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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from __________to__________.

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**48-1090909**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
3111 Camino Del Rio North, Suite 103 San Diego, California	**92108**
(Address of principal executive offices)	**(Zip code)**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes x No ☐

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

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

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

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

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

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

Class	Outstanding at October 27, 2017
Common Stock, $0.01 par value	25,745,485 shares

ENCORE CAPITAL GROUP, INC.
INDEX TO FORM 10-Q

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

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 188,246	$ 149,765
Investment in receivable portfolios, net	2,728,811	2,382,809
Property and equipment, net	71,213	72,257
Deferred court costs, net	77,361	65,187
Other assets	254,993	215,447
Goodwill	853,162	785,032
Total assets	$ 4,173,786	$ 3,670,497
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 269,927	$ 234,398
Debt	3,148,497	2,805,983
Other liabilities	32,207	29,601
Total liabilities	3,450,631	3,069,982
Commitments and contingencies		
Redeemable noncontrolling interest	160,663	45,755
Redeemable equity component of convertible senior notes	77	2,995
Equity:		
Convertible preferred stock, $.01 par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value, 50,000 shares authorized, 25,745 shares and 25,593 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	257	256
Additional paid-in capital	43,006	103,392
Accumulated earnings	602,199	560,567
Accumulated other comprehensive loss	(74,153)	(104,911)
Total Encore Capital Group, Inc. stockholders' equity	571,309	559,304
Noncontrolling interest	(8,894)	(7,539)
Total equity	562,415	551,765
Total liabilities, redeemable equity and equity	$ 4,173,786	$ 3,670,497

The following table includes assets that can only be used to settle the liabilities of the Company's consolidated variable interest entities ("VIEs") and the creditors of the VIEs have no recourse to the Company. These assets and liabilities are included in the consolidated statements of financial condition above. See Note 10, "Variable Interest Entities" for additional information on the Company's VIEs.

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 77,757	$ 55,823
Investment in receivable portfolios, net	1,277,384	972,841
Property and equipment, net	20,193	19,284
Deferred court costs, net	26,089	22,760
Other assets	93,815	79,767
Goodwill	648,574	584,868
Liabilities		
Accounts payable and accrued liabilities	$ 129,010	$ 99,689
Debt	1,846,308	1,514,799
Other liabilities	2,951	1,921

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Revenue from receivable portfolios, net	$ 283,588	$ 159,534	$ 807,794	$ 697,080
Other revenues	23,111	19,881	61,763	60,794
Total revenues	306,699	179,415	869,557	757,874
Operating expenses				
Salaries and employee benefits	77,232	67,783	221,296	212,924
Cost of legal collections	48,094	56,932	149,460	158,047
Other operating expenses	25,859	24,131	76,249	75,420
Collection agency commissions	10,622	8,848	33,678	28,242
General and administrative expenses	32,500	34,871	102,750	103,044
Depreciation and amortization	8,522	8,032	25,819	26,128
Total operating expenses	202,829	200,597	609,252	603,805
Income (loss) from operations	103,870	(21,182)	260,305	154,069
Other (expense) income				
Interest expense	(52,755)	(48,632)	(152,469)	(149,920)
Other income	8,873	4,100	12,004	14,358
Total other expense	(43,882)	(44,532)	(140,465)	(135,562)
Income (loss) from continuing operations before income taxes	59,988	(65,714)	119,840	18,507
(Provision) benefit for income taxes	(17,844)	13,768	(43,442)	(9,831)
Income (loss) from continuing operations	42,144	(51,946)	76,398	8,676
Loss from discontinued operations, net of tax	—	—	(199)	(3,182)
Net income (loss)	42,144	(51,946)	76,199	5,494
Net (income) loss attributable to noncontrolling interest	(13,950)	50,422	(5,652)	48,264
Net income (loss) attributable to Encore Capital Group, Inc. stockholders	$ 28,194	$ (1,524)	$ 70,547	$ 53,758
Amounts attributable to Encore Capital Group, Inc.:				
Income (loss) from continuing operations	$ 28,194	$ (1,524)	$ 70,746	$ 56,940
Loss from discontinued operations, net of tax	—	—	(199)	(3,182)
Net income (loss)	$ 28,194	$ (1,524)	$ 70,547	$ 53,758
Earnings (loss) per share attributable to Encore Capital Group, Inc.:				
Basic earnings (loss) per share from:				
Continuing operations	$ 1.08	$ (0.06)	$ 2.73	$ 2.22
Discontinued operations	$ —	$ —	$ (0.01)	$ (0.13)
Net basic earnings (loss) per share	$ 1.08	$ (0.06)	$ 2.72	$ 2.09
Diluted earnings (loss) per share from:				
Continuing operations	$ 1.05	$ (0.06)	$ 2.68	$ 2.20
Discontinued operations	$ —	$ —	$ (0.01)	$ (0.12)
Net diluted earnings (loss) per share	$ 1.05	$ (0.06)	$ 2.67	$ 2.08
Weighted average shares outstanding:				
Basic	26,011	25,777	25,957	25,690
Diluted	26,736	25,777	26,406	25,885

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$ 42,144	$ (51,946)	$ 76,199	$ 5,494
Other comprehensive (loss) income, net of tax:				
Change in unrealized gains/losses on derivative instruments:				
Unrealized (loss) gain on derivative instruments	(264)	983	1,170	487
Income tax effect	103	(384)	(409)	(190)
Unrealized (loss) gain on derivative instruments, net of tax	(161)	599	761	297
Change in foreign currency translation:				
Unrealized gain (loss) on foreign currency translation	9,712	(11,341)	32,000	(48,028)
Income tax effect	—	73	—	1,426
Unrealized gain (loss) on foreign currency translation, net of tax	9,712	(11,268)	32,000	(46,602)
Other comprehensive income (loss), net of tax	9,551	(10,669)	32,761	(46,305)
Comprehensive income (loss)	51,695	(62,615)	108,960	(40,811)
Comprehensive (income) loss attributable to noncontrolling interest:				
Net (income) loss	(13,950)	50,422	(5,652)	48,264
Unrealized (gain) loss on foreign currency translation	(594)	(115)	(2,003)	807
Comprehensive (income) loss attributable to noncontrolling interest	(14,544)	50,307	(7,655)	49,071
Comprehensive income (loss) attributable to Encore Capital Group, Inc. stockholders	$ 37,151	$ (12,308)	$ 101,305	$ 8,260

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	$ 76,199	$ 5,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations, net of income taxes	199	3,182
Depreciation and amortization	25,819	26,128
Other non-cash expense, net	25,098	28,557
Stock-based compensation expense	7,041	9,502
Gain on derivative instruments, net	(2,714)	(10,885)
Deferred income taxes	(5,396)	(46,524)
(Reversal of) provision for allowances on receivable portfolios, net	(30,525)	86,777
Changes in operating assets and liabilities		
Deferred court costs and other assets	(20,094)	7,572
Prepaid income tax and income taxes payable	15,565	(2,485)
Accounts payable, accrued liabilities and other liabilities	(9,501)	(24,146)
Net cash provided by operating activities from continuing operations	81,691	83,172
Net cash provided by operating activities from discontinued operations	—	2,096
Net cash provided by operating activities	81,691	85,268
Investing activities:		
Cash paid for acquisitions, net of cash acquired	(5,623)	(675)
Proceeds from divestiture of business, net of cash divested	—	106,041
Purchases of receivable portfolios, net of put-backs	(739,478)	(712,706)
Collections applied to investment in receivable portfolios, net	549,544	507,552
Purchases of property and equipment	(20,518)	(16,548)
Proceeds from derivative instruments, net	6,140	10,038
Other, net	2,155	—
Net cash used in investing activities from continuing operations	(207,780)	(106,298)
Net cash provided by investing activities from discontinued operations	—	14,685
Net cash used in investing activities	(207,780)	(91,613)
Financing activities:		
Payment of loan costs	(19,910)	(3,750)
Proceeds from credit facilities	928,141	455,786
Repayment of credit facilities	(972,453)	(443,968)
Proceeds from senior secured notes	325,000	—
Repayment of senior secured notes	(203,212)	(14,343)
Proceeds from issuance of convertible senior notes	150,000	—
Repayment of convertible senior notes	(60,406)	—
Proceeds from convertible hedge instruments	5,580	—
Taxes paid related to net share settlement of equity awards	(2,538)	(4,113)
Proceeds from other debt	8,318	35,080
Other, net	(3,211)	(11,005)
Net cash provided by financing activities	155,309	13,687
Net increase in cash and cash equivalents	29,220	7,342
Effect of exchange rate changes on cash and cash equivalents	9,261	(3,263)
Cash and cash equivalents, beginning of period	149,765	153,593
Cash and cash equivalents, end of period	$ 188,246	$ 157,672

See accompanying notes to condensed consolidated financial statements

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

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

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

Financial Statement Preparation and Presentation

The accompanying interim condensed consolidated financial statements have been prepared by the Company, without audit, in accordance with the instructions to the Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the “SEC”) and, therefore, do not include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (“GAAP”).

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the Company’s consolidated financial position, results of operations, and cash flows. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company’s financial statements and the accompanying notes. Actual results could materially differ from those estimates.

Basis of Consolidation

The condensed consolidated financial statements have been prepared in conformity with GAAP, and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. The Company also consolidates VIEs, for which it is the primary beneficiary. The primary beneficiary has both (a) the power to direct the activities of the VIE that most significantly affect the entity’s economic performance, and (b) either the obligation to absorb losses or the right to receive benefits. Refer to Note 10, “Variable Interest Entities,” for further details. All intercompany transactions and balances have been eliminated in consolidation.

Translation of Foreign Currencies

The financial statements of certain of the Company’s foreign subsidiaries are measured using their local currency as the functional currency. Assets and liabilities of foreign operations are translated into U.S. dollars using period-end exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates in effect during each period. The resulting translation adjustments are recorded as a component of other comprehensive income or loss. Equity accounts are translated at historical rates, except for the change in retained earnings during the year which is the result of the income statement translation process. Intercompany transaction gains or losses at each period end arising from subsequent measurement of balances for which settlement is not planned or anticipated in the foreseeable future are included as translation adjustments and recorded within other comprehensive income or loss. Transaction gains and losses are included in other income or expense.

Reclassifications

Certain immaterial reclassifications have been made to the condensed consolidated financial statements to conform to the current year’s presentation. For the three and nine months ended September 30, 2016, the Company revised its statements of comprehensive income. The comprehensive loss attributable to Encore increased by $0.1 million for the three months ended September 30, 2017 and comprehensive income attributable to Encore increased $0.8 million for the nine months ended September 30, 2016. This revision was not material. There were no revisions to the statements of financial condition, operations or cash flows.

Change in Accounting Principle

In March 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. Upon adoption of this standard, excess tax benefits and tax deficiencies will be recognized as income tax expense, and the tax effects of exercised or vested awards will be treated as discrete items in the period in which they occur. As such, implementation of this standard could create volatility in an entity's effective income tax rate on a quarter by quarter basis. The volatility in the effective income tax rate is due primarily to fluctuations in the stock price and the timing of stock option exercises and vesting of restricted share grants. The standard also requires excess tax benefits to be presented as an operating activity on the statement of cash flows rather than as a financing activity. An entity may elect to apply the change in presentation in the statement of cash flows either prospectively or retrospectively to all periods presented. Further, the amendments allow an entity to make an accounting policy election to either estimate forfeitures or recognize forfeitures as they occur. If an election is made, the change to recognize forfeitures as they occur must be adopted using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings.

ASU 2016-09 became effective for the Company on January 1, 2017. The Company applied the change in presentation to the statement of cash flows retrospectively for all periods presented after adoption date. The Company believes that the new standard may cause volatility in its effective tax rates and earnings per share due to the tax effects related to share-based payments being recorded to the income statement. The volatility in future periods will depend on the Company's stock price at the awards' vest dates and the number of awards that vest in each period. The Company will not elect an accounting policy change to record forfeitures as they occur and will continue to estimate forfeitures at each period.

Recent Accounting Pronouncements

Other than the adoption of ASU 2016-09 as discussed in the "Change in Accounting Principle" section above, there have been no new accounting pronouncements made effective during the nine months ended September 30, 2017 that have significance, or potential significance, to the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Effective

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities—Derivatives and Hedging (Topic 815) ("ASU 2017-12") which amends the hedge accounting recognition and presentation requirements in ASC 815. ASU 2017-12 improves Topic 815 Derivatives and Hedging by simplifying and expanding the eligible hedging strategies for financial and nonfinancial risks by more closely aligning hedge accounting with a company's risk management activities, and also simplifies its application through targeted improvements in key practice areas. This includes expanding the list of items eligible to be hedged and amending the methods used to measure the effectiveness of hedging relationships. In addition, the ASU prescribes how hedging results should be presented and requires incremental disclosures. These changes are intended to allow preparers more flexibility and to enhance the transparency of how hedging results are presented and disclosed. Further, the new standard provides partial relief on the timing of certain aspects of hedge documentation and eliminates the requirement to recognize hedge ineffectiveness separately in earnings in the current period. The ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements as well as whether to adopt the new guidance early.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718) ("ASU 2017-09"). ASU 2017-09 provides clarity in order to reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company does not anticipate that the adoption of ASU 2017-09 will have a material impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). The amendments in this update simplify the test for goodwill impairment by eliminating Step 2 from the impairment test, which required the entity to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining fair value of assets acquired and liabilities assumed in a business combination. The amendments in this update are effective for public companies for annual or any interim goodwill impairments tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements as well as whether to adopt the new guidance early.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805); Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this update are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The FASB issued ASU 2016-15 to decrease the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update provide guidance on eight specific cash flow issues. ASU 2016-15 is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements as well as whether to adopt the new guidance early.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 applies a current expected credit loss model which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected. ASU 2016-13 eliminates the current accounting model for loans and debt securities acquired with deteriorated credit quality under Accounting Standards Codification ("ASC") 310-30, which provides authoritative guidance for the accounting of the Company's investment in receivable portfolios. Under this new standard, entities will gross up the initial amortized cost for the purchased financial assets with credit deterioration ("PCD assets"), the initial amortized cost will be the sum of (1) the purchase price and (2) the estimate of credit losses as of the date of acquisition. After initial recognition of PCD assets and the related allowance, any change in estimated cash flows (favorable or unfavorable) will be immediately recognized in the income statement because the yield on PCD assets would be locked. ASU 2016-13 is effective for reporting periods beginning after December 15, 2019 with early adoption permitted for reporting periods beginning after December 15, 2018. The guidance will be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period in which ASU 2016-13 is adopted. However, the FASB has determined that financial assets for which the guidance in Subtopic 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality, has previously been applied should prospectively apply the guidance in ASU 2016-13 for PCD assets. A prospective transition approach should be used for PCD assets where upon adoption, the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses. This transition relief will avoid the need for a reporting entity to reassess its purchased financial assets that exist as of the date of adoption to determine whether they would have met at acquisition the new criteria of more-than insignificant credit deterioration since origination. The transition relief also will allow an entity to accrete the remaining noncredit discount (based on the revised amortized cost basis) into interest income at the effective interest rate at the adoption date of ASU 2016-13. The same transition requirements should be applied to beneficial interests that previously applied Subtopic 310-30 or have a significant difference between contractual cash flows and expected cash flows. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 changes accounting for leases and requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet and requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of fiscal year 2019. Early adoption is permitted. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying ASU 2014-09, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB's ASC. ASU 2014-09 is effective for annual reporting periods (including interim periods within that reporting period) beginning after December 15, 2016 and shall be applied using either a full retrospective or modified retrospective approach. Early application is not permitted. In August 2015, FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all public companies for all annual periods beginning after December 15, 2017 with early adoption permitted only as of annual reporting periods beginning after December 31, 2016, including interim periods within the reporting period. In March 2016, the FASB issued ASU 2016-08 as an amendment to ASU 2014-09, which clarifies how to identify the unit of accounting for the principal versus agent evaluation, how to apply the control principle to certain types of arrangements, such as service transactions, and reframed the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. The Company is evaluating the potential impacts of Topic 606 on its existing revenue recognition policies and procedures. The Company's investment in receivable portfolios is outside of the scope of Topic 606 since it is accounted for in accordance with ASC 310-30. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements. The Company plans to adopt Topic 606 under the modified retrospective approach.

