The lower purchase rate for the AACC portfolios was due to our acquisition of all accounts owned by AACC, including accounts where we ascribed no value and where we did not attempt to collect. Accounts with no perceived value would typically not be included in a portfolio purchase transaction, as the sellers would remove them from the accounts being sold to us prior to sale.

The increase in purchase price as a percentage of face value for the year ended December 31, 2014 compared to prior periods was primarily related to the AACC portfolios acquired in 2013 as discussed above, our acquisition of a higher

Table of Contents

percentage of fresh portfolios, the acquisition of more semi-performing debt in the U.K., and a general increase in the price of portfolios offered for sale directly from credit issuers.

Collections by Channel

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

	Year Ended December 31,		
	2014	2013	2012
United States:			
Legal collections	\$610,285	\$564,645	\$448,377
Collection sites	502,829	465,974	442,083
Collection agencies ⁽¹⁾	79,699	114,628	57,595
Subtotal	1,192,813	1,145,247	948,055
Europe:			
Legal collections	42,456	—	—
Collection sites	221,771	74,916	—
Collection agencies	120,629	59,343	—
Subtotal	384,856	134,259	—
Latin America:			
Collection sites	29,828	—	—
Total collections	\$1,607,497	\$1,279,506	\$948,055

Collections through our collection agency channel in the United States include accounts subject to bankruptcy filings collected by others. Additionally, collection agency collections often include accounts purchased from a competitor where we maintain the collection agency servicing until the accounts can be recalled and placed in our collection channels.

Gross collections increased \$328.0 million, or 25.6%, to \$1.6 billion during the year ended December 31, 2014, from \$1.3 billion during the year ended December 31, 2013. Gross collections increased \$331.5 million, or 35.0%, to \$1.3 billion during the year ended December 31, 2013, from \$948.1 million during the year ended December 31, 2012. The increases in gross collections were primarily due to increased portfolio purchases in the current and prior years and additional collections from our recently acquired subsidiaries.

Table of Contents

Results of Operations

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

	Year Ended December 31,								
	2014		2013		2012				
Revenues									
Revenue from receivable portfolios, net	\$992,832	92.5	%	\$744,870	96.3	%	\$545,412	98.0	%
Other revenues	51,988	4.9	%	12,588	1.6	%	905	0.1	%
Net interest income	27,969	2.6	%	15,906	2.1	%	10,460.0	1.9	%
Total revenues	1,072,789	100.0	%	773,364	100.0	%	556,777	100.0	%
Operating expenses									
Salaries and employee benefits	246,247	23.0	%	165,040	21.3	%	101,084	18.2	%
Cost of legal collections	205,661	19.2	%	186,959	24.2	%	168,703	30.3	%
Other operating expenses	93,859	8.7	%	66,649	8.6	%	48,939	8.8	%
Collection agency commissions	33,343	3.1	%	33,097	4.3	%	15,332	2.7	%
General and administrative expenses	146,286	13.6	%	109,713	14.2	%	61,798	11.1	%
Depreciation and amortization	27,949	2.6	%	13,547	1.8	%	5,840	1.0	%
Total operating expenses	753,345	70.2	%	575,005	74.4	%	401,696	72.1	%
Income from operations	319,444	29.8	%	198,359	25.6	%	155,081	27.9	%
Other (expense) income									
Interest expense	(166,942	) (15.6	)%	(73,269	) (9.5	)%	(25,564	) (4.6)%
Other income (expense)	113	0.0	%	(4,222	) (0.5	)%	808	0.1	%
Total other expense	(166,829	) (15.6	)%	(77,491	) (10.0	)%	(24,756	) (4.5)%
Income from continuing operations before income taxes	152,615	14.2	%	120,868	15.6	%	130,325	23.4	%
Provision for income taxes	(52,725	) (4.9	)%	(45,388	) (5.9	)%	(51,754	) (9.3)%
Income from continuing operations	99,890	9.3	%	75,480	9.7	%	78,571	14.1	%
Loss from discontinued operations, net of tax	(1,612	) (0.1	)%	(1,740	) (0.2	)%	(9,094	) (1.6)%
Net income	98,278	9.2	%	73,740	9.5	%	69,477	12.5	%
Net loss attributable to noncontrolling interest	5,448	0.5	%	1,559	0.2	%	—	0.0	%
Net income attributable to Encore shareholders	\$103,726	9.7	%	\$75,299	9.7	%	\$69,477	12.5	%

Table of Contents

Results of Operations—Cabot

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

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Janus Holdings	Encore Europe ⁽¹⁾	Consolidated	Janus Holdings	Encore Europe ⁽¹⁾	Consolidated
Total revenues	\$286,630	\$—	\$ 286,630	\$95,491	\$—	\$ 95,491
Total operating expenses	(150,349)	—	(150,349)	(48,890)	—	(48,890)
Income from operations	136,281	—	136,281	46,601	—	46,601
Interest expense-non-PEC	(96,426)	—	(96,426)	(26,265)	—	(26,265)
PEC interest (expense) income	(43,624)	21,201	(22,423)	(21,616)	10,235	(11,381)
Other (expense) income	(646)	—	(646)	98	—	98
(Loss) income before income taxes	(4,415)	21,201	16,786	(1,182)	10,235	9,053
Provision for income taxes	(3,241)	—	(3,241)	(1,574)	—	(1,574)
Net (loss) income	(7,656)	21,201	13,545	(2,756)	10,235	7,479
Net loss attributable to noncontrolling interests	1,108	3,267	4,375	392	1,167	1,559
Net (loss) income attributable to Encore	\$(6,548)	\$24,468	\$ 17,920	\$(2,364)	\$11,402	\$ 9,038

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

The net losses recognized at Janus Holdings during the respective periods were due to the fact that Janus Holdings recognizes 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 is recognized at Janus Holdings’ parent company, Encore Europe Holdings, S.a.r.l. (“Encore Europe”), which is a wholly-owned subsidiary of Encore.