With the exception of the updated standards discussed above, there have been no new accounting pronouncements not yet effective that have significance, or potential significance, to the Company's consolidated financial statements.

Note 2: Discontinued Operations

On March 31, 2016, the Company completed its previously announced divestiture of its membership interests in Propel Acquisition LLC ("Propel") pursuant to the Securities Purchase Agreement (the "Purchase Agreement"), dated February 19, 2016, among the Company and certain funds affiliated with Prophet Capital Asset Management LP. Pursuant to the Purchase Agreement, the application of the purchase price formula resulted in cash consideration paid to the Company at closing of $144.4 million (net proceeds were $106.0 million after divestiture of $38.4 million in cash), subject to customary post-closing adjustments. The purchase price was finalized in the first quarter of 2017.

During the three months ended March 31, 2016, the Company recognized a loss of $3.0 million related to the sale of Propel, this loss was reduced to $2.0 million based on the adjustments recorded in the fourth quarter of 2016 and the first quarter of 2017. Propel represented the Company's entire tax lien business reportable segment. Propel's operations are presented as discontinued operations in the Company's condensed consolidated statements of operations. Certain immaterial costs that may be eliminated as a result of the sale remained in continuing operations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	$ —	$ —	$ —	$ 4,950
Salaries and employee benefits	—	—	—	(2,860)
Other operating expenses	—	—	—	(1,473)
General and administrative expenses	—	—	—	(1,551)
Depreciation and amortization	—	—	—	(127)
Loss from discontinued operations, before income taxes	—	—	—	(1,061)
Loss on sale of discontinued operations, before income taxes	—	—	(322)	(3,000)
Total loss on discontinued operations, before income taxes	—	—	(322)	(4,061)
Income tax benefit	—	—	123	879
Total loss from discontinued operations, net of tax	$ —	$ —	$ (199)	$ (3,182)

Note 3: Earnings Per Share

Basic earnings or loss per share is calculated by dividing net earnings or loss attributable to Encore by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, restricted stock, and the dilutive effect of the convertible senior notes. In computing the diluted net loss per share for the three months ended September 30, 2016, dilutive potential common shares are excluded from the diluted loss per share calculation because of their anti-dilutive effect.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted average common shares outstanding—basic	26,011	25,777	25,957	25,690
Dilutive effect of stock-based awards	271	—	214	195
Dilutive effect of convertible senior notes	454	—	235	—
Weighted average common shares outstanding—diluted	26,736	25,777	26,406	25,885

Anti-dilutive employee stock options outstanding were approximately 13,000 and 138,000 during the three and nine months ended September 30, 2017. Anti-dilutive employee stock options outstanding were approximately 4,000 and 3,000 during the three and nine months ended September 30, 2016.

Note 4: Fair Value Measurements

The authoritative guidance for fair value measurements defines fair value as the price that would be received upon sale of an asset or the price paid to transfer a liability, in an orderly transaction between market participants at the measurement date (*i.e.*, the “exit price”). The guidance utilizes a fair value hierarchy that prioritizes the inputs used in valuation techniques to measure fair value into three broad levels. The following is a brief description of each level:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs, including inputs that reflect the reporting entity’s own assumptions.

Financial Instruments Required To Be Carried At Fair Value

Financial assets and liabilities measured at fair value on a recurring basis are summarized below *(in thousands)*:

	Fair Value Measurements as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$ —	$ 2,097	$ —	$ 2,097
Interest rate cap contracts	—	2,724	—	2,724
Liabilities				
Foreign currency exchange contracts	—	(2,248)	—	(2,248)
Interest rate swap agreements	—	(40)	—	(40)
Contingent consideration	—	—	(10,382)	(10,382)
Temporary Equity				
Redeemable noncontrolling interest	—	—	(160,663)	(160,663)

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$ —	$ 1,122	$ —	$ 1,122
Liabilities				
Foreign currency exchange contracts	—	(1,360)	—	(1,360)
Interest rate swap agreements	—	(131)	—	(131)
Contingent consideration	—	—	(2,531)	(2,531)
Temporary Equity				
Redeemable noncontrolling interest	—	—	(45,755)	(45,755)

Derivative Contracts:

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

Contingent Consideration:

The Company carries certain contingent liabilities resulting from its mergers and acquisition activities. Certain sellers of the Company’s acquired entities could earn additional earn-out payments in cash based on the entities’ subsequent operating performance. The Company recorded the acquisition date fair values of these contingent liabilities, based on the likelihood of contingent earn-out payments, as part of the consideration transferred. The earn-out payments are subsequently remeasured to fair value at each reporting date. During the three months ended June 30, 2017, the Company recorded additional contingent consideration of approximately $10.5 million resulting from Cabot’s acquisition of a debt solution service provider in the United Kingdom. Additionally, the Company reviewed the earn-out analysis for one of its previously acquired entities and determined that, based on actual and forecasted operating performance, there would be no future earn-out payment to the sellers, as a result, the entire liability for the contingent consideration of $2.8 million relating to the acquisition of that entity was reversed and recorded as a reduction of general and administrative expenses in the Company’s consolidated statements of operations for the three months ended June 30, 2017. As of September 30, 2017, the aggregated fair value of the contingent consideration was approximately $10.4 million.

The following table provides a roll forward of the fair value of contingent consideration for the periods ended September 30, 2017 and December 31, 2016 *(in thousands)*:

	Amount
Balance at December 31, 2015	$ 10,403
Change in fair value of contingent consideration	(7,602)
Effect of foreign currency translation	(270)
Balance at December 31, 2016	2,531
Issuance of contingent consideration in connection with acquisition	10,544
Change in fair value of contingent consideration	(2,392)
Payment of contingent consideration	(781)
Effect of foreign currency translation	480
Balance at September 30, 2017	$ 10,382

Redeemable Noncontrolling Interest:

Some minority shareholders in certain subsidiaries of the Company have the right, at certain times, to require the Company to acquire their ownership interest in those entities at fair value and, in some cases, to force a sale of the subsidiary if the Company chooses not to purchase their interests at fair value. The noncontrolling interest subject to these arrangements is included in temporary equity as redeemable noncontrolling interest, and is adjusted to its estimated redemption amount each reporting period. Future reductions in the carrying amount are subject to a “floor” amount that is equal to the fair value of the redeemable noncontrolling interest at the time it was originally recorded. The recorded value of the redeemable noncontrolling interest cannot go below the floor level. Adjustments to the carrying amount of redeemable noncontrolling interest are charged to retained earnings (or to additional paid-in capital if there are no retained earnings) and do not affect net income or comprehensive income in the consolidated financial statements.

The components of the change in the redeemable noncontrolling interest for the periods ended September 30, 2017 and December 31, 2016 are presented in the following table *(in thousands)*:

	Amount
Balance at December 31, 2015	$ 38,624
Addition to redeemable noncontrolling interest	826
Redemption of redeemable noncontrolling interest	(3,562)
Net loss attributable to redeemable noncontrolling interest	(47,831)
Adjustment of the redeemable noncontrolling interest to fair value	74,194
Effect of foreign currency translation attributable to redeemable noncontrolling interest	(16,496)
Balance at December 31, 2016	45,755
Addition to redeemable noncontrolling interest	277
Net income attributable to redeemable noncontrolling interest	3,238
Adjustment of the redeemable noncontrolling interest to fair value	107,959
Effect of foreign currency translation attributable to redeemable noncontrolling interest	3,434
Balance at September 30, 2017	$ 160,663

Financial Instruments Not Required To Be Carried At Fair Value

Investment in Receivable Portfolios:

The Company records its investment in receivable portfolios at cost, which represents a significant discount from the contractual receivable balances due. The Company computes the fair value of its investment in receivable portfolios using Level 3 inputs by discounting the estimated future cash flows generated by its proprietary forecasting models. The key inputs include the estimated future gross cash flow, average cost to collect, and discount rate. In accordance with authoritative guidance related to fair value measurements, the Company estimates the average cost to collect and discount rates based on its estimate of what a market participant might use in valuing these portfolios. The determination of such inputs requires significant judgment, including assessing the assumed market participant’s cost structure, its determination of whether to include fixed costs in its valuation, its collection strategies, and determining the appropriate weighted average cost of capital. The Company evaluates the use of these key inputs on an ongoing basis and refines the data as it continues to obtain better information from market participants in the debt recovery and purchasing business.

In the Company’s current analysis, the fair value of investment in receivable portfolios was approximately $2,860.5 million and $2,446.6 million as of September 30, 2017 and December 31, 2016, respectively, as compared to the carrying value of $2,728.8 million and $2,382.8 million as of September 30, 2017 and December 31, 2016, respectively. A 100 basis point fluctuation in the cost to collect and discount rate used would result in an increase or decrease in the fair value of U.S. and European portfolios by approximately $53.8 million and $71.3 million, respectively, as of September 30, 2017. This fair value calculation does not represent, and should not be construed to represent, the underlying value of the Company or the amount that could be realized if its investment in receivable portfolios were sold.

Deferred Court Costs:

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

Debt:

The majority of Encore and its subsidiaries’ borrowings are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximate fair value. These borrowings include Encore’s senior secured notes and borrowings under its revolving credit and term loan facilities, Cabot’s senior secured notes and borrowings under its revolving credit facility, and other borrowing under term and revolving credit facilities at certain of the Company’s subsidiaries.

Encore’s convertible senior notes are carried at historical cost, adjusted for the debt discount. The carrying value of the convertible senior notes was $513.3 million and $416.5 million as of September 30, 2017 and December 31, 2016, respectively.

The fair value estimate for these convertible senior notes, which incorporates quoted market prices using Level 2 inputs, was approximately $619.9 million and $431.7 million as of September 30, 2017 and December 31, 2016, respectively.

Cabot’s senior secured notes are carried at historical cost, adjusted for debt discount and debt premium. The carrying value of Cabot’s senior secured notes was $1.2 billion and $1.3 billion, as of September 30, 2017 and December 31, 2016, respectively. The fair value estimate for these senior notes, which incorporates quoted market prices using Level 2 inputs, was $1.3 billion and $1.3 billion as of September 30, 2017 and December 31, 2016, respectively.

The Company’s preferred equity certificates are legal obligations to the noncontrolling shareholders of certain subsidiaries. They are carried at the face amount, plus any accrued interest. The Company determined that the carrying value of these preferred equity certificates approximated fair value as of September 30, 2017 and December 31, 2016.

Note 5: Derivatives and Hedging Instruments

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

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

	September 30, 2017		December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign currency exchange contracts	Other assets	$ 1,840	Other assets	$ 707
Foreign currency exchange contracts	Other liabilities	—	Other liabilities	(51)
Interest rate swap agreements	Other liabilities	(40)	Other liabilities	(131)
Derivatives not designated as hedging instruments:				
Foreign currency exchange contracts	Other assets	257	Other assets	415
Foreign currency exchange contracts	Other liabilities	(2,248)	Other liabilities	(1,309)
Interest rate cap contracts	Other assets	2,724	Other assets	—

Derivatives Designated as Hedging Instruments

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

Certain of the foreign currency forward contracts are designated as cash flow hedging instruments and qualify for hedge accounting treatment. Gains and losses arising from the effective portion of such contracts are recorded as a component of accumulated other comprehensive income (“OCI”) as gains and losses on derivative instruments, net of income taxes. The hedging gains and losses in OCI are subsequently reclassified into earnings in the same period in which the underlying transactions affect the Company’s earnings. If all or a portion of the forecasted transaction is cancelled, this would render all or a portion of the cash flow hedge ineffective and the Company would reclassify the ineffective portion of the hedge into earnings. The Company generally does not experience ineffectiveness of the hedge relationship and the accompanying consolidated financial statements do not include any such gains or losses.

As of September 30, 2017, the total notional amount of the forward contracts that are designated as cash flow hedging instruments was $16.8 million. All of these outstanding contracts qualified for hedge accounting treatment. The Company estimates that approximately $1.8 million of net derivative gain included in OCI will be reclassified into earnings within the next 12 months. No gains or losses were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the nine months ended September 30, 2017 and 2016.

The Company may periodically enter into interest rate swap agreements to reduce its exposure to fluctuations in interest rates on variable interest rate debt and their impact on earnings and cash flows. As of September 30, 2017, the Company had t wo interest rate swap agreements outstanding with a total notional amount of $30.0 million Australian dollars (approximately $23.5 million U.S. dollars). These interest rate swap instruments are designated as cash flow hedges and accounted for using hedge accounting.