Non-GAAP Disclosure

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

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

Adjusted Income from Continuing Operations Per Share. Management uses non-GAAP adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations per share (which we also refer to from time to time as adjusted earnings per share), to assess operating performance, in order to highlight trends in our business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP. Adjusted income from continuing operations attributable to Encore excludes non-cash interest and issuance cost amortization relating to our convertible notes, one-time charges and acquisition and integration related expenses, all net of tax. The following table provides a reconciliation between income from continuing operations and diluted income from continuing operations per share attributable to Encore calculated in accordance with GAAP to adjusted income from continuing operations and adjusted income from continuing operations per share attributable to Encore,

respectively. GAAP diluted earnings per share for the years ended December 31, 2014 and 2013, includes the effect of approximately 1.1 million and 0.6 million, respectively, common shares that are issuable upon conversion of certain convertible senior notes because the average stock price during the respective periods exceeded the conversion price of these notes. However, as described in Note 10, "Debt—Encore Convertible Senior Notes," in the notes to our consolidated financial statements, we have certain hedging transactions in place that have the effect of increasing the effective conversion price of these notes. Accordingly, while these common shares are included in our diluted

Table of Contents

earnings per share, the hedge transactions will offset the impact of this dilution and no shares will be issued unless our stock price exceeds the effective conversion price, thereby creating a discrepancy between the accounting effect of those notes under GAAP and their economic impact. We have presented the following metrics both including and excluding the dilutive effect of these convertible senior notes to better illustrate the economic impact of those notes and the related hedging transactions to shareholders, with the GAAP item under the “Per Diluted Share-Accounting” and “Per Diluted Share-Economic” columns, respectively (in thousands, except per share data):

	Year Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	2014	Per Diluted		2013	Per Diluted		2012	Per Diluted	
	\$	Share—	Per Diluted	\$	Share—	Per Diluted	\$	Share—	Per Diluted
		Accounting	Share—		Accounting	Share—		Accounting	Share—
			Economic			Economic			Economic
GAAP net income from continuing operations attributable to Encore, as reported	\$105,338	\$ 3.83	\$ 3.99	\$77,039	\$ 2.94	\$ 3.01	\$78,571	\$ 3.04	\$ 3.04
Adjustments:									
Convertible notes non-cash interest and issuance cost amortization, net of tax	6,413	0.23	0.24	3,274	0.12	0.13	191	0.01	0.01
Acquisition and integration related expenses, net of tax	9,898	0.36	0.37	16,285	0.63	0.64	2,567	0.10	0.10
Acquisition related other expenses, net of tax	—	—	—	2,198	0.08	0.08	—	—	—
Net effect of non-recurring tax adjustments	(2,291)	(0.08)	(0.08)	—	—	—	—	—	—
Adjusted income from continuing operations attributable to Encore	\$119,358	\$ 4.34	\$ 4.52	\$98,796	\$ 3.77	\$ 3.86	\$81,329	\$ 3.15	\$ 3.15

Adjusted EBITDA. Management utilizes adjusted EBITDA (defined as net income before interest, taxes, depreciation and amortization, stock-based compensation expenses, portfolio amortization, one-time charges, and acquisition and integration related expenses), which is materially similar to a financial measure contained in covenants used in the Encore revolving credit and term loan facility, in the evaluation of our operations and believes that this measure is a useful indicator of our ability to generate cash collections in excess of operating expenses through the liquidation of our receivable portfolios. Adjusted EBITDA for the periods presented is as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
GAAP net income, as reported	\$98,278	\$73,740	\$69,477
Adjustments:			
Loss from discontinued operations, net of tax	1,612	1,740	9,094
Interest expense	166,942	73,269	25,564
Provision for income taxes	52,725	45,388	51,754
Depreciation and amortization	27,949	13,547	5,840
Amount applied to principal on receivable portfolios	614,665	534,654	402,594
Stock-based compensation expense	17,181	12,649	8,794

Edgar Filing: ENCORE CAPITAL GROUP INC - Form 10-K

Acquisition and integration related expenses	19,299	25,691	4,263
Acquisition related other expenses	—	3,630	—
Adjusted EBITDA	\$998,651	\$784,308	\$577,380

39

Table of Contents

Adjusted Operating Expenses. Management utilizes adjusted operating expenses in order to facilitate a comparison of approximate cash costs to cash collections for our portfolio purchasing and recovery business. Adjusted operating expenses for our portfolio purchasing and recovery business are calculated by starting with GAAP total operating expenses and backing out stock-based compensation expense, operating expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition and integration related operating expenses. Operating expenses related to non-portfolio purchasing and recovery business include operating expenses from our tax lien business and other non-reportable operating segments, as well as corporate overhead not related to our portfolio purchasing and recovery business. Adjusted operating expenses related to our portfolio purchasing and recovery business for the periods presented are as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
GAAP total operating expenses, as reported	\$753,345	\$575,005	\$401,696
Adjustments:			
Stock-based compensation expense	(17,181	) (12,649	) (8,794
Operating expenses related to non-portfolio purchasing and recovery business	(97,165	) (36,511	) (9,291
Acquisition and integration related expenses	(19,299	) (25,691	) (4,263
Adjusted operating expenses	\$619,700	\$500,154	\$379,348

Comparison of Results of Operations

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenues

Our revenues consist primarily of portfolio revenue, contingent fee income, and net interest income from our tax lien business.

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 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 incur allowance charges when actual cash flows from our receivable portfolios underperform compared to our expectations. Factors that may contribute to underperformance and to the recording of valuation allowances may include both internal as well as external factors. 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. Internal factors that may have an impact on our collections include operational activities such as the productivity of our collection staff. We record allowance reversals on pool groups which have historic allowance reserves when actual cash flows from these receivable portfolios outperform our expectations. Allowance reversals are included in portfolio revenue.