The following table summarizes the effects of derivatives in cash flow hedging relationships designated as hedging instruments on the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2017 and 2016 *(in thousands)*:

Derivatives Designated as Hedging Instruments	Gain or (Loss) Recognized in OCI-Effective Portion Three Months Ended September 30, 2017	Gain or (Loss) Recognized in OCI-Effective Portion Three Months Ended September 30, 2016	Location of Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion Three Months Ended September 30, 2017	Gain or (Loss) Reclassified from OCI into Income - Effective Portion Three Months Ended September 30, 2016	Location of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing Three Months Ended September 30, 2017	Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing Three Months Ended September 30, 2016
Foreign currency exchange contracts	$ (27)	$ 989	Salaries and employee benefits	$ 286	$ 151	Other (expense) income	$ —	$ —
Foreign currency exchange contracts	70	171	General and administrative expenses	35	26	Other (expense) income	—	—
Interest rate swap agreements	10	—	Interest expense	—	—	Other (expense) income	—	—

Derivatives Designated as Hedging Instruments	Gain or (Loss) Recognized in OCI-Effective Portion Nine Months Ended September 30, 2017	Gain or (Loss) Recognized in OCI-Effective Portion Nine Months Ended September 30, 2016	Location of Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion Nine Months Ended September 30, 2017	Gain or (Loss) Reclassified from OCI into Income - Effective Portion Nine Months Ended September 30, 2016	Location of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing Nine Months Ended September 30, 2017	Amount of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing Nine Months Ended September 30, 2016
Foreign currency exchange contracts	$ 1,708	$ 1,284	Salaries and employee benefits	$ 758	$ 683	Other (expense) income	$ —	$ —
Foreign currency exchange contracts	310	(19)	General and administrative expenses	76	95	Other (expense) income	—	—
Interest rate swap agreements	29	—	Interest expense	110	—	Other (expense) income	—	—

Derivatives Not Designated as Hedging Instruments

In 2016, Encore and its Cabot subsidiary collectively began entering into currency exchange forward contracts to reduce the effects of currency exchange rate fluctuations between the British Pound and Euro. These derivative contracts generally mature within one to three months and are not designated as hedge instruments for accounting purposes. The Company continues to monitor the level of exposure of the foreign currency exchange risk and may enter into additional short-term forward contracts on an ongoing basis. The gains or losses on these derivative contracts are recognized in other income or expense based on the changes in fair value. The Company's Cabot subsidiary also holds interest rate cap contracts with an aggregate notional amount of £260.0 million (approximately $348.3 million) that are used to manage its risk related to interest rate fluctuations. The Company does not apply hedge accounting on the interest rate cap contracts.

The following table summarizes the effects of derivatives in cash flow hedging relationships not designated as hedging instruments on the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2017 and 2016 *(in thousands)*:

	Location of Gain or (Loss) Recognized in income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments		**2017**	**2016**	**2017**	**2016**
Foreign currency exchange contracts	Other income (expense)	$ (833)	$ 3,330	$ 1,790	$ 10,706
Interest rate cap contracts	Interest expense	919	—	919	—
Interest rate swap agreements	Interest expense	—	39	110	83

Note 6: Investment in Receivable Portfolios, Net

In accordance with the authoritative guidance for loans and debt securities acquired with deteriorated credit quality, discrete receivable portfolio purchases during the same fiscal quarter are aggregated into pools based on common risk characteristics. Common risk characteristics include risk ratings (e.g., FICO or similar scores), financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. The Company's static pools are typically grouped into credit card, purchased consumer bankruptcy, and mortgage portfolios. The Company further groups these static pools by geographic region or location. Portfolios acquired in business combinations are also grouped into these pools. During any fiscal quarter in which the Company has an acquisition of an entity that has portfolio, the entire historical portfolio of the acquired company is aggregated into the pool groups for that quarter, based on common characteristics, resulting in pools for that quarter that may consist of several different vintages of portfolio. Once a static pool is established, the portfolios are permanently assigned to the pool. The discount (i.e., the difference between the cost of each static pool and the related aggregate contractual receivable balance) is not recorded because the Company expects to collect a relatively small percentage of each static pool's contractual receivable balance. As a result, receivable portfolios are recorded at cost at the time of acquisition. The purchase cost of the portfolios includes certain fees paid to third parties incurred in connection with the direct acquisition of the receivable portfolios.

In compliance with the authoritative guidance, the Company accounts for its investments in receivable portfolios using either the interest method or the cost recovery method. The interest method applies an internal rate of return ("IRR") to the cost basis of the pool, which remains unchanged throughout the life of the pool, unless there is an increase in subsequent expected cash flows. Subsequent increases in expected cash flows are recognized prospectively through an upward adjustment of the pool's IRR over its remaining life. Subsequent decreases in expected cash flows do not change the IRR, but are recognized as an allowance to the cost basis of the pool, and are reflected in the consolidated statements of operations as a reduction in revenue, with a corresponding valuation allowance, offsetting the investment in receivable portfolios in the consolidated statements of financial condition. With gross collections being discounted at monthly IRRs, when collections are lower in the near term, even if substantially higher collections are expected later in the collection curve, an allowance charge could result.

The Company utilizes its proprietary forecasting models to continuously evaluate the economic life of each pool. During the quarter ended September 30, 2016, the Company revised the forecasting methodology it uses to value and calculate IRRs on certain portfolios in Europe by extending the collection forecast from 120 months to 180 months. This change was made as a result of (1) the Company having observed that older portfolios in Europe have consistently experienced cash collections beyond 120 months, (2) an expectation that regulatory changes in the United Kingdom resulting in a reduction in the number of highly discounted near term one-time settlements, an increase in the number of payment plans, and an increase in the length of existing payment plans will cause a lengthening of the collections curve, (3) an expectation that, as a result of a higher percentage of semi-performing account purchases in the United Kingdom in recent years, newer vintages will have a larger percentage of collections after 120 months and (4) the Company's increased confidence in its ability to forecast future cash collections to 180 months. The increase in the collection forecast from 120 months to 180 months was applied effective July 1, 2016 to certain portfolios in Europe for which the Company could accurately forecast through such term. These changes in forecasted future cash flows resulted in an increase in the aggregate total estimated remaining collections for the receivable portfolios of approximately $296.5 million as of September 30, 2016. In addition, during the three months ended September 30, 2016, the Company recorded allowance charges of approximately $94.0 million resulting from delays or shortfalls in near term collections against the forecasts for certain pools in Europe. Subsequent to the recording of the allowance charges for certain pools in Europe, the Company has experienced sustained improvements in collections resulting primarily from its liquidation improvement initiatives. As a result, during the three and nine months ended September 30, 2017, the Company reversed approximately $28.0 million and $35.8 million, respectively of the previously recorded allowance charges for certain pool groups in Europe and raised IRRs for certain other pool groups in Europe.

Additionally, during the three months ended September 30, 2017, the Company recorded an allowance charge of $10.2 million on two pool groups in the United States that were heavily concentrated in Puerto Rico for which collections have been impacted as a result of hurricanes.

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

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

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

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

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Balance at December 31, 2016	$ 3,092,004	$ 365,504	$ 3,457,508
Revenue recognized, net	(211,718)	(40,252)	(251,970)
(Reductions) additions on existing portfolios, net	(90,138)	57,446	(32,692)
Additions for current purchases, net	200,728	—	200,728
Effect of foreign currency translation	38,712	467	39,179
Balance at March 31, 2017	3,029,588	383,165	3,412,753
Revenue recognized, net	(231,431)	(40,805)	(272,236)
Net additions on existing portfolios	225,021	9,888	234,909
Additions for current purchases, net	258,687	—	258,687
Effect of foreign currency translation	66,927	(753)	66,174
Balance at June 30, 2017	3,348,792	351,495	3,700,287
Revenue recognized, net	(248,220)	(35,368)	(283,588)
Net additions on existing portfolios	27,162	1,539	28,701
Additions for current purchases, net	336,725	—	336,725
Effect of foreign currency translation	56,971	375	57,346
Balance at September 30, 2017	$ 3,521,430	$ 318,041	$ 3,839,471

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Balance at December 31, 2015	$ 3,047,640	$ 223,031	$ 3,270,671
Revenue recognized, net	(238,547)	(31,547)	(270,094)
Net additions on existing portfolios	39,538	8,071	47,609
Additions for current purchases, net	193,654	—	193,654
Effect of foreign currency translation	(64,330)	470	(63,860)
Balance at March 31, 2016	2,977,955	200,025	3,177,980
Revenue recognized, net	(233,714)	(33,738)	(267,452)
Net additions on existing portfolios	59,459	95,135	154,594
Additions for current purchases, net	183,217	—	183,217
Effect of foreign currency translation	(181,223)	245	(180,978)
Balance at June 30, 2016	2,805,694	261,667	3,067,361
Revenue recognized, net	(119,543)	(39,991)	(159,534)
Net additions on existing portfolios	299,212	22,862	322,074
Additions for current purchases, net	180,079	—	180,079
Effect of foreign currency translation	(75,402)	135	(75,267)
Balance at September 30, 2016	$ 3,090,040	$ 244,673	$ 3,334,713

During the three months ended September 30, 2017, the Company purchased receivable portfolios with a face value of $3.0 billion for $292.3 million, or a purchase cost of 9.7% of face value. The estimated future collections at acquisition for all portfolios purchased during the three months ended September 30, 2017 amounted to $630.6 million. During the three months ended September 30, 2016, the Company purchased receivable portfolios with a face value of $1.5 billion for $206.4 million, or a purchase cost of 14.0% of face value. The estimated future collections at acquisition for all portfolios purchased during the three months ended September 30, 2016 amounted to $386.5 million.

During the nine months ended September 30, 2017, the Company purchased receivable portfolios with a face value of $7.1 billion for $757.5 million, or a purchase cost of 10.6% of face value. The estimated future collections at acquisition for all portfolios purchased during the nine months ended September 30, 2017 amounted to $1,555.0 million. During the nine months ended September 30, 2016, the Company purchased receivable portfolios with a face value of $7.9 billion for $696.2 million, or a purchase cost of 8.9% of face value. The estimated future collections at acquisition for all portfolios purchased during the nine months ended September 30, 2016 amounted to $1,262.0 million.

All collections realized after the net book value of a portfolio has been fully recovered (“Zero Basis Portfolios”) are recorded as revenue (“Zero Basis Revenue”). During the three months ended September 30, 2017 and 2016, Zero Basis Revenue was approximately $35.4 million and $40.0 million, respectively. During the nine months ended September 30, 2017 and 2016, Zero Basis Revenue was approximately $116.4 million and $105.3 million, respectively.

The following tables summarize the changes in the balance of the investment in receivable portfolios during the following periods (*in thousands, except percentages*):

	Three Months Ended September 30, 2017			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 2,541,590	$ 14,335	$ —	$ 2,555,925
Purchases of receivable portfolios	292,332	—	—	292,332
Disposals or transfers to held for sale	(3,536)	(265)	—	(3,801)
Gross collections[1]	(407,435)	(435)	(35,126)	(442,996)
Put-backs and Recalls[2]	(407)	—	(242)	(649)
Foreign currency adjustments	44,366	46	—	44,412
Revenue recognized	230,403	—	33,621	264,024
Portfolio allowance reversals, net	17,817	—	1,747	19,564
Balance, end of period	$ 2,715,130	$ 13,681	$ —	$ 2,728,811
Revenue as a percentage of collections[3]	56.5%	0.0%	95.7%	59.6%

	Three Months Ended September 30, 2016			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 2,465,967	$ 3,626	$ —	$ 2,469,593
Purchases of receivable portfolios	206,359	—	—	206,359
Gross collections[1]	(366,321)	(706)	(39,934)	(406,961)
Put-backs and Recalls[2]	(3,103)	—	(57)	(3,160)
Foreign currency adjustments	(27,361)	(173)	—	(27,534)
Revenue recognized	212,664	—	38,317	250,981
Portfolio (allowance) reversals, net	(93,121)	—	1,674	(91,447)
Balance, end of period	$ 2,395,084	$ 2,747	$ —	$ 2,397,831
Revenue as a percentage of collections[3]	58.1%	0.0%	96.0%	61.7%

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

(2) Put-backs represent accounts that are returned to the seller in accordance with the respective purchase agreement (“Put-Backs”). Recalls represent accounts that are recalled by the seller in accordance with the respective purchase agreement (“Recalls”).

(3) Revenue as a percentage of collections excludes the effects of net portfolio allowances or net portfolio allowance reversals.

	Nine Months Ended September 30, 2017			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 2,368,366	$ 14,443	$ —	$ 2,382,809
Purchases of receivable portfolios	756,305	1,169	—	757,474
Disposals or transfers to held for sale	(11,004)	(265)	—	(11,269)
Gross collections[1]	(1,212,357)	(1,534)	(116,150)	(1,330,041)
Put-backs and Recalls[2]	(5,401)	—	(275)	(5,676)
Foreign currency adjustments	127,852	(132)	—	127,720
Revenue recognized	665,818	—	111,451	777,269
Portfolio allowance reversals, net	25,551	—	4,974	30,525
Balance, end of period	$ 2,715,130	$ 13,681	$ —	$ 2,728,811
Revenue as a percentage of collections[3]	54.9%	0.0%	96.0%	58.4%

	Nine Months Ended September 30, 2016			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 2,436,054	$ 4,615	$ —	$ 2,440,669
Purchases of receivable portfolios	696,228	—	—	696,228
Transfer of portfolios	(96)	96	—	—
Gross collections[1]	(1,181,546)	(2,063)	(105,257)	(1,288,866)
Put-backs and Recalls[2]	(19,680)	(11)	(19)	(19,710)
Foreign currency adjustments	(127,680)	110	—	(127,570)
Revenue recognized	683,752	—	100,105	783,857
Portfolio (allowance) reversals, net	(91,948)	—	5,171	(86,777)
Balance, end of period	$ 2,395,084	$ 2,747	$ —	$ 2,397,831
Revenue as a percentage of collections[3]	57.9%	0.0%	95.1%	60.8%

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

(2) Put-backs represent accounts that are returned to the seller in accordance with the respective purchase agreement (“Put-Backs”). Recalls represent accounts that are recalled by the seller in accordance with the respective purchase agreement (“Recalls”).

(3) Revenue as a percentage of collections excludes the effects of net portfolio allowances or net portfolio allowance reversals.