Interest income, net of related interest expense represents net interest income on receivables secured by property tax liens.

Table of Contents

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

	Year Ended December 31, 2014				As of December 31, 2014			
	Collections ⁽¹⁾	Gross Revenue ⁽²⁾	Revenue Recognition Rate ⁽³⁾	Net Portfolio Allowance Reversal	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR	
United States ⁽⁴⁾ :								
ZBA ⁽⁵⁾	\$34,491	\$22,271	64.6	% \$12,229	2.3	% \$—	—	
2006	3,067	601	19.6	% —	0.1	% —	—	
2007	7,971	3,316	41.6	% 1,612	0.3	% 2,603	4.8	%
2008	27,715	14,939	53.9	% 3,566	1.5	% 8,400	8.6	%
2009	52,661	39,586	75.2	% —	4.1	% 7,894	25.6	%
2010	111,058	82,375	74.2	% —	8.4	% 21,180	22.9	%
2011	154,930	108,167	69.8	% —	11.1	% 55,968	13.5	%
2012	261,813	137,986	52.7	% —	14.1	% 151,381	6.4	%
2013	415,479	223,153	53.7	% —	22.9	% 295,349	5.0	%
2014	153,456	81,672	53.2	% —	8.4	% 540,249	2.7	%
Subtotal	\$1,222,641	\$714,066	58.4	% \$17,407	73.2	% \$1,083,024	5.0	%
Europe:								
2013	249,307	160,074	64.2	% —	16.4	% 505,213	2.4	%
2014	135,549	101,285	74.7	% —	10.4	% 555,323	1.9	%
Subtotal	384,856	261,359	67.9	% —	26.8	% 1,060,536	2.1	%
Total	\$1,607,497	\$975,425	60.7	% \$17,407	100.0	% \$2,143,560	3.1	%

Table of Contents

	Year Ended December 31, 2013					As of December 31, 2013		
	Collections ⁽¹⁾	Gross Revenue ⁽²⁾	Revenue Recognition Rate ⁽³⁾	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR	
United States ⁽⁴⁾ :								
ZBA ⁽⁵⁾	\$27,117	\$17,201	63.4	% \$9,918	2.3	% \$—	—	
2005	2,364	239	10.1	% 10	0.0	% —	—	
2006	8,780	3,181	36.2	% (184)	0.4	% 2,466	5.2	%
2007	12,204	5,409	44.3	% 2,001	0.7	% 5,654	7.6	%
2008	41,512	24,377	58.7	% 448	3.3	% 17,617	9.5	%
2009	80,311	54,130	67.4	% —	7.4	% 21,009	18.1	%
2010	156,773	102,595	65.4	% —	14.0	% 50,230	13.8	%
2011	225,546	133,396	59.1	% —	18.2	% 103,025	8.9	%
2012	353,982	163,443	46.2	% —	22.3	% 277,799	4.3	%
2013	236,658	144,281	61.0	% —	19.8	% 492,137	4.3	%
Total	\$1,145,247	\$648,252	56.6	% \$12,193	88.4	% \$969,937	5.7	%
Europe:								
2013	134,259	84,407	62.9	% —	11.6	% 620,312	2.4	%
Total	\$1,279,506	\$732,659	57.3	% \$12,193	100.0	% \$1,590,249	4.4	%

(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.

(4) United States data includes results from Latin America.

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 (5) 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”).

Total revenues were \$1.1 billion during the year ended December 31, 2014, an increase of \$299.4 million, or 38.7%, compared to total revenues of \$773.4 million during the year ended December 31, 2013.

Accretion revenue from our portfolio purchasing and recovery segment was \$992.8 million during the year ended December 31, 2014, an increase of \$248.0 million, or 33.3%, compared to revenue of \$744.9 million during the year ended December 31, 2013. The increase in portfolio revenue during the year ended December 31, 2014 compared to 2013 was due to additional accretion revenue associated with a higher portfolio balance, primarily associated with portfolios acquired through our increased level of merger and acquisition related activities and increases in yields on certain pool groups due to over-performance, offset by lower yields on recently formed pool groups.

During the year ended December 31, 2014, we recorded a portfolio allowance reversal of \$17.4 million, compared to a net portfolio allowance reversal of \$12.2 million during the year ended December 31, 2013. The recording of net allowance reversals during the years ended December 31, 2014 and 2013 was primarily due to operational improvements which allowed us to assist our customers to repay their obligations and increased collections on our ZBA portfolios. Additionally, our refined valuation methodologies have limited the amount of valuation charges necessary during recent periods.

Other revenues were \$52.0 million and \$12.6 million for the years ended December 31, 2014 and 2013, respectively. Other revenues primarily represent contingent fee income at our Cabot, Refinancia and Grove subsidiaries earned on accounts collected on behalf of others, primarily credit originators. The increase in other revenues during the year ended December 31, 2014 was primarily due to the acquisition of Cabot in July 2013, Refinancia in December 2013

and Grove in April 2014. Contingent fees from Cabot and Refinancia are only included in the prior year periods since their acquisition dates. Net interest income from our tax lien business segment was \$28.0 million and \$15.9 million for the years ended December 31, 2014 and 2013, respectively. The increase for the year ended December 31, 2014 was due to an increase in the balance of receivables secured by property tax liens, primarily resulting from Propel's recent acquisition of a portfolio of tax liens and other assets in a transaction valued at approximately \$43.0 million in May 2014.

42

Table of Contents

Operating Expenses

Total operating expenses were \$753.3 million during the year ended December 31, 2014, an increase of \$178.3 million, or 31.0%, compared to total operating expenses of \$575.0 million during the year ended December 31, 2013.

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

Salaries and employee benefits increased \$81.2 million, or 49.2%, to \$246.2 million during the year ended December 31, 2014, from \$165.0 million during the year ended December 31, 2013. The increase was primarily the result of increases in headcount as a result of our recent mergers and acquisitions and increases in headcount and related compensation expense to support our growth.

Stock-based compensation increased \$4.5 million, or 35.8%, to \$17.2 million during the year ended December 31, 2014, from \$12.6 million during the year ended December 31, 2013. This increase was primarily attributable to an increase in the number of shares granted and the higher fair value of equity awards granted in recent periods due to an increase in our stock price.

Salaries and employee benefits broken down between the reportable segments were as follows (in thousands):

	Year Ended December 31,	
	2014	2013
Salaries and employee benefits:		
Portfolio purchasing and recovery	\$238,942	\$159,318
Tax lien business	7,305	5,722
	\$246,247	\$165,040

Cost of Legal Collections—Portfolio Purchasing and Recovery

The cost of legal collections increased \$18.7 million, or 10.0%, to \$205.7 million during the year ended December 31, 2014, compared to \$187.0 million during the year ended December 31, 2013. These costs represent contingent fees paid to our network of attorneys, internal legal costs and the cost of litigation. Gross legal collections were \$653.2 million during the year ended December 31, 2014, up from \$564.6 million collected during the year ended December 31, 2013. The increase in the cost of legal collections includes an increase in commissions in the United States, as a result of an increase in gross collections of \$45.6 million, or 8.1%, and an increase in commissions in Europe, as a result of an increase in gross collections of \$42.9 million. The cost of legal collections decreased as a percentage of gross collections through this channel to 31.5% during the year ended December 31, 2014 from 33.1% during the same period in the prior year. This decrease was primarily due to increased collections from our internal legal channel, for which we do not pay a commission, and to a lesser extent, due to lower litigation costs as a percent of collections in Europe for accounts placed into Marlin's legal platform. However, as Cabot and Marlin continue to increase the number of consumer accounts placed through Marlin's legal platform, the cost of legal collections as a percent of collections in Europe will increase, as experienced in the most recent quarter, due to an increase in upfront court costs.

Other Operating Expenses

Other operating expenses increased \$27.2 million, or 40.8%, to \$93.9 million during the year ended December 31, 2014, from \$66.6 million during the year ended December 31, 2013. The increases in other operating expenses was primarily the result of additional other operating expenses at our newly acquired subsidiaries.

Other operating expenses broken down between the reportable segments were as follows (in thousands):

	Year Ended December 31,	
	2014	2013
Other operating expenses:		
Portfolio purchasing and recovery	\$89,933	\$63,228
Tax lien business	3,926	3,421
	\$93,859	\$66,649

Table of Contents**Collection Agency Commissions—Portfolio Purchasing and Recovery**

During the year ended December 31, 2014, we incurred \$33.3 million in commissions to third party collection agencies, or 16.6% of the related gross collections of \$200.3 million. During the period, the commission rate as a percentage of related gross collections was 16.2% and 16.9% for our collection outsourcing channels in the United States and Europe, respectively. During the year ended December 31, 2013, we incurred \$33.1 million in commissions, or 19.0%, of the related gross collections of \$174.0 million.

Collections through this channel vary from period to period depending on, among other things, the number of accounts placed with agencies 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. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time.

General and Administrative Expenses

General and administrative expenses increased \$36.6 million, or 33.3%, to \$146.3 million during the year ended December 31, 2014, from \$109.7 million during the year ended December 31, 2013. The increase was primarily the result of additional general and administrative expenses at our newly acquired subsidiaries, and general increases in expenses to support our growth. The increase was partially offset by lower one-time acquisition and integration related costs in our portfolio purchasing and recovery segment. General and administrative expenses include one-time acquisition and integration related costs of \$15.9 million and \$21.6 million for the years ended December 31, 2014 and 2013, respectively.

General and administrative expenses broken down between the reportable segments were as follows (in thousands):

	Year Ended December 31,	
	2014	2013
General and administrative expenses:		
Portfolio purchasing and recovery	\$ 139,977	\$ 106,814
Tax lien business	6,309	2,899
	\$ 146,286	\$ 109,713

Depreciation and Amortization

Depreciation and amortization expense increased \$14.4 million, or 106.3%, to \$27.9 million during the year ended December 31, 2014, from \$13.5 million during the year ended December 31, 2013. The increase during the year ended December 31, 2014 was primarily related to increased depreciation expense resulting from the acquisition of fixed assets in the current and prior years and additional depreciation and amortization expenses resulting from fixed assets and intangible assets acquired through our recent acquisitions.

Table of Contents

Cost per Dollar Collected—Portfolio Purchasing and Recovery

The following tables summarize our cost per dollar collected (in thousands, except percentages):

	Year Ended December 31, 2014				2013					
	Collections	Cost	Cost Per Channel Dollar Collected	Cost Per Total Dollar Collected	Collections	Cost	Cost Per Channel Dollar Collected	Cost Per Total Dollar Collected		
United States:										
Collection sites ⁽¹⁾	\$502,829	\$35,625	7.1	% 3.0	% \$465,974	\$33,671	7.2	% 2.9	%	
Legal outsourcing	493,704	175,730	35.6	% 14.7	% 468,677	168,241	35.9	% 14.7	%	
Internal legal ⁽²⁾	116,581	45,766	39.3	% 3.8	% 95,968	45,393	47.3	% 4.0	%	
Collection agencies	79,699	12,923	16.2	% 1.1	% 114,628	22,786	19.9	% 2.0	%	
Other indirect costs ⁽³⁾	—	227,821	—	19.1	% —	193,849	—	16.9	%	
Subtotal	1,192,813	497,865		41.7	% 1,145,247	463,940		40.5	%	
Europe:										
Collection sites ⁽¹⁾	221,771	14,650	6.6	% 3.8	% 74,916	4,377	5.8	% 3.3	%	
Legal outsourcing	42,456	13,794	32.5	% 3.6	% —	—	—	—	%	
Collection agencies	120,629	20,420	16.9	% 5.3	% 59,343	10,311	17.4	% 7.7	%	
Other indirect costs ⁽³⁾	—	63,968	—	16.6	% —	21,526	—	16.0	%	
Subtotal	384,856	112,832		29.3	% 134,259	36,214		27.0	%	
Latin America:										
Collection sites ⁽¹⁾	29,828	3,215	10.8	% 10.8	% —	—	—	—	%	
Other indirect costs ⁽³⁾	—	5,788	—	19.4	% —	—	—	—	%	
Subtotal	29,828	9,003		30.2	% —	—		—	%	
Total ⁽⁴⁾	\$1,607,497	\$619,700		38.6	% \$1,279,506	\$500,154		39.1	%	