The following table summarizes the change in the valuation allowance for investment in receivable portfolios during the periods presented *(in thousands)*:

	Valuation Allowance			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance at beginning of period	$ 130,675	$ 55,918	$ 137,037	$ 60,588
Provision for portfolio allowances	10,181	94,011	10,863	94,011
Reversal of prior allowances	(29,745)	(2,564)	(41,388)	(7,234)
Effect of foreign currency translation	1,759	(2,890)	6,358	(2,890)
Balance at end of period	$ 112,870	$ 144,475	$ 112,870	$ 144,475

Note 7: Deferred Court Costs, Net

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

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

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

	September 30, 2017	December 31, 2016
Court costs advanced	$ 724,625	$ 654,356
Court costs recovered	(292,454)	(261,243)
Court costs reserve	(354,810)	(327,926)
Deferred court costs	$ 77,361	$ 65,187

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

	Court Cost Reserve			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance at beginning of period	$ (345,971)	$ (319,651)	$ (327,926)	$ (318,784)
Provision for court costs	(19,767)	(25,599)	(60,031)	(55,976)
Net down of reserve after deferral period	12,419	12,955	36,992	40,028
Effect of foreign currency translation	(1,491)	560	(3,845)	2,997
Balance at end of period	$ (354,810)	$ (331,735)	$ (354,810)	$ (331,735)

Note 8: Other Assets

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

	September 30, 2017	December 31, 2016
Deferred tax assets	$ 57,891	$ 51,077
Identifiable intangible assets, net	29,267	28,243
Assets held for sale	27,575	21,147
Service fee receivables	26,144	15,156
Prepaid expenses	19,966	18,036
Other financial receivables	19,212	18,732
Derivative instruments	4,821	1,122
Security deposits	3,132	2,781
Receivable from seller	756	5,388
Other	66,229	53,765
Total	$ 254,993	$ 215,447

Note 9: Debt

The Company is in compliance with all covenants under its financing arrangements as of September 30, 2017. The components of the Company's consolidated debt and capital lease obligations were as follows *(in thousands)*:

	September 30, 2017	December 31, 2016
Encore revolving credit facility	$ 149,563	$ 578,000
Encore term loan facility	188,688	164,615
Encore senior secured notes	327,058	11,320
Encore convertible notes	548,500	448,500
Less: debt discount	(35,217)	(31,968)
Cabot senior secured notes	1,202,803	1,280,241
Add: debt premium	—	17,686
Less: debt discount	(2,033)	(2,200)
Cabot senior revolving credit facility	75,693	33,218
Cabot securitisation senior facility	349,288	—
Preferred equity certificates	244,422	205,975
Other credit facilities	68,854	74,551
Other	72,622	62,608
Capital lease obligations	3,148	5,091
	3,193,389	2,847,637
Less: debt issuance costs, net of amortization	(44,892)	(41,654)
Total	$ 3,148,497	$ 2,805,983

Encore Revolving Credit Facility and Term Loan Facility

The Company has a revolving credit facility and term loan facility pursuant to a Third Amended and Restated Credit Agreement dated December 20, 2016 (as amended, the "Restated Credit Agreement"). The Restated Credit Agreement includes a revolving credit facility of $826.7 million (the "Revolving Credit Facility"), a term loan facility of $191.5 million (the "Term Loan Facility", and together with the Revolving Credit Facility, the "Senior Secured Credit Facilities"), and an accordion feature that allows the Company to increase the Senior Secured Credit Facilities by an additional $250.0 million (approximately $125.3 million of which has been exercised).

Provisions of the Restated Credit Agreement include, but are not limited to:

- Revolving Credit Facility commitments of (1) $626.0 million that expire in December 2021, (2) $168.6 million that expire in February 2019 and (3) $32.1 million that expire in November 2017, in each case with interest at a floating rate equal to, at the Company's option, either: (a) reserve adjusted London Interbank Offered Rate ("LIBOR"), plus a spread that ranges from 250 to 300 basis points depending on the cash flow leverage ratio of Encore and its restricted subsidiaries; or (b) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. "Alternate base rate," as defined in the Restated Credit Agreement, means the highest of (i) the per annum rate which the administrative agent publicly announces from time to time as its prime lending rate, (ii) the federal funds effective rate from time to time, plus 0.5% per annum, (iii) reserved adjusted LIBOR determined on a daily basis for a one month interest period, plus 1.0% per annum and (iv) zero;

- A $170.1 million term loan maturing in December 2021, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. As of September 26, 2017, the date of the last amendment to the Restated Credit Agreement, principal amortizes $4.3 million in 2017, $8.6 million in 2018, and $12.9 million in each of 2019, 2020 and 2021 with the remaining principal due at the end of the term;

- A $17.0 million term loan maturing in February 2019, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. As of September 26, 2017, the date of the last amendment to the Restated Credit Agreement, principal amortizes $1.1 million in 2017 and $2.2 million in 2018 with the remaining principal due at the end of the term;

- A $4.5 million term loan maturing in November 2017, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted LIBOR, plus a spread that ranges from 250 to 300 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries; or (2) alternate base rate, plus a spread that ranges from 150 to 200 basis points, depending on the cash flow leverage ratio of Encore and its restricted subsidiaries. Principal amortizes $0.5 million in 2017 with the remaining principal due at the end of the term;

- A borrowing base under the Revolving Credit Facility equal to 35% of all eligible non-bankruptcy estimated remaining collections plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy;

- A maximum cash flow leverage ratio permitted of 3.00:1.00;

- A maximum cash flow first-lien leverage ratio of 2.00:1.00;

- A minimum interest coverage ratio of 1.75:1.00;

- The allowance of indebtedness in the form of senior secured notes not to exceed $350.0 million;

- The allowance of additional unsecured or subordinated indebtedness not to exceed $1.1 billion, including junior lien indebtedness not to exceed $400.0 million;

- Restrictions and covenants, which limit the payment of dividends and the incurrence of additional indebtedness and liens, among other limitations;

- Repurchases of up to $150.0 million of Encore's common stock after July 9, 2015, subject to compliance with certain covenants and available borrowing capacity;

- A change of control definition, that excludes acquisitions of stock by Red Mountain Capital Partners LLC, JCF FPK I, LP and their respective affiliates of up to 50% of the outstanding shares of Encore's voting stock;

- Events of default which, upon occurrence, may permit the lenders to terminate the facility and declare all amounts outstanding to be immediately due and payable;

- A pre-approved acquisition limit of $225.0 million per fiscal year;

- A basket to allow for investments not to exceed the greater of (1) 200% of the consolidated net worth of Encore and its restricted subsidiaries; and (2) an unlimited amount such that after giving effect to the making of any investment, the cash flow leverage ratio is less than 1.25:1:00;

- A basket to allow for investments in persons organized under the laws of Canada in the amount of $50.0 million;

- A requirement that Encore and its restricted subsidiaries, for the four-month period ending February 2019, have sufficient cash or availability under the Revolving Credit Facility (excluding availability under revolving commitments expiring in February 2019) to satisfy any amounts due under the revolving commitments that expire in February 2019 and the sub-tranche of the Term Loan Facility that expires in February 2019;

- Collateralization by all assets of the Company, other than the assets of certain foreign subsidiaries and all unrestricted subsidiaries as defined in the Restated Credit Agreement.

At September 30, 2017, the outstanding balance under the Revolving Credit Facility was $149.6 million, which bore a weighted average interest rate of 4.32% and 3.58% for the three months ended September 30, 2017 and 2016, respectively, and 3.99% and 3.52% for the nine months ended September 30, 2017 and 2016, respectively. Available capacity under the Revolving Credit Facility, subject to borrowing base and applicable debt covenants, was $382.0 million as of September 30, 2017, not including the $124.7 million additional capacity provided by the facility's remaining accordion feature. At September 30, 2017, the outstanding balance under the Term Loan Facility was $188.7 million.

Encore Senior Secured Notes

In 2010 and 2011 Encore entered into an aggregate of $75.0 million in senior secured notes with certain affiliates of Prudential Capital Group. $25.0 million of these senior secured notes bear an annual interest rate of 7.375% (the “7.375% Senior Secured Notes”), mature in 2018 and require quarterly principal payments of $1.25 million. Prior to May 2013, these notes required quarterly payments of interest only. $50.0 million of the senior secured notes bear an annual interest rate of 7.75% (the “7.75% Senior Secured Notes”), mature in 2017 and require quarterly principal payments of $2.5 million. Prior to December 2012 these notes required quarterly interest only payments. As of September 30, 2017, $2.1 million of the 7.375% Senior Secured Notes remained outstanding and none of the 7.75% Senior Secured Notes remained outstanding.

In August 2017, Encore entered into an additional $325.0 million in senior secured notes with a group of insurance companies (the “5.625% Senior Secured Notes,” and together with the 7.375% Senior Secured Notes and the 7.75% Senior Secured Notes, the “Senior Secured Notes”). The 5.625% Senior Secured Notes bear an annual interest rate of 5.625%, mature in 2024 and beginning in November 2019 will require quarterly principal payments of $16.3 million. As of September 30, 2017, $325.0 million of the 5.625% Senior Secured Notes remained outstanding. As of September 30, 2017, in aggregate, $327.1 million of Senior Secured Notes remained outstanding.

The Senior Secured Notes are guaranteed in full by certain of Encore’s subsidiaries. The Senior Secured Notes are *pari passu* with, and are collateralized by the same collateral as, the Senior Secured Credit Facilities. The Senior Secured Notes may be accelerated and become automatically and immediately due and payable upon certain events of default, including certain events related to insolvency, bankruptcy, or liquidation. Additionally, any series of the Senior Secured Notes may be accelerated at the election of the holder or holders of a majority in principal amount of such series of Senior Secured Notes upon certain events of default by Encore, including breach of affirmative covenants regarding guarantors, collateral, minimum revolving credit facility commitment or the breach of any negative covenant. Encore may prepay the Senior Secured Notes at any time for any reason. If Encore prepays the Senior Secured Notes, payment will be at the higher of par or the present value of the remaining scheduled payments of principal and interest on the portion being prepaid. The discount rate used to determine the present value is 50 basis points over the then current Treasury Rate corresponding to the remaining average life of the Senior Secured Notes. The covenants and material terms in the purchase agreement for the Senior Secured Notes are substantially similar to those in the Restated Credit Agreement. The holders of the Senior Secured Notes and the administrative agent for the lenders of the Restated Credit Agreement have an intercreditor agreement related to their pro rata rights to the collateral, actionable default, powers and duties and remedies, among other topics.

Encore Convertible Notes

In November and December 2012, Encore sold $115.0 million aggregate principal amount of 3.0% 2017 Convertible Notes that mature on November 27, 2017 in private placement transactions (the “2017 Convertible Notes”). In June and July 2013, Encore sold $172.5 million aggregate principal amount of 3.0% 2020 Convertible Notes that mature on July 1, 2020 in private placement transactions (the “2020 Convertible Notes”). In March 2014, Encore sold $161.0 million aggregate principal amount of 2.875% 2021 Convertible Notes that mature on March 15, 2021 in private placement transactions (the “2021 Convertible Notes”). In March 2017, Encore sold $150.0 million aggregate principal amount of 3.25% 2022 Convertible Senior Notes that mature on March 15, 2022 in private placement transactions (the “2022 Convertible Notes” and together with the 2017 Convertible Notes, the 2020 Convertible Notes and the 2021 Convertible Notes, the “Convertible Notes”). The interest on these unsecured convertible senior notes is payable semi-annually.

The net proceeds from the sale of the $150.0 million aggregate principal amount of the 2022 Convertible Notes were approximately $145.3 million, after deducting the initial purchasers’ discounts and the estimated offering expenses payable by the Company. The Company used approximately $60.4 million of the net proceeds from the offering to repurchase, in separate transactions, $50.0 million aggregate principal amount of its 2017 Convertible Notes. In accordance with authoritative guidance, the total consideration allocated to the extinguishment of the liability component was approximately $49.7 million and the total consideration allocated to the re-acquisition of the equity component was approximately $10.7 million. Because the net carrying value of the repurchased portion of the 2017 Convertible Notes was $48.9 million, the Company recognized a loss of approximately $0.8 million on the repurchase transaction.

Prior to the close of business on the business day immediately preceding their respective conversion date (listed below), holders may convert their Convertible Notes under certain circumstances set forth in the applicable Convertible Notes indentures. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert their Convertible Notes at any time. Certain key terms related to the convertible features for each of the Convertible Notes as of September 30, 2017 are listed below.

	2017 Convertible Notes	2020 Convertible Notes	2021 Convertible Notes	2022 Convertible Notes
Initial conversion price	$ 31.56	$ 45.72	$ 59.39	$ 45.57
Closing stock price at date of issuance	$ 25.66	$ 33.35	$ 47.51	$ 35.05
Closing stock price date	November 27, 2012	June 24, 2013	March 5, 2014	February 27, 2017
Conversion rate (shares per $1,000 principal amount)	31.6832	21.8718	16.8386	21.9467
Conversion date(1)	May 27, 2017	January 1, 2020	September 15, 2020	September 15, 2021

(1) The 2017 Convertible Notes became convertible on demand on January 2, 2014, as certain early conversion events were satisfied. Refer to “Conversion and Earnings Per Share Impact” section below for further details.

The Company’s 2017 Convertible Notes will mature on November 27, 2017 and are convertible into cash up to the aggregate principal amount of the notes. The Company will settle the excess conversion premium in shares of the Company’s common stock upon conversion.

In the event of conversion, holders of the Company’s 2020 Convertible Notes, 2021 Convertible Notes, and 2022 Convertible Notes will receive cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election. The Company’s current intent is to settle conversions through combination settlement (*i.e.*, convertible into cash up to the aggregate principal amount, and shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election, for the remainder). As a result, and in accordance with authoritative guidance related to derivatives and hedging and earnings per share, only the conversion spread is included in the diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread has a dilutive effect when, during any quarter, the average share price of the Company’s common stock exceeds the initial conversion prices listed in the above table.

Authoritative guidance related to debt with conversion and other options requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash, must separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Additionally, debt issuance costs are required to be allocated in proportion to the allocation of the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively.

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

	2017 Convertible Notes (1)	2020 Convertible Notes	2021 Convertible Notes	2022 Convertible Notes
Debt component	$ 64,646	$ 140,247	$ 143,645	$ 137,266
Equity component	$ 354	$ 32,253	$ 17,355	$ 12,734
Equity issuance cost	$ 788	$ 1,106	$ 581	$ 398
Stated interest rate	3.000%	3.000%	2.875%	3.250%
Effective interest rate	3.750%	6.350%	4.700%	5.200%

(1) As discussed above, in February 2017, the Company repurchased $50.0 million aggregate principal amount of its 2017 Convertible Notes. This transaction is treated as debt extinguishment and the effective interest rate has been updated from 6.000% to 3.750%, which represents the effective interest rate for the remaining 2017 Convertible Notes at the time of repurchase.

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

	September 30, 2017	December 31, 2016
Liability component—principal amount	$ 548,500	$ 448,500
Unamortized debt discount	(35,217)	(31,968)
Liability component—net carrying amount	$ 513,283	$ 416,532
Equity component	$ 62,619	$ 61,314

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest expense—stated coupon rate	$ 4,117	$ 3,317	$ 11,705	$ 9,925
Interest expense—amortization of debt discount	2,473	2,501	7,374	7,366
Total interest expense—convertible notes	$ 6,590	$ 5,818	$ 19,079	$ 17,291

Convertible Notes Hedge Transactions

In order to reduce the risk related to the potential dilution and/or the potential cash payments the Company may be required to make in the event that the market price of the Company's common stock becomes greater than the conversion prices of the Convertible Notes, the Company maintains a hedge program that increases the effective conversion price for each of the 2017 Convertible Notes, 2020 Convertible Notes, and 2021 Convertible Notes. The Company did not hedge the 2022 Convertible Notes. All of the hedge instruments related to the Convertible Notes have been determined to be indexed to the Company's own stock and meet the criteria for equity classification. In accordance with authoritative guidance, the Company recorded the cost of the hedge instruments as a reduction in additional paid-in capital, and will not recognize subsequent changes in fair value of these financial instruments in its consolidated financial statements.

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

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

In connection with the partial repurchase of the 2017 Convertible Notes as described above, the Company terminated a portion of its convertible note hedge transactions in a notional amount corresponding to the amount of the 2017 Convertible Notes repurchased. The Company received approximately $5.6 million of proceeds in connection with the unwinding of the hedge transactions and recorded these proceeds as increase in additional paid-in capital.

Conversion and Earnings Per Share Impact

During the quarter ending December 31, 2013, the closing price of the Company's common stock exceeded 130% of the conversion price of the 2017 Convertible Notes for more than 20 trading days during a 30 consecutive trading day period, thereby satisfying one of the early conversion events. As a result, the 2017 Convertible Notes became convertible on demand effective January 2, 2014, and the holders were notified that they could elect to submit their 2017 Convertible Notes for conversion. The carrying value of the 2017 Convertible Notes continues to be reported as debt as the Company intends to draw on the Revolving Credit Facility or use cash on hand to settle the principal amount of any such conversions in cash. No gain or loss was recognized when the debt became convertible. The estimated fair value of the 2017 Convertible Notes was approximately $90.5 million as of September 30, 2017. In addition, upon becoming convertible, a portion of the equity component that was recorded at the time of the issuance of the 2017 Convertible Notes was considered redeemable and that portion of the equity was reclassified to temporary equity in the Company's condensed consolidated statements of financial condition. Such amount was determined based on the cash consideration to be paid upon conversion and the carrying amount of the debt. As a result, the Company reclassified less than $0.1 million of the equity component to temporary equity as of September 30, 2017. If a conversion event takes place, this temporary equity balance will be recalculated based on the difference between the 2017 Convertible Notes principal and the debt carrying value. If the 2017 Convertible Notes are settled, an amount equal to the fair value of the liability component, immediately prior to the settlement, will be deducted from the fair value of the total settlement consideration transferred and allocated to the liability component. Any difference between the amount allocated to the liability and the net carrying amount of the 2017 Convertible Notes (including any unamortized debt issue costs and discount) will be recognized in earnings as a gain or loss on debt extinguishment. Any remaining consideration is allocated to the reacquisition of the equity component and will be recognized as a reduction in stockholders’ equity.

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

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

Cabot Senior Secured Notes

On September 20, 2012, Cabot Financial (Luxembourg) S.A. (“Cabot Financial”), an indirect subsidiary of Encore, issued £265.0 million (approximately $438.4 million) in aggregate principal amount of 10.375% Senior Secured Notes due 2019 (the “Cabot 2019 Notes”). Interest on the Cabot 2019 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year. On October 6, 2016, the Cabot 2019 Notes were redeemed in full using the proceeds from the issuance of Senior Secured Notes due 2023 (the “Cabot 2023 Notes”) as discussed below. A call premium of £13.7 million (approximately $17.4 million) was paid in connection with the redemption of the Cabot 2019 Notes. Since the Cabot 2019 Notes carried a premium of approximately £15.2 million (approximately $19.2 million) at the time of redemption, Cabot recognized a gain of approximately £1.4 million (approximately $1.8 million) on this transaction. The gain is included in other income in the Company’s consolidated statements of operations for the year ended December 31, 2016.

On August 2, 2013, Cabot Financial issued £100.0 million (approximately $151.7 million) in aggregate principal amount of 8.375% Senior Secured Notes due 2020 (the “Cabot 2020 Notes”). Interest on the Cabot 2020 Notes is payable semi-annually, in arrears, on February 1 and August 1 of each year.

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

On October 6, 2016, Cabot Financial issued £350.0 million (approximately $442.6 million) in aggregate principal amount of 7.500% Senior Secured Notes due 2023 (the “Cabot 2023 Notes,” and together with the Cabot 2019 Notes, the Cabot 2020 Notes and the Cabot 2021 Notes, the “Cabot Notes”). Interest on the Cabot 2023 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year. The Cabot 2023 Notes were issued at a price equal to 100% of their face value. The proceeds from the offering were used to (1) redeem in full the Cabot 2019 Notes plus a call premium of £13.7 million (approximately $17.4 million), (2) partially repay amounts outstanding under Cabot’s revolving credit facility, (3) pay accrued interest on the Cabot 2019 Notes, and (4) pay fees and expenses in relation to the offering of the Cabot 2023 Notes.

The Cabot Notes are fully and unconditionally guaranteed on a senior secured basis by the following indirect subsidiaries of the Company: Cabot Credit Management Limited (“CCM”), Cabot Financial Limited, and all material subsidiaries of Cabot Financial Limited (other than Cabot Financial and Marlin Intermediate Holdings plc). The Cabot Notes are secured by a first ranking security interest in all the outstanding shares of Cabot Financial and the guarantors (other than CCM and Marlin Midway Limited) and substantially all the assets of Cabot Financial and the guarantors (other than CCM). Subject to the Intercreditor Agreement described below under “Cabot Senior Revolving Credit Facility”, the guarantees provided in respect of the Cabot Notes are pari passu with each such guarantee given in respect of the Cabot Floating Rate Notes, Marlin Bonds and the Cabot Credit Facility described below.

On November 11, 2015, Cabot Financial (Luxembourg) II S.A. (“Cabot Financial II”), an indirect subsidiary of Encore, issued €310.0 million (approximately $332.2 million) in aggregate principal amount of Senior Secured Floating Rate Notes due 2021 (the “Cabot Floating Rate Notes”). The Cabot Floating Rate Notes were issued at a 1%, or €3.1 million (approximately $3.4 million), original issue discount, which is being amortized over the life of the notes and included as interest expense in the Company’s consolidated statements of operations. The Cabot Floating Rate Notes bear interest at a rate equal to three-month EURIBOR plus 5.875% per annum, reset quarterly. Interest on the Cabot Floating Rate Notes is payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, beginning on February 15, 2016. The Cabot Floating Rate Notes will mature on November 15, 2021.

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

On July 25, 2013, Marlin Intermediate Holdings plc (“Marlin”), a subsidiary of Cabot, issued £150.0 million (approximately $246.5 million) in aggregate principal amount of 10.5% Senior Secured Notes due 2020 (the “Marlin Bonds”). Interest on the Marlin Bonds is payable semi-annually, in arrears, on February 1 and August 1 of each year. Cabot assumed the Marlin Bonds as a result of the acquisition of Marlin. The carrying value of the Marlin Bonds was adjusted to approximately $284.2 million to reflect the fair value of the Marlin Bonds at the time of acquisition. In September 2017, the Marlin Bonds were redeemed in full using a portion of the proceeds from a senior facility of Cabot Securitisation UK Limited (“Cabot Securitisation”) as discussed below. A call premium of £7.9 million (approximately $10.5 million) was paid in connection with the redemption of the Marlin Bonds. Since the Marlin Bonds carried a premium of approximately £12.1 million (approximately $16.2 million) at the time of redemption, Cabot recognized a gain of approximately £4.3 million (approximately $5.7 million) on this transaction. The gain is included in other income in the Company’s consolidated statements of operations for the three and nine months ended September 30, 2017.

Interest expense related to the Cabot Notes, Cabot Floating Rate Notes and Marlin Bonds was as follows *(in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest expense—stated coupon rate	$ 24,285	$ 25,870	$ 73,278	$ 81,359
Interest income—accretion of debt premium	(758)	(2,542)	(2,855)	(7,854)
Interest expense—amortization of debt discount	119	119	345	503
Total interest expense—Cabot senior secured notes	$ 23,646	$ 23,447	$ 70,768	$ 74,008

At September 30, 2017, the outstanding balance on the Cabot Notes, Cabot Floating Rate Notes and Marlin Bonds was $1.2 billion.

Cabot Senior Revolving Credit Facility

On September 20, 2012, Cabot Financial (UK) Limited (“Cabot Financial UK”) entered into an agreement for a senior committed revolving credit facility of £50.0 million (approximately $82.7 million) (the “Cabot Credit Agreement”). Since such date there have been a number of amendments made, including, but not limited to, increases in the lenders’ total commitments thereunder to £250.0 million (approximately $316.2 million). On March 31, 2017, Cabot Financial UK amended and restated its existing senior secured revolving credit facility agreement effective as of April 3, 2017 to, among other things, extend the termination date for a £50.0 million tranche of commitments to March 2022 (as amended and restated, the “Cabot Credit Facility”). The Cabot Credit Facility also includes an uncommitted accordion provision which will allow the facility to be increased by an additional £50.0 million, subject to obtaining the requisite commitments and compliance with the terms of Cabot Financial UK’s other indebtedness, among other conditions precedent.

The Cabot Credit Facility consists of a £200.0 million tranche that expires in September 2019 and a £50.0 million tranche that expires in March 2022, and includes the following key provisions:

- Interest at LIBOR (or EURIBOR for any loan drawn in euro) plus 3.25%;
- A restrictive covenant that limits the loan to value ratio to 0.75 in the event that the Cabot Credit Facility is more than 20% utilized;
- A restrictive covenant that limits the super senior loan (i.e. the Cabot Credit Facility and any super priority hedging liabilities) to value ratio to 0.25 in the event that the Cabot Credit Facility is more than 20% utilized;
- Additional restrictions and covenants which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens; and
- Events of default which, upon occurrence, may permit the lenders to terminate the Cabot Credit Facility and declare all amounts outstanding to be immediately due and payable.

The Cabot Credit Facility is unconditionally guaranteed by the following indirect subsidiaries of the Company: CCM, Cabot Financial Limited, and all material subsidiaries of Cabot Financial Limited. The Cabot Credit Facility is secured by first ranking security interests in all the outstanding shares of Cabot Financial UK and the guarantors (other than CCM) and substantially all the assets of Cabot Financial UK and the guarantors (other than CCM). Pursuant to the terms of intercreditor agreements entered into with respect to the relative positions of the Cabot Notes, the Cabot Floating Rate Notes, the Marlin Bonds and the Cabot Credit Facility, any liabilities in respect of obligations under the Cabot Credit Facility that are secured by assets that also secure the Cabot Notes, the Cabot Floating Rate Notes and the Marlin Bonds will receive priority with respect to any proceeds received upon any enforcement action over any such assets.

At September 30, 2017, the outstanding borrowings under the Cabot Credit Facility were approximately $75.7 million. The weighted average interest rate was 3.50% and 3.89% for the three months ended September 30, 2017 and 2016, respectively, and 3.51% and 3.97% for the nine months ended September 30, 2017 and 2016, respectively.

Cabot Securitisation Senior Facility

On August 23, 2017, Cabot Securitisation entered into a senior facility agreement (the “Senior Facility Agreement”) for an initial committed amount of £260.0 million (approximately $332.9 million) with an accordion feature of £90.0 million (approximately $115.2 million) (the “Cabot Securitisation Senior Facility”). The Senior Facility Agreement has an initial availability period ending in September 2020 and an initial repayment date in September 2022. The obligations of Cabot Securitisation under the Senior Facility Agreement are secured by first ranking security interests over all of Cabot Securitisation’s property, assets and rights (including receivables purchased from Cabot Financial UK from time to time), the book value of which was £267.2 million (approximately $357.9 million) as of September 30, 2017. Funds drawn under the Senior Facility Agreement will bear interest at a rate per annum equal to LIBOR plus a margin of 2.85%. A portion of the proceeds from the Senior Facility Agreement were used to redeem the Marlin Bonds in full.

At September 30, 2017, the outstanding borrowings under the Cabot Securitisation Senior Facility were approximately $349.3 million. The weighted average interest rate was 3.10% for the three months ended September 30, 2017.

Preferred Equity Certificates

On July 1, 2013, the Company, through its wholly owned subsidiary Encore Europe Holdings, S.a r.l. (“Encore Europe”), completed the acquisition of Cabot (the “Cabot Acquisition”) by acquiring 50.1% of the equity interest in Janus Holdings S.a r.l. (“Janus Holdings”). Encore Europe purchased from J.C. Flowers & Co. LLC (“JC Flowers”): (i) E Bridge preferred equity certificates issued by Janus Holdings, with a face value of £10,218,574 (approximately $15.5 million) (and any accrued interest thereof) (the “E Bridge PECs”), (ii) E preferred equity certificates issued by Janus Holdings with a face value of £96,729,661 (approximately $147.1 million) (and any accrued interest thereof) (the “E PECs”), (iii) 3,498,563 E shares of Janus Holdings (the “E Shares”), and (iv) 100 A shares of Cabot Holdings S.a.r.l. (“Cabot Holdings”), the direct subsidiary of Janus Holdings, for an aggregate purchase price of approximately £115.1 million (approximately $175.0 million). The E Bridge PECs, E PECs, and E Shares represent 50.1% of all of the issued and outstanding equity and debt securities of Janus Holdings. The remaining 49.9% of Janus Holdings’ equity and debt securities are owned by J.C. Flowers and include: (a) J Bridge PECs with a face value of £10,177,781 (approximately $15.5 million), (b) J preferred equity certificates with a face value of £96,343,515 (approximately $146.5 million) (the “J PECs”), (c) 3,484,597 J shares of Janus Holdings (the “J Shares”), and (d) 100 A shares of Cabot Holdings.