Cost in collection sites represents only account managers and their supervisors' salaries, variable compensation, and (1) employee benefits. Collection sites in the United States include collection site expenses for our India and Costa Rica call centers.

(2) Cost in internal legal channel represents court costs expensed, internal legal channel employee salaries and benefits, and other related direct operating expenses.

(3) Other indirect costs represent non-collection site salaries and employee benefits, general and administrative expenses, other operating expenses and depreciation and amortization.

Represents all operating expenses, excluding stock-based compensation expense, operating expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition and integration related operating (4) expenses. We include this information in order to facilitate a comparison of approximate cash costs to cash collections for the debt purchasing business in the periods presented. Refer to the "Non-GAAP Disclosure" section for further details.

During the year ended December 31, 2014, overall cost per dollar collected decreased by 50 basis points to 38.6% of gross collections from 39.1% of gross collections during the year ended December 31, 2013. This decrease was primarily due to collections from geographies with a lower cost to collect increasing as a percent of total collections, offset by higher cost to collect in the United States. During the same periods, cost to collect in the United States increased to 41.7% from 40.5%. Over time, we expect our cost to collect to remain competitive, but also expect that it will fluctuate from quarter to quarter based on seasonality, the cost of investments in new operating initiatives, and the ongoing management of the changing regulatory and legislative environment.

The increase in total cost to collect in the United States was primarily due to increased other indirect costs. Other costs not directly attributable to specific channel collections (other indirect costs) increased to 19.1% during the year ended December 31, 2014, from 16.9% during the year ended December 31, 2013. These costs include non-collection site salaries and employee benefits, general and administrative expenses, other operating expenses, and depreciation and amortization. This increase and the increase in cost per dollar collected, were due to several factors, including increases in corporate legal expense, headcount, and general and administrative expenses necessary to support our growth and to invest in initiatives relating to the evolving regulatory environment.

Table of Contents

The increase in cost per dollar collected in the United States was partially offset by:

The cost of legal collections through our internal legal channel, as a percentage of total collections in the United States, decreased to 3.8% during the year ended December 31, 2014, from 4.0% during the year ended December 31, 2013 and, as a percentage of channel collections, decreased to 39.3% during the year ended December 31, 2014, from 47.3% during the year ended December 31, 2013. The decrease in cost as a percentage of total collections and decrease in cost as a percentage of channel collections were primarily due to improved productivity in our internal legal platform.

Collection agency commissions, as a percentage of total collections in the United States, decreased to 1.1% during the year ended December 31, 2014, from 2.0% during the same period in the prior year. Our collection agency commission rate decreased to 16.2% during the year ended December 31, 2014, from 19.9% during the same period in the prior year. The decrease in commissions as a percentage of total collections was primarily due to decreased collections from this channel as a percentage of total collections. Commissions, as a percentage of collections in this channel, 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. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time.

Interest Expense—Portfolio Purchasing and Recovery

Interest expense increased \$93.7 million to \$166.9 million during the year ended December 31, 2014, from \$73.3 million during the year ended December 31, 2013.

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

	Year Ended December 31,		\$ Change	% Change	
	2014	2013			
Stated interest on debt obligations	\$137,274	\$55,703	\$81,571	146.4	%
Interest expense on preferred equity certificates	22,430	11,381	11,049	97.1	%
Amortization of loan fees and other loan costs	9,049	4,519	4,530	100.2	%
Amortization of debt discount	8,422	4,492	3,930	87.5	%
Accretion of debt premium	(10,233	) (2,826	) (7,407	) 262.1	%
Total interest expense	\$166,942	\$73,269	\$93,673	127.8	%

The payment of the accumulated interest on the preferred equity certificates issued in connection with the Cabot Acquisition will only be satisfied in connection with the disposition of the noncontrolling interests of J.C. Flowers & Co. LLC and management.

The increase in interest expense was primarily attributable to interest expense incurred at Cabot during the year ended December 31, 2014 of \$118.8 million, including \$22.4 million of interest expense on the preferred equity certificates as compared to \$37.6 million for the year ended December 31, 2013 including \$11.4 million of interest expense on the preferred equity certificates. The increase was also a result of increased interest expense related to additional borrowings to finance recent acquisitions.

Provision for Income Taxes

During the years ended December 31, 2014 and 2013, we recorded income tax provisions for income from continuing operations of \$52.7 million and \$45.4 million, respectively.

Table of Contents

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

	Year Ended December 31,			
	2014	2013		
Federal provision	35.0	% 35.0		%
State provision	8.2	% 5.8		%
State benefit	(2.9	)% (2.0)%
Changes in state apportionment ⁽¹⁾	0.0	% (0.2)%
International provision ⁽²⁾	(3.6	)% (2.2)%
Permanent items ⁽³⁾	4.3	% 2.4		%
Other ⁽⁴⁾	(6.4	)% (1.2)%
Effective rate	34.6	% 37.6		%

(1) Represents changes in state apportionment methodologies.

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

(3) Represents a provision for nondeductible items.

(4) Includes the effect of discrete items, primarily relates to the recognition of tax benefit as a result of a favorable tax settlement with taxing authorities as discussed below.

We recognized benefits of approximately \$7.5 million and expenses of approximately \$1.3 million in interest and penalties related to our uncertain tax positions during the years ended December 31, 2014 and 2013, respectively. The benefits recognized during the year ended December 31, 2014 included a net benefit of approximately \$6.6 million as a result of a favorable settlement with taxing authorities related to a previously uncertain tax position associated with AACC's pre-merger tax revenue recognition policy. As a result, the effective tax rate for the year ended December 31, 2014 decreased as compared to 2013.

Additionally, the effective tax rate for the year ended December 31, 2014 as compared to 2013, decreased as a result of proportionately more earnings realized in countries that have lower statutory tax rates than the United States federal rate. 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 rates and higher than anticipated in countries that have higher statutory rates.

Our subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2018 and a 50% tax holiday for the subsequent four years. The impact of the tax holiday in Costa Rica for the years ended December 31, 2014 and 2013 was immaterial.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues

Our revenues consist primarily of portfolio revenue, contingent fee income, and net interest income from our tax lien business.

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 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, 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 incur allowance charges when actual cash flows from our receivable portfolios underperform compared to our expectations. Factors that may contribute to underperformance and to the recording of valuation allowances may include both internal as well as external factors. 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. Internal factors that may have an impact on our collections include operational activities such as the

Table of Contents

productivity of our collection staff. We record allowance reversals on pool groups which have historic allowance reserves when actual cash flows from these receivable portfolios outperform our expectations. Allowance reversals are included in portfolio revenue.

Interest income, net of related interest expense represents net interest income on receivables secured by property tax liens.

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

	Year Ended December 31, 2013				As of December 31, 2013			
	Collections ⁽¹⁾	Gross Revenue ⁽²⁾	Revenue Recognition Rate ⁽³⁾	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR	
United States ⁽⁴⁾ :								
ZBA ⁽⁵⁾	\$27,117	\$17,201	63.4	% \$9,918	2.3	% \$—	—	
2005	2,364	239	10.1	% 10	0.0	% —	—	
2006	8,780	3,181	36.2	% (184)	0.4	% 2,466	5.2	%
2007	12,204	5,409	44.3	% 2,001	0.7	% 5,654	7.6	%
2008	41,512	24,377	58.7	% 448	3.3	% 17,617	9.5	%
2009	80,311	54,130	67.4	% —	7.4	% 21,009	18.1	%
2010	156,773	102,595	65.4	% —	14.0	% 50,230	13.8	%
2011	225,546	133,396	59.1	% —	18.2	% 103,025	8.9	%
2012	353,982	163,443	46.2	% —	22.3	% 277,799	4.3	%
2013	236,658	144,281	61.0	% —	19.8	% 492,137	4.3	%
Total	\$1,145,247	\$648,252	56.6	% \$12,193	88.4	% \$969,937	5.7	%
Europe:								
2013	134,259	84,407	62.9	% —	11.6	% 620,312	2.4	%
Total	\$1,279,506	\$732,659	57.3	% \$12,193	100.0	% \$1,590,249	4.4	%

Table of Contents

	Year Ended December 31, 2012				As of December 31, 2012			
	Collections ⁽¹⁾	Gross Revenue ⁽²⁾	Revenue Recognition Rate ⁽³⁾	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR	
ZBA ⁽⁵⁾	\$26,275	\$22,575	85.9	% \$3,702	4.2	% \$—	—	
2005	11,859	3,647	30.8	% 2,024	0.7	% 2,115	5.6	%
2006	12,818	7,910	61.7	% (4,247)	1.5	% 8,238	5.1	%
2007	17,055	8,922	52.3	% 129	1.6	% 10,449	5.1	%
2008	59,037	32,567	55.2	% 2,613	6.0	% 34,316	6.9	%
2009	111,379	70,210	63.0	% —	13.0	% 47,230	10.0	%
2010	220,647	134,875	61.1	% —	24.9	% 104,466	8.8	%
2011	301,215	163,165	54.2	% —	30.1	% 195,629	5.9	%
2012	187,721	97,320	51.8	% —	18.0	% 470,676	2.8	%
Total	\$948,006	\$541,191	57.1	% \$4,221	100.0	% \$873,119	4.8	%

(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.

(4) United States data includes immaterial results from Latin America.

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.

Total revenues were \$773.4 million during the year ended December 31, 2013, an increase of \$216.6 million, or 38.9%, compared to total revenues of \$556.8 million during the year ended December 31, 2012.

Accretion revenue from our portfolio purchasing and recovery segment was \$744.9 million during the year ended December 31, 2013, an increase of \$199.5 million, or 36.6%, compared to revenue of \$545.4 million during the year ended December 31, 2012. The increase in portfolio revenue during the year ended December 31, 2013 compared to 2012 was due to additional accretion revenue associated with a higher portfolio balance, primarily associated with the Cabot Acquisition and the AACC Merger, and increases in yields on certain pool groups due to over-performance. During the year ended December 31, 2013, we recorded a portfolio allowance reversal of \$12.2 million, compared to a net portfolio allowance reversal of \$4.2 million during the year ended December 31, 2012.

Other revenues primarily represent contingent fee income at our Cabot subsidiary earned on accounts collected on behalf of others, primarily credit originators. This contingent fee revenue was \$11.1 million for the year ended December 31, 2013.

Net interest income from our tax lien business segment was \$15.9 million for the year ended December 31, 2013 and \$10.5 million for the period from acquisition, May 8, 2012 through December 31, 2012.

Operating Expenses

Total operating expenses were \$575.0 million during the year ended December 31, 2013, an increase of \$173.3 million, or 43.1%, compared to total operating expenses of \$401.7 million during the year ended December 31, 2012.