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

On June 20, 2014, Encore Europe converted all of its E Bridge PECs into E Shares and E PECs, and J.C. Flowers converted all of its J Bridge PECs into J Shares and J PECs in proportion to the number of E Shares and E PECs, or J Shares and J PECs, as applicable, outstanding on the closing date of the Cabot Acquisition.

As of September 30, 2017, the outstanding balance of the PECs, including accrued interest, was approximately $244.4 million.

Capital Lease Obligations

The Company has capital lease obligations primarily for computer equipment. As of September 30, 2017, the Company's combined obligations for capital leases were approximately $3.1 million. These capital lease obligations require monthly, quarterly or annual payments through 2021 and have implicit interest rates that range from zero to approximately 6.0%.

Note 10: Variable Interest Entities

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

The Company's VIEs include its subsidiary, Janus Holdings, and other immaterial special purpose entities that were created to purchase receivable portfolios in certain geographies.

Prior to March 31, 2016, the Company's VIEs included its subsidiary Janus Holdings and its special purpose entity used for the Propel securitization. On March 31, 2016, the Company completed the divestiture of 100% of its membership interests in Propel. Since Propel is the primary beneficiary of the VIE used for securitization, subsequent to the sale of Propel, the Company no longer consolidates this VIE.

Janus Holdings is the indirect parent company of Cabot. The Company has determined that Janus Holdings is a VIE and the Company is the primary beneficiary of the VIE. The key activities that affect Cabot's economic performance include, but are not limited to, operational budgets and purchasing decisions. Through its control of the board of directors of Janus Holdings, the Company controls the key operating activities at Cabot.

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

The Company evaluates its relationships with its VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.

Note 11: Income Taxes

Income tax expense for income from continuing operations was $17.8 million and income tax benefit was $13.8 million during the three months ended September 30, 2017 and 2016, respectively. Income tax expense for income from continuing operations was $43.4 million and $9.8 million during the nine months ended September 30, 2017 and 2016, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Federal provision	35.0 %	(35.0)%	35.0 %	35.0 %
State provision (benefit)	3.3 %	(2.2)%	3.3 %	2.2 %
International (benefit) provision(1)	(7.9)%	16.0 %	(2.2)%	19.3 %
Permanent items	(0.7)%	0.3 %	0.2 %	3.3 %
Other(2)	0.0 %	(0.1)%	0.0 %	(6.7)%
Effective rate	29.7 %	(21.0)%	36.3 %	53.1 %

(1) Relates primarily to lower tax rates on income or loss attributable to international operations. Effective January 1, 2017, there was a change to U.K. tax law that resulted in an unfavorable deductibility on interest expenses as compared to the prior period.

(2) Includes the effect of discrete items.

The effective tax rates fluctuated significantly during the periods presented due to the following factors.

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

The Company's subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2018 and a 50% tax holiday for the subsequent four years. The impact of the tax holiday in Costa Rica for the three and nine months ended September 30, 2017 and 2016, was immaterial.

The Company had gross unrecognized tax benefits, inclusive of penalties and interest, of $21.2 million at September 30, 2017. These unrecognized tax benefits, if recognized, would result in a net tax benefit of $7.1 million as of September 30, 2017. The gross unrecognized tax benefits did not change from December 31, 2016.

During the three and nine months ended September 30, 2017, the Company did not provide for U.S. income taxes or foreign withholding taxes on the quarterly undistributed earnings from operations of its subsidiaries operating outside of the United States. Undistributed pre-tax income of these subsidiaries was approximately $46.0 million and $57.5 million during the three and nine months ended September 30, 2017, respectively.

Note 12: Commitments and Contingencies

Litigation and Regulatory

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

At September 30, 2017, there were no material developments in any of the legal proceedings disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

In certain legal proceedings, the Company may have recourse to insurance or third party contractual indemnities to cover all or portions of its litigation expenses, judgments, or settlements. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. The Company continuously assesses the potential liability related to its pending litigation and regulatory matters and revises its estimates when additional information becomes available. As of September 30, 2017, other than the reserves for the Consumer Finance Protection Bureau ("CFPB") and ancillary state regulatory matters, and the TCPA settlement fund discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company has no material reserves for legal matters. Additionally, based on the current status of litigation and regulatory matters, either the estimate of exposure is immaterial to the Company's financial statements or an estimate cannot yet be determined. The Company's legal costs are recorded to expense as incurred.

Purchase Commitments

In the normal course of business, the Company enters into forward flow purchase agreements and other purchase commitment agreements. As of September 30, 2017, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately $2.1 billion for a purchase price of approximately $335.3 million. The majority of purchase commitments do not extend past one year.

Note 13: Segment Information

The Company conducts business through several operating segments that meet the aggregation criteria under authoritative guidance related to segment reporting. The Company's management relies on internal management reporting processes that provide segment revenue, segment operating income, and segment asset information in order to make financial decisions and allocate resources. Prior to the first quarter 2016 the Company had determined that it had two reportable segments: portfolio purchasing and recovery and tax lien business. As discussed in Note 2, "Discontinued Operations," on March 31, 2016, the Company completed the divestiture of its membership interests in Propel, which comprised the entire tax lien business segment. Propel's operations are presented as discontinued operations in the Company's condensed consolidated statements of operations. Beginning in the first quarter 2016, the Company has one reportable segment, portfolio purchasing and recovery.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues[1]:				
United States	$ 154,815	$ 165,933	$ 498,744	$ 502,776
International				
Europe[2]	127,687	(9,540)	300,379	188,223
Other foreign countries	24,197	23,022	70,434	66,875
	151,884	13,482	370,813	255,098
Total	$ 306,699	$ 179,415	$ 869,557	$ 757,874

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

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

Note 14: Goodwill and Identifiable Intangible Assets

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

The annual goodwill testing date for the reporting units that are included in the portfolio purchasing and recovery reportable segment is October 1st. There have been no events or circumstances during the nine months ended September 30, 2017 that have required the Company to perform an interim assessment of goodwill carried at these reporting units. Management continues to evaluate and monitor all key factors impacting the carrying value of the Company's recorded goodwill and long-lived assets. Adverse changes in the Company's actual or expected operating results, market capitalization, business climate, economic factors or other negative events that may be outside the control of management could result in a material non-cash impairment charge in the future.

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

	Total
Balance, December 31, 2016	$ 785,032
Goodwill acquired	11,142
Effect of foreign currency translation	56,988
Balance, September 30, 2017	$ 853,162

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

	As of September 30, 2017			As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 26,176	$ (5,562)	$ 20,614	$ 21,200	$ (3,220)	$ 17,980
Developed technologies	7,049	(5,214)	1,835	6,497	(3,891)	2,606
Trade name and other	13,616	(6,798)	6,818	12,566	(4,909)	7,657
Total intangible assets	$ 46,841	$ (17,574)	$ 29,267	$ 40,263	$ (12,020)	$ 28,243

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

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

Our Business and Operating Segments

We are an international specialty finance company providing debt recovery solutions and other related services for consumers across a broad range of financial assets. We purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers' unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies, commercial retailers, and telecommunication companies. Defaulted receivables may also include receivables subject to bankruptcy proceedings. Through certain subsidiaries, we are a market leader in portfolio purchasing and recovery in the United States, including Puerto Rico. Our subsidiary, Janus Holdings Luxembourg S.a r.l. ("Janus Holdings"), through its indirectly held U.K.-based subsidiary Cabot Credit Management Limited and its subsidiaries (collectively, "Cabot"), is a market leader in credit management services in the United Kingdom, historically specializing in portfolios consisting of higher balance, semi-performing accounts (*i.e.*, debt portfolios in which over 50% of the accounts have received a payment in three of the last four months immediately prior to the portfolio purchase). Our subsidiary, Grove Holdings ("Grove"), is a U.K.-based leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or "IVAs") in the United Kingdom and bank and non-bank receivables in Spain. Our majority-owned subsidiary, Refinancia S.A. ("Refinancia"), through its subsidiaries, is a market leader in debt collection and management in Colombia and Peru. Our majority-owned subsidiary, Baycorp Holdings Pty Limited ("Baycorp"), is one of Australasia's leading debt resolution specialists. In India, Encore's Asset Reconstruction Company ("EARC") is operational and has completed initial immaterial purchases.

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

In the first quarter of 2017, we and our co-investor in Cabot, J.C. Flowers & Co. LLC ("J.C. Flowers"), began exploring options in relation to a potential initial public offering by Cabot ("Cabot IPO"). On October 20, 2017, Cabot announced its intention to proceed with an initial public offering and to apply for admission of its ordinary shares to the premium listing segment of the Official List of the Financial Conduct Authority and to trade on the main market for listed securities of the London Stock Exchange. Upon consummation of the Cabot IPO, we intend to deconsolidate Cabot from our financial statements. The potential deconsolidation would significantly change our financial statements. For example, assets and liabilities attributable to Cabot that are currently consolidated in our statements of financial condition would be removed and our investment in Cabot would be accounted for under the guidance of equity method accounting for so long as we retained significant influence over Cabot. The Cabot IPO could also significantly change our liquidity and capital resources to the extent we decide to sell any interest in Cabot after the Cabot IPO.

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

Government Regulation

United States

As discussed in more detail under “Part I - Item 1 - Business - Government Regulation” in our Annual Report on Form 10-K, our U.S. debt purchasing business and collection activities are subject to federal, state and municipal statutes, rules, regulations and ordinances that establish specific guidelines and procedures that debt purchasers and collectors must follow when collecting consumer accounts, including among others, specific guidelines and procedures for communicating with consumers and prohibitions on unfair, deceptive or abusive debt collection practices. In July, the Consumer Financial Protection Bureau, or CFPB, issued an agenda that included plans to issue a Notice of Proposed Rulemaking concerning debt collectors’ and debt buyers’ communications practices and consumer disclosures.

International

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

In the United Kingdom, Cabot applied for full authorization of its business with the FCA in March 2015 and Cabot Credit Management Group Limited (“CCMG”), a Cabot subsidiary, became authorized and regulated by the FCA in March 2016. CCMG appointed other Cabot subsidiaries to carry out debt-collecting and debt administration services on its behalf. CCMG assumes full regulatory responsibility for such entities. In addition to the permissions granted as part of this authorization, Cabot successfully applied for additional permission to collect MCOB (Mortgage/Secured) debt in November 2016, this was unconditionally granted in February 2017.

Also in the United Kingdom, an area of new legislation is the extension of the Senior Managers and Certification Regime to all sectors of the financial services industry, which is due to be implemented from 2018. The extended regime will reflect the requirements of the regime applied to U.K. banks in 2016. The Senior Managers and Certification Regime was designed to drive up individual accountability and general governance standards.

In July 2015, the Irish Parliament introduced the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015, which requires credit servicing firms to be regulated by the Central Bank of Ireland to ensure regulatory protection for consumers following loan book sales. Cabot is registered with and regulated by the Central Bank of Ireland for credit servicing activities and its activities are subject to detailed rules on consumer protection. Cabot was issued an unconditional authorization in May 2017.

In June 2016, the United Kingdom held a referendum in which voters approved the United Kingdom’s exit from the European Union (“E.U.”), commonly referred to as “Brexit.” The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the U.K. government formally initiates a withdrawal process. In March 2017, the United Kingdom formally triggered the process of leaving the E.U. by invoking Article 50 of the Treaty on European Union. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications Brexit will have and how it will affect us.

Portfolio Purchasing and Recovery

United States

We purchase receivables based on robust, account-level valuation methods and employ proprietary statistical and behavioral models across our U.S. operations. These methods and models allow us to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with our methods or goals and align the accounts we purchase with our business channels to maximize future collections. As a result, we have been able to realize significant returns from the receivables we acquire. We maintain strong relationships with many of the largest financial service providers in the United States.

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

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

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

Europe

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

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

Grove: In April 2014, we acquired a controlling equity ownership interest in Grove. In December 2016, we acquired the remaining minority equity ownership interest in Grove. Grove, through its subsidiaries and affiliates, is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, IVAs) in the United Kingdom and bank and non-bank receivables in Spain. Grove purchases portfolio receivables using a proprietary pricing model. This model allows Grove to value portfolios and quantify portfolio performance in order to maximize future collections.

Latin America

In December 2013, we acquired a majority ownership interest in Refinancia, a market leader in debt collection and management in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including point-of-purchase lending to consumers and providing financial solutions to individuals who have previously defaulted on their credit obligations. In addition to operations in Colombia and Peru, we evaluate and purchase non-performing loans in other countries in Latin America, including Mexico and Brazil. We also invest in non-performing secured residential mortgages in Latin America.

Asia Pacific

Through our acquisition of a majority ownership interest in Baycorp in October 2015 (the “Baycorp Acquisition”), we are one of Australasia’s leading debt resolution specialists. Baycorp specializes in the management of non-performing loans in Australia and New Zealand. In addition to purchasing defaulted receivables, Baycorp offers portfolio management services to banks for non-performing loans.

Purchases and Collections

Portfolio Pricing, Supply and Demand

United States

Prices for portfolios offered for sale directly from credit issuers are beginning to decrease after several years of elevated pricing, 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. Recently, in addition to selling their volume earlier in the calendar year, issuers have continued to increase the amount of fresh portfolios in their asset sales. Industry delinquency and charge-off rates, which have been at historic lows, are beginning to increase which creates higher volumes of charged-off accounts. We believe the softening in pricing, especially for fresh portfolios, is primarily due to this anticipated growth in supply.

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

Europe

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

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

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

Although pricing has been elevated, we believe that as our European businesses increase in scale and expand to other markets, and with anticipated improvements in liquidation and improved efficiencies in collections, our margins will remain competitive. Additionally, Cabot's continuing investment in its litigation liquidation channel has enabled them to collect from consumers who have the ability to pay, but have so far been unwilling to do so. This enables Cabot to mitigate some of the impact of elevated pricing.