Operating expenses are explained in more detail as follows:

Salaries and employee benefits

Salaries and employee benefits increased \$63.9 million, or 63.3%, to \$165.0 million during the year ended December 31, 2013, from \$101.1 million during the year ended December 31, 2012. The increase was primarily the result of increases in headcount as a result of the Cabot Acquisition, the AACC Merger, and increases in headcount and related compensation expense to support our growth. Salaries and employee benefits related to our internal legal channel in the United States were approximately \$17.2 million and \$7.0 million for the years ended December 31,

2013 and 2012, respectively.

49

Table of Contents

Stock-based compensation increased \$3.8 million, or 43.8%, to \$12.6 million during the year ended December 31, 2013, from \$8.8 million during the year ended December 31, 2012. This increase was primarily attributable to the higher fair value of equity awards granted in recent periods due to an increase in our stock price and an increase in the number of shares granted.

Salaries and employee benefits broken down between the reportable segments were as follows (in thousands):

	Year Ended December 31,	
	2013	2012
Salaries and employee benefits:		
Portfolio purchasing and recovery	\$ 159,318	\$ 98,173
Tax lien business ⁽¹⁾	5,722	2,911
	\$ 165,040	\$ 101,084

(1) Tax lien business segment for the year ended December 31, 2012 only includes the period from May 8, 2012 (date of acquisition) through December 31, 2012.

Cost of legal collections—Portfolio purchasing and recovery

The cost of legal collections increased \$18.3 million, or 10.8%, to \$187.0 million during the year ended December 31, 2013, compared to \$168.7 million during the year ended December 31, 2012. These costs represent contingent fees paid to our nationwide network of attorneys and costs of litigation in the United States. The increase in the cost of legal collections was primarily the result of an increase of \$116.3 million, or 25.9%, in gross collections through our legal channels. Gross legal collections were \$564.6 million during the year ended December 31, 2013, up from \$448.4 million collected during the year ended December 31, 2012. The cost of legal collections decreased as a percentage of gross collections through this channel to 33.1% during the year ended December 31, 2013 from 37.6% during the same period in the prior year. This decrease was primarily due to increased collections in our internal legal channel for which we do not pay a commission.

Other operating expenses

Other operating expenses increased \$17.7 million, or 36.2%, to \$66.6 million during the year ended December 31, 2013, from \$48.9 million during the year ended December 31, 2012. The increase was primarily the result of the Cabot Acquisition and the AACC Merger. The increase was partially offset by a reduction in mailing costs and various other operating expenses.

Other operating expenses broken down between the reportable segments were as follows (in thousands):

	Year Ended December 31,	
	2013	2012
Other operating expenses:		
Portfolio purchasing and recovery	\$ 63,228	\$ 47,501
Tax lien business ⁽¹⁾	3,421	1,438
	\$ 66,649	\$ 48,939

(1) Tax lien business segment for the year ended December 31, 2012 only includes the period from May 8, 2012 (date of acquisition) through December 31, 2012.

Collection agency commissions—Portfolio purchasing and recovery

During the year ended December 31, 2013, we incurred \$33.1 million in commissions to third party collection agencies, or 19.0% of the related gross collections of \$174.0 million. During the period, the commission rate as a percentage of related gross collections was 19.9% and 17.4% for our collection outsourcing channels in the United States and United Kingdom, respectively. During the year ended December 31, 2012, we incurred \$15.3 million in commissions, or 26.6%, of the related gross collections of \$57.6 million. The decrease in the net commission rate as a percentage of the related gross collections was primarily due to the lower commission rates on purchased bankruptcy receivable portfolios in the United States as a result of our increased purchase of bankruptcy receivable portfolios in recent periods and the lower commission rates for collection agencies in the United Kingdom, as compared to the rates in the United States.

General and administrative expenses

General and administrative expenses increased \$47.9 million, or 77.5%, to \$109.7 million during the year ended December 31, 2013, from \$61.8 million during the year ended December 31, 2012. The increase was primarily the result of the

50

Table of Contents

Cabot Acquisition, the AACC Merger, and general increases in expenses necessary to support our growth, including acquisition and integration related costs of \$21.6 million, an increase in IT consulting and other IT expenses of \$9.1 million, and an increase in building rent of \$4.0 million.

General and administrative expenses broken down between the reportable segments were as follows (in thousands):

	Year Ended December 31,	
	2013	2012
General and administrative expenses:		
Portfolio purchasing and recovery	\$ 106,814	\$ 60,466
Tax lien business ⁽¹⁾	2,899	1,332
	\$ 109,713	\$ 61,798

⁽¹⁾ Tax lien business segment for the year ended December 31, 2012 only includes the period from May 8, 2012 (date of acquisition) through December 31, 2012.

Depreciation and amortization

Depreciation and amortization expense increased \$7.7 million, or 132.0%, to \$13.5 million during the year ended December 31, 2013, from \$5.8 million during the year ended December 31, 2012. The increase during the year ended December 31, 2013 was primarily related to increased depreciation expenses resulting from the acquisition of fixed assets in the current and prior years and additional depreciation and amortization expenses from our Cabot subsidiary.