Purchases by Type and Geographic Location

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States:				
Credit card	$ 108,047	$ 131,671	$ 342,070	$ 379,300
Consumer bankruptcy receivables	3,113	9,914	24,250	33,776
Subtotal	111,160	141,585	$ 366,320	$ 413,076
Europe:				
Credit card	177,266	30,709	353,075	206,665
Other	—	12,258	1,561	15,696
Subtotal	177,266	42,967	354,636	222,361
Other geographies:				
Credit card	3,906	20,186	31,870	52,691
Other	—	1,621	4,648	8,100
Subtotal	3,906	21,807	36,518	60,791
Total purchases	$ 292,332	$ 206,359	$ 757,474	$ 696,228

During the three months ended September 30, 2017, we invested $292.3 million to acquire consumer receivable portfolios, with face values aggregating $3.0 billion, for an average purchase price of 9.7% of face value. This is a $85.9 million, or 41.6%, increase in the amount invested, compared with the $206.4 million invested during the three months ended September 30, 2016, to acquire consumer receivable portfolios with face values aggregating $1.5 billion, for an average purchase price of 14.0% of face value.

In the United States, capital deployment decreased for the three months ended September 30, 2017, as compared to the corresponding period in the prior year. The decrease was primarily due to our disciplined approach to capital deployment and a temporary delay in installments under certain forward flow agreements that we now expect to occur in the fourth quarter. However, due to the improved pricing environment and our progress on liquidation improvement initiatives, we were able to deploy capital on portfolios with higher returns enabling us to purchase similar amounts of total estimated gross collections for less. In Europe, capital deployment increased for the three months ended September 30, 2017, as compared to the corresponding period in the prior year due to continued strategic expansion in the European debt purchasing market.

During the nine months ended September 30, 2017, we invested $757.5 million to acquire consumer receivable portfolios, with face values aggregating $7.1 billion, for an average purchase price of 10.6% of face value. This is a $61.3 million, or 8.8%, increase in the amount invested, compared with the $696.2 million invested during the nine months ended September 30, 2016, to acquire consumer receivable portfolios with face values aggregating $7.9 billion, for an average purchase price of 8.9% of face value.

In the United States, capital deployment decreased for the nine months ended September 30, 2017, as compared to the corresponding period in the prior year, due to the improved pricing environment and our disciplined approach to capital deployment, which allows us to deploy capital on portfolios with higher returns enabling us to purchase similar amounts of total estimated gross collections for less. This decrease was partially offset by the increased supply available for sale during the period as a result of issuers selling more of their available volume earlier in the calendar year.

In Europe, capital deployment for the nine months ended September 30, 2017 increased as compared to the corresponding period in the prior year, primarily driven by continued strategic expansion in the European debt purchasing market, offset by unfavorable impact of foreign currency translation, which was primarily the result of the weakening of the British Pound against the U.S. dollar.

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

Collections by Channel and Geographic Location

We currently utilize three channels for the collection of our receivables: collection sites, legal collections, and collection agencies. The collection sites channel consists of collections that result from our call centers, direct mail program and online collections. The legal collections channel consists of collections that result from our internal legal channel or from our network of retained law firms. The collection agencies channel consists of collections from third-party collection agencies that we utilize when we believe they can liquidate better or less expensively than we can or to supplement capacity in our internal call centers.

The following table summarizes the total collections by collection channel and geographic area *(in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States:				
Collection sites	$ 121,639	$ 111,753	$ 381,708	$ 362,010
Legal collections	134,011	130,985	421,984	427,972
Collection agencies[1]	13,258	12,875	39,156	41,630
Subtotal	268,908	255,613	842,848	831,612
Europe:				
Collection sites	75,940	61,306	226,139	180,742
Legal collections	26,956	31,502	88,469	94,596
Collection agencies	41,046	28,730	87,980	100,684
Subtotal	143,942	121,538	402,588	376,022
Other geographies:				
Collection sites	23,797	22,518	66,232	60,726
Legal collections	2,108	2,634	5,757	7,775
Collection agencies	4,241	4,658	12,616	12,731
Subtotal	30,146	29,810	84,605	81,232
Total collections	$ 442,996	$ 406,961	$ 1,330,041	$ 1,288,866

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

Gross collections increased by $36.0 million, or 8.9%, to $443.0 million during the three months ended September 30, 2017, from $407.0 million during the three months ended September 30, 2016. Gross collections increased by $41.1 million, or 3.2%, to $1,330.0 million during the nine months ended September 30, 2017, from $1,288.9 million during the nine months ended September 30, 2016.

The increase of collections in the United States was primarily due to the acquisition of portfolios with higher returns in recent periods and our continued effort in improving liquidation, partially offset by delays in collections on portfolios impacted by the hurricanes. The increase in collections in Europe was primarily the result of increased purchasing volume and implementing certain liquidation improvement initiatives. The increase in collections in Europe during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 was offset by the unfavorable impact of foreign currency translation, primarily driven by the weakening of the British Pound against the U.S. dollar.

Results of Operations

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

	Three Months Ended September 30,			
	2017		2016	
Revenues				
Revenue from receivable portfolios, net	$ 283,588	92.5 %	$ 159,534	88.9 %
Other revenues	23,111	7.5 %	19,881	11.1 %
Total revenues	306,699	100.0 %	179,415	100.0 %
Operating expenses				
Salaries and employee benefits	77,232	25.2 %	67,783	37.8 %
Cost of legal collections	48,094	15.7 %	56,932	31.7 %
Other operating expenses	25,859	8.4 %	24,131	13.5 %
Collection agency commissions	10,622	3.4 %	8,848	4.9 %
General and administrative expenses	32,500	10.6 %	34,871	19.4 %
Depreciation and amortization	8,522	2.8 %	8,032	4.5 %
Total operating expenses	202,829	66.1 %	200,597	111.8 %
Income (loss) from operations	103,870	33.9 %	(21,182)	(11.8)%
Other (expense) income				
Interest expense	(52,755)	(17.2)%	(48,632)	(27.1)%
Other income	8,873	2.9 %	4,100	2.3 %
Total other expense	(43,882)	(14.3)%	(44,532)	(24.8)%
Income (loss) before income taxes	59,988	19.6 %	(65,714)	(36.6)%
(Provision) benefit for income taxes	(17,844)	(5.9)%	13,768	7.6 %
Net income (loss)	42,144	13.7 %	(51,946)	(29.0)%
Net (income) loss attributable to noncontrolling interest	(13,950)	(4.5)%	50,422	28.2 %
Net income (loss) attributable to Encore Capital Group, Inc. stockholders	$ 28,194	9.2 %	$ (1,524)	(0.8)%

	Nine Months Ended September 30,					
	2017			2016		
Revenues						
Revenue from receivable portfolios, net	$	807,794	92.9 %	$	697,080	92.0 %
Other revenues		61,763	7.1 %		60,794	8.0 %
Total revenues		869,557	100.0 %		757,874	100.0 %
Operating expenses						
Salaries and employee benefits		221,296	25.4 %		212,924	28.1 %
Cost of legal collections		149,460	17.2 %		158,047	20.9 %
Other operating expenses		76,249	8.8 %		75,420	10.0 %
Collection agency commissions		33,678	3.9 %		28,242	3.7 %
General and administrative expenses		102,750	11.8 %		103,044	13.6 %
Depreciation and amortization		25,819	3.0 %		26,128	3.4 %
Total operating expenses		609,252	70.1 %		603,805	79.7 %
Income from operations		260,305	29.9 %		154,069	20.3 %
Other (expense) income						
Interest expense		(152,469)	(17.5)%		(149,920)	(19.8)%
Other income		12,004	1.4 %		14,358	1.9 %
Total other expense		(140,465)	(16.1)%		(135,562)	(17.9)%
Income from continuing operations before income taxes		119,840	13.8 %		18,507	2.4 %
Provision for income taxes		(43,442)	(5.0)%		(9,831)	(1.3)%
Income from continuing operations		76,398	8.8 %		8,676	1.1 %
Loss from discontinued operations, net of tax		(199)	0.0 %		(3,182)	(0.4)%
Net income		76,199	8.8 %		5,494	0.7 %
Net (income) loss attributable to noncontrolling interest		(5,652)	(0.7)%		48,264	6.4 %
Net income attributable to Encore Capital Group, Inc. stockholders	$	70,547	8.1 %	$	53,758	7.1 %

Table of Contents

Results of Operations—Cabot

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

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Janus Holdings	Encore Europe[1]	Consolidated	Janus Holdings	Encore Europe[1]	Consolidated
Total revenues[2]	$ 120,914	$ —	$ 120,914	$ (12,842)	$ —	$ (12,842)
Total operating expenses	(51,034)	—	(51,034)	(58,074)	—	(58,074)
Income (loss) from operations	69,880	—	69,880	(70,916)	—	(70,916)
Interest expense-non-PEC	(27,632)	—	(27,632)	(26,472)	—	(26,472)
PEC interest (expense) income	(12,994)	6,368	(6,626)	(11,575)	5,672	(5,903)
Other income	6,808	—	6,808	4,845	—	4,845
Income (loss) before income taxes	36,062	6,368	42,430	(104,118)	5,672	(98,446)
(Provision) benefit for income taxes	(8,374)	—	(8,374)	17,382	—	17,382
Net income (loss)	27,688	6,368	34,056	(86,736)	5,672	(81,064)
Net (income) loss attributable to noncontrolling interest	(3,796)	(11,922)	(15,718)	12,087	37,250	49,337
Net income (loss) attributable to Encore Capital Group, Inc. stockholders	$ 23,892	$ (5,554)	$ 18,338	$ (74,649)	$ 42,922	$ (31,727)

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Janus Holdings	Encore Europe[1]	Consolidated	Janus Holdings	Encore Europe[1]	Consolidated
Total revenues	$ 280,743	$ —	$ 280,743	$ 168,819	$ —	$ 168,819
Total operating expenses	(142,864)	—	(142,864)	(159,054)	—	(159,054)
Income from operations	137,879	—	137,879	9,765	—	9,765
Interest expense-non-PEC	(80,355)	—	(80,355)	(83,323)	—	(83,323)
PEC interest (expense) income	(37,606)	18,429	(19,177)	(36,638)	17,954	(18,684)
Other income	9,348	—	9,348	16,243	—	16,243
Income (loss) before income taxes	29,266	18,429	47,695	(93,953)	17,954	(75,999)
(Provision) benefit for income taxes	(11,556)	—	(11,556)	13,565	—	13,565
Net income (loss)	17,710	18,429	36,139	(80,388)	17,954	(62,434)
Net (income) loss attributable to noncontrolling interest	(2,533)	(7,573)	(10,106)	11,246	34,502	45,748
Net income (loss) attributable to Encore Capital Group, Inc. stockholders	$ 15,177	$ 10,856	$ 26,033	$ (69,142)	$ 52,456	$ (16,686)

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

(2) Total revenues are net of the portfolio allowance charges recorded on certain pool groups at Cabot during the three months ended September 30, 2016.

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

Comparison of Results of Operations

Revenues

Our revenues consist of portfolio revenue and other revenue.

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

Other revenues consist primarily of fee-based income earned on accounts collected on behalf of others, primarily credit originators. Certain of the Company's international subsidiaries earn fee-based income by providing portfolio management services to credit originators for non-performing loans.

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the U.S. dollar relative to other foreign currencies has an unfavorable impact on our international revenues, and the weakening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international revenues. The impact to our revenues from foreign currency translation was immaterial for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Our revenues were unfavorably impacted by foreign currency translation, primarily by the weakening of the British Pound against the U.S. dollar by 8.4% for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Portfolio revenue was $283.6 million during the three months ended September 30, 2017, an increase of $124.1 million, or 77.8%, compared to $159.5 million during the three months ended September 30, 2016. The increase in portfolio revenue during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was due to the allowance charge of $94.0 million on certain pool groups in Europe recorded during the three months ended September 30, 2016 and a $28.0 million reversal during the three months ended September 30, 2017 of a portion of that previously recorded portfolio allowance as a result of sustained improvements in portfolio collections driven by liquidation improvement initiatives. These increases were partially offset by an allowance charge of $10.2 million recorded on two pool groups in the United States that were heavily concentrated in Puerto Rico for which collections have been impacted as a result of hurricanes.

Portfolio revenue was $807.8 million during the nine months ended September 30, 2017, an increase of $110.7 million, or 15.9%, compared to revenue of $697.1 million during the nine months ended September 30, 2016. The increase in portfolio revenue during the nine months ended September 30, 2017 compared to 2016 was due to the allowance charge of $94.0 million on certain pool groups in Europe recorded during the nine months ended September 30, 2016 and a $35.8 million reversal during the nine months ended September 30, 2017 of a portion of the previously recorded portfolio allowance as a result of sustained improvements in portfolio collections driven by liquidation improvement initiatives. These increases were partially offset by an allowance charge of $10.2 million recorded on two pool groups in the United States that were heavily concentrated in Puerto Rico for which collections have been impacted as a result of hurricanes and the unfavorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

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

	Three Months Ended September 30, 2017					As of September 30, 2017	
	Collections[1]	Gross Revenue[2]	Revenue Recognition Rate[3]	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR
United States:							
ZBA[4]	$ 32,460	$ 30,991	95.5%	$ 1,747	11.7%	$ —	—
2007	444	6	1.4%	—	0.0%	—	0.0%
2008	1,161	418	36.0%	—	0.2%	2,187	5.2%
2009[5]	—	—	—	—	—	—	—
2010[5]	—	—	—	—	—	—	—
2011	4,584	4,072	88.8%	—	1.5%	5,119	25.0%
2012	17,102	12,035	70.4%	(2,337)	4.6%	18,042	18.5%
2013	32,821	22,843	69.6%	—	8.7%	53,250	12.7%
2014	32,838	17,949	54.7%	(7,844)	6.8%	125,059	4.4%
2015	42,711	18,460	43.2%	—	7.0%	222,897	2.6%
2016	70,750	33,276	47.0%	—	12.6%	402,542	2.6%
2017	34,037	23,185	68.1%	—	8.8%	346,524	2.8%
Subtotal	268,908	163,235	60.7%	(8,434)	61.9%	1,175,620	3.6%
Europe:							
2013	36,767	24,991	68.0%	26,325	9.5%	269,158	3.1%
2014	35,104	21,115	60.1%	1,673	8.0%	294,938	2.4%
2015	24,746	13,513	54.6%	—	5.1%	240,126	1.9%
2016	24,782	11,434	46.1%	—	4.3%	215,499	1.9%
2017	22,543	12,463	55.3%	—	4.7%	352,591	1.7%
Subtotal	143,942	83,516	58.0%	27,998	31.6%	1,372,312	2.2%
Other geographies:							
ZBA[4]	2,666	2,630	98.6%	—	1.0%	—	—
2013	172	—	0.0%	—	0.0%	308	0.0%
2014	1,910	4,485	234.8%	—	1.7%	61,215	2.4%
2015	10,976	5,577	50.8%	—	2.1%	39,487	4.3%
2016	8,794	3,453	39.3%	—	1.3%	49,979	2.2%
2017	5,628	1,128	20.0%	—	0.4%	29,890	1.4%
Subtotal	30,146	17,273	57.3%	—	6.5%	180,879	2.6%
Total	$ 442,996	$ 264,024	59.6%	$ 19,564	100.0%	$ 2,728,811	2.8%

(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) 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 accounts that are returned to the seller in accordance with the respective purchase agreement (“Put-Backs”).