Table of Contents

Cost per Dollar Collected—Portfolio purchasing and recovery

The following tables summarize our cost per dollar collected (in thousands, except percentages):

	Year Ended December 31, 2013				2012					
	Collections	Cost	Cost Per Channel Dollar Collected	Cost Per Total Dollar Collected	Collections	Cost	Cost Per Channel Dollar Collected	Cost Per Total Dollar Collected		
United States:										
Collection sites ⁽¹⁾	\$465,974	\$33,671	7.2	% 2.9	% \$442,083	\$27,606	6.2	% 2.9	%	
Legal outsourcing	468,677	168,241	35.9	% 14.7	% 429,597	162,325	37.8	% 17.1	%	
Internal legal ⁽²⁾	95,968	45,393	47.3	% 4.0	% 18,780	16,244	86.5	% 1.7	%	
Collection agencies	114,628	22,786	19.9	% 2.0	% 57,595	15,332	26.6	% 1.6	%	
Other indirect costs ⁽³⁾	—	193,849	—	16.9	% —	157,841	—	16.6	%	
Subtotal	1,145,247	463,940		40.5	% 948,055	379,348		40.0	%	
Europe:										
Collection sites ⁽¹⁾	74,916	4,377	5.8	% 3.3	% —	—	—	—	—	
Collection agencies	59,343	10,311	17.4	% 7.7	% —	—	—	—	—	
Other indirect costs ⁽³⁾	—	21,526	—	16.0	% —	—	—	—	—	
Subtotal	134,259	36,214		27.0	% —	—	—	—	—	
Total ⁽⁴⁾	\$1,279,506	\$500,154		39.1	% \$948,055	\$379,348		40.0	%	

Cost in collection sites represents only account managers and their supervisors' salaries, variable compensation, and (1) employee benefits. Collection sites in the United States include collection site expenses for our India and Costa Rica call centers.

(2) Cost in internal legal channel represents court costs expensed, internal legal channel employee salaries and benefits, and other related direct operating expenses.

(3) Other indirect costs represent non-collection site salaries and employee benefits, general and administrative expenses, other operating expenses and depreciation and amortization.

Represents all operating expenses, excluding stock-based compensation expense, operating expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition and integration related operating (4) expenses. We include this information in order to facilitate a comparison of approximate cash costs to cash collections for the debt purchasing business in the periods presented. Refer to the "Non-GAAP Disclosure" section for further details.

During the year ended December 31, 2013, overall cost per dollar collected decreased by 90 basis points to 39.1% of gross collections from 40.0% of gross collections during the year ended December 31, 2012. This decrease was primarily due to the lower cost to collect at our Cabot subsidiary in the United Kingdom. During the same periods, cost to collect in the United States increased to 40.5% from 40.0%. Over time, we expect our cost to collect to remain competitive, but also expect that it will fluctuate from quarter to quarter based on seasonality, the cost of investments in new operating initiatives, and the ongoing management of the changing regulatory and legislative environment. The increase in total cost to collect in the United States was due to several factors, including:

-

The cost from our collection sites, which includes account manager salaries, variable compensation, and employee benefits, as a percentage of total collections in the United States, remained consistent at 2.9% during the years ended December 31, 2013 and 2012, but as a percentage of our site collections, increased to 7.2% during the year ended December 31, 2013, from 6.2% during the year ended December 31, 2012. The increase in cost as a percentage of site collections, through our collection sites in the United States, was primarily due to the higher cost to collect attributable to AACC.

The cost of legal collections through our internal legal channel, as a percentage of total collections in the United States, increased to 4.0% during the year ended December 31, 2013, from 1.7% during the year ended December 31, 2012 and, as a percentage of channel collections, decreased to 47.3% during the year ended December 31, 2013, from 66.5% during the year ended December 31, 2012. This increase in cost as a percentage of total collections was primarily due to increased collections as a result of our continued expansion of our internal legal channel. The decrease in cost as a percentage of channel collections was primarily due to increased productivity in our internal legal platform, which we expect to continue as the channel matures.

Table of Contents

Collection agency commissions, as a percentage of total collections in the United States, increased to 2.0% during the year ended December 31, 2013, from 1.6% during the same period in the prior year. Our collection agency commission rate decreased to 19.9% during the year ended December 31, 2013, from 26.6% during the same period in the prior year. The increase in commissions as a percentage of total collections was primarily due to increased collections from this channel as a percentage of total collections. The decrease in commission rate as a percentage of the related gross collections was primarily due to lower commission rates on purchased bankruptcy receivable portfolios as a result of our increased purchase of bankruptcy receivable portfolios in recent periods.

The increase in cost per dollar collected in the United States was partially offset by:

The cost of legal collections through our legal outsourcing channel, as a percentage of total collections in the United States, decreased to 14.7% during the year ended December 31, 2013, from 17.1% during the year ended December 31, 2012 and, as a percentage of channel collections, decreased to 35.9% from 37.8% compared to the same period of 2012. The decrease in the cost of legal collections as a percentage of total collections was primarily related to a decrease in this channel's collections as a percentage of total collections, as a result of increased reliance on our internal legal channel and improvements in our ability to more accurately and consistently identify those consumers with the financial means to repay their obligations. These improvements resulted in an increase in our court cost recovery rate and an offsetting decrease in court cost expense.

Interest Expense—Portfolio purchasing and recovery

Interest expense increased \$47.7 million to \$73.3 million during the year ended December 31, 2013, from \$25.6 million during the year ended December 31, 2012.

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

	Year Ended December 31,				
	2013	2012	\$ Change	% Change	
Stated interest on debt obligations	\$55,703	\$23,015	\$32,688	142.0	%
Interest expense on preferred equity certificates	11,381	—	11,381	—	
Amortization of loan fees and other loan costs	4,519	2,289	2,230	97.4	%
Amortization of debt discount	4,492	260	4,232	1,627.7	%
Accretion of debt premium	(2,826)	) —	(2,826)) —	
Total interest expense	\$73,269	\$25,564	\$47,705	186.6	%

The payment of the accumulated interest on the preferred equity certificates issued in connection with the Cabot Acquisition will only be satisfied in connection with the disposition of the noncontrolling interests of J.C. Flowers & Co. LLC and management.

The increase in interest expense during the year ended December 31, 2013 was primarily attributable to interest expense of \$37.6 million incurred at Cabot, including \$11.4 million of interest expense on the preferred equity certificates. The increase was also a result of increased interest expense related to additional borrowings to finance the Cabot Acquisition and the AACC Merger.

Provision for income taxes

During the years ended December 31, 2013 and 2012, we recorded income tax provisions for income from continuing operations of \$45.4 million and \$51.8 million, respectively.

Table of Contents

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