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

	Three Months Ended September 30, 2016					As of September 30, 2016	
	Collections[(1)]	Gross Revenue[(2)]	Revenue Recognition Rate[(3)]	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR
United States:							
ZBA[(4)]	$ 38,164	$ 36,528	95.7%	$ 1,674	14.6%	$ —	—
2007	580	173	29.8%	166	0.1%	942	4.6%
2008	1,648	704	42.7%	724	0.3%	3,631	5.2%
2009[(5)]	—	—	—	—	—	—	—
2010	2,397	1,760	73.4%	—	0.7%	1,902	25.0%
2011	9,503	6,041	63.6%	—	2.4%	9,237	16.1%
2012	25,960	16,973	65.4%	—	6.8%	46,288	11.0%
2013	43,940	29,954	68.2%	—	11.9%	102,270	8.9%
2014	48,860	26,392	54.0%	—	10.5%	205,503	4.0%
2015	51,548	24,811	48.1%	—	9.8%	341,126	2.3%
2016	33,013	19,996	60.6%	—	8.0%	384,603	2.2%
Subtotal	255,613	163,332	63.9%	2,564	65.1%	1,095,502	3.7%
Europe:							
2013	39,624	26,925	68.0%	(76,018)	10.7%	286,472	3.0%
2014	37,038	21,869	59.0%	(13,150)	8.7%	341,855	2.1%
2015	31,236	14,886	47.7%	(4,843)	5.9%	289,982	1.6%
2016	13,640	7,933	58.2%	—	3.2%	206,978	1.5%
Subtotal	121,538	71,613	58.9%	(94,011)	28.5%	1,125,287	2.1%
Other geographies:							
ZBA[(4)]	1,770	1,789	101.1%	—	0.7%	—	—
2013	410	—	0.0%	—	0.0%	1,408	0.0%
2014	4,034	4,349	107.8%	—	1.7%	61,055	2.2%
2015	14,203	6,683	47.1%	—	2.7%	61,125	3.3%
2016	9,393	3,215	34.2%	—	1.3%	53,454	2.1%
Subtotal	29,810	16,036	53.8%	—	6.4%	177,042	2.7%
Total	$ 406,961	$ 250,981	61.7%	$ (91,447)	100.0%	$ 2,397,831	2.9%

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

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

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

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

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

	Nine Months Ended September 30, 2017					As of September 30, 2017	
	Collections[1]	Gross Revenue[2]	Revenue Recognition Rate[3]	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR
United States:							
ZBA[4]	$ 107,606	$ 102,900	95.6%	$ 4,974	13.2%	$ —	—
2007	1,556	210	13.5%	—	0.0%	—	0.0%
2008	3,645	1,589	43.6%	613	0.2%	2,187	5.2%
2009[5]	—	—	—	—	—	—	—
2010	1,106	299	27.0%	—	0.0%	—	0.0%
2011	15,956	13,218	82.8%	—	1.7%	5,119	25.0%
2012	60,098	41,658	69.3%	(2,337)	5.4%	18,042	18.5%
2013	110,290	73,017	66.2%	—	9.4%	53,250	12.7%
2014	114,944	61,117	53.2%	(7,844)	7.9%	125,059	4.4%
2015	149,190	60,677	40.7%	—	7.8%	222,897	2.6%
2016	219,608	108,692	49.5%	—	14.0%	402,542	2.6%
2017	58,849	39,893	67.8%	—	5.1%	346,524	2.8%
Subtotal	842,848	503,270	59.7%	(4,594)	64.7%	1,175,620	3.6%
Europe:							
2013	112,648	71,340	63.3%	34,128	9.3%	269,158	3.1%
2014	104,839	61,622	58.8%	1,673	7.9%	294,938	2.4%
2015	79,373	39,797	50.1%	—	5.1%	240,126	1.9%
2016	72,053	33,452	46.4%	—	4.3%	215,499	1.9%
2017	33,675	17,398	51.7%	—	2.2%	352,591	1.7%
Subtotal	402,588	223,609	55.5%	35,801	28.8%	1,372,312	2.2%
Other geographies:							
ZBA[4]	8,544	8,530	99.8%	—	1.1%	—	—
2013	721	—	0.0%	—	0.0%	308	0.0%
2014	6,265	12,406	198.0%	—	1.7%	61,215	2.4%
2015	32,093	16,555	51.6%	—	2.1%	39,487	4.3%
2016	27,715	11,032	39.8%	(682)	1.4%	49,979	2.2%
2017	9,267	1,867	20.1%	—	0.2%	29,890	1.4%
Subtotal	84,605	50,390	59.6%	(682)	6.5%	180,879	2.6%
Total	$ 1,330,041	$ 777,269	58.4%	$ 30,525	100.0%	$ 2,728,811	2.8%

(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) 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 accounts that are returned to the seller in accordance with the respective purchase agreement ("Put-Backs").

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

	Nine Months Ended September 30, 2016					As of September 30, 2016	
	Collections[1]	Gross Revenue[2]	Revenue Recognition Rate[3]	Net Reversal (Portfolio Allowance)	Revenue % of Total Revenue	Unamortized Balances	Monthly IRR
United States:							
ZBA[4]	$ 99,821	$ 94,795	95.0%	$ 5,171	12.1%	$ —	—
2007	1,712	587	34.3%	467	0.1%	942	4.6%
2008	7,426	3,663	49.3%	1,596	0.5%	3,631	5.2%
2009[5]	—	—	—	—	—	—	—
2010	8,085	6,270	77.6%	—	0.8%	1,902	25.0%
2011	48,941	30,959	63.3%	—	4.0%	9,237	16.1%
2012	90,568	57,582	63.6%	—	7.3%	46,288	11.0%
2013	158,446	99,614	62.9%	—	12.7%	102,270	8.9%
2014	173,348	87,854	50.7%	—	11.2%	205,503	4.0%
2015	180,200	79,315	44.0%	—	10.1%	341,126	2.3%
2016	63,065	34,720	55.1%	—	4.4%	384,603	2.2%
Subtotal	831,612	495,359	59.6%	7,234	63.2%	1,095,502	3.7%
Europe:							
2013	130,082	103,342	79.4%	(76,018)	13.2%	286,472	3.0%
2014	121,938	73,747	60.5%	(13,150)	9.4%	341,855	2.1%
2015	96,926	49,540	51.1%	(4,843)	6.3%	289,982	1.6%
2016	27,076	15,420	57.0%	—	2.0%	206,978	1.5%
Subtotal	376,022	242,049	64.4%	(94,011)	30.9%	1,125,287	2.1%
Other geographies:							
ZBA[4]	5,436	5,309	97.7%	—	0.7%	—	—
2013	1,204	—	0.0%	—	0.0%	1,408	0.0%
2014	13,398	13,551	101.1%	—	1.7%	61,055	2.2%
2015	44,290	21,512	48.6%	—	2.7%	61,125	3.3%
2016	16,904	6,077	36.0%	—	0.8%	53,454	2.1%
Subtotal	81,232	46,449	57.2%	—	5.9%	177,042	2.7%
Total	$ 1,288,866	$ 783,857	60.8%	$ (86,777)	100.0%	$ 2,397,831	2.9%

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

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

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

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

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

Other revenues were $23.1 million and $19.9 million for the three months ended September 30, 2017 and 2016, respectively, and $61.8 million and $60.8 million for the nine months ended September 30, 2017 and 2016, respectively. Other revenues primarily consist of fee-based income earned at our international subsidiaries that provide portfolio management services to credit originators for non-performing loans. The increases in other revenues in the periods presented were primarily attributable to additional fee-based income earned from recently acquired fee-based service providers. The increase in other revenues during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 was partially offset by the unfavorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

Operating Expenses

Total operating expenses were $202.8 million during the three months ended September 30, 2017, an increase of $2.2 million, or 1.1%, compared to total operating expenses of $200.6 million during the three months ended September 30, 2016.

Total operating expenses were $609.3 million during the nine months ended September 30, 2017, an increase of $5.5 million, or 0.9%, compared to total operating expense of $603.8 million during the nine months ended September 30, 2016.

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

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

Salaries and employee benefits increased by $9.4 million, or 13.9%, to $77.2 million during the three months ended September 30, 2017, from $67.8 million during the three months ended September 30, 2016. The increase was primarily the result of increased headcount at our domestic and international sites.

Salaries and employee benefits increased $8.4 million, or 3.9%, to $221.3 million during the nine months ended September 30, 2017, from $212.9 million during the nine months ended September 30, 2016. The increase was primarily the result of increased headcount at our domestic and international sites, partially offset by the impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

Stock-based compensation increased $2.9 million, or 457.8%, to $3.5 million during the three months ended September 30, 2017, from $0.6 million during the three months ended September 30, 2016. The increase was primarily attributable to the expense reversals resulting from adjustments to estimated vesting of certain performance-based awards during the three months ended September 30, 2016.

Stock-based compensation decreased $2.5 million, or 25.9%, to $7.0 million during the nine months ended September 30, 2017, from $9.5 million during the nine months ended September 30, 2016. The decrease was primarily attributable to larger expense reversals during the current year as compared to the corresponding periods in the prior year resulting from adjustments to estimated vesting of certain performance-based awards and reversals for current period actual forfeitures.

Cost of Legal Collections

Cost of legal collections includes primarily contingent fees paid to our network of attorneys and the cost of litigation. We pursue legal collections using a network of attorneys that specialize in collection matters and through our internal legal channel. Under the agreements with our contracted attorneys, we advance certain out-of-pocket court costs, or Deferred Court Costs. We capitalize these costs in the consolidated financial statements and provide a reserve for those costs that we believe will ultimately be uncollectible. We determine the reserve based on an estimated court cost recovery rate based on our analysis of historical court costs recovery data.

During the three months ended September 30, 2017, overall cost of legal collections decreased $8.8 million, or 15.5%, to $48.1 million, as compared to $56.9 million during the corresponding period in the prior year. The cost of legal collections in the United States increased by $2.0 million, or 5.3% and cost of legal collections in Europe decreased by $11.5 million, or 63.0%, as compared to the corresponding period in the prior year. The cost of legal collections as a percentage of gross collections through this channel was 29.5% during the three months ended September 30, 2017, a decrease from 34.5% during the corresponding period in 2016. The cost of legal collections as a percentage of gross collections through this channel in the United States was 30.5% and 29.6% during the three months ended September 30, 2017 and 2016, respectively. The cost of legal collections as a percentage of gross collections through this channel in Europe was 25.1% and 57.9% during the three months ended September 30, 2017 and 2016, respectively.

During the nine months ended September 30, 2017, overall cost of legal collections decreased $8.5 million, or 5.4%, to $149.5 million, as compared to $158.0 million during the corresponding period in the prior year. Cost of legal collections in the United States increased by $5.9 million, or 4.7% and cost of legal collections in Europe decreased by $14.9 million, or 44.6%, as compared to the corresponding period in the prior year. The cost of legal collections as a percentage of gross collections through this channel was 29.0% during the nine months ended September 30, 2017, a decrease from 29.8% during the corresponding period in 2016. The cost of legal collections as a percentage of gross collections through this channel in the United States was 30.7% and 28.9% during the nine months ended September 30, 2017 and 2016, respectively. The cost of legal collections as a percentage of gross collections through this channel in Europe was 20.9% and 35.2% during the nine months ended September 30, 2017 and 2016, respectively.

The decreases in overall cost of legal collections and cost of legal collections as a percentage of gross collections during the three and nine months ended September 30, 2017 as compared to the corresponding periods in the prior year were primarily due to the recording of an additional court costs reserve of approximately $11.3 million during the three months ended September 30, 2016 as a result of a decreasing trend in estimated court cost recovery rate in the United Kingdom. The decreases in Europe were partially offset by the increases in overall cost of legal collections and cost of legal collections as a percentage of gross collections in the United States.

In addition to the recording of an approximately $11.3 million additional court cost reserve during the three months ended September 30, 2016 as discussed above, legal collections and the cost of legal collections as a percentage of gross collections in Europe decreased during the periods presented due to a reduction in upfront court costs as a result of fewer accounts placed in this channel.

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

Other Operating Expenses

Other operating expenses increased by $1.8 million, or 7.2%, to $25.9 million during the three months ended September 30, 2017, from $24.1 million during the three months ended September 30, 2016. Other operating expenses increased slightly by $0.8 million, or 1.1%, to $76.2 million during the nine months ended September 30, 2017, from $75.4 million during the nine months ended September 30, 2016.

Collection Agency Commissions

During the three months ended September 30, 2017, we incurred $10.6 million in commissions to third-party collection agencies, or 18.1% of the related gross collections of $58.5 million. During the period, the commission rate as a percentage of related gross collections was 6.3% and 20.1% for our collection outsourcing channels in the United States and Europe, respectively. During the three months ended September 30, 2016, we incurred $8.8 million in commissions, or 19.1%, of the related gross collections of $46.3 million. During the period, the commission rate as a percentage of related gross collections was 7.2% and 24.5% for our collection outsourcing channels in the United States and Europe, respectively.

During the nine months ended September 30, 2017, we incurred $33.7 million in commissions to third-party collection agencies, or 24.1% of the related gross collections of $139.8 million. During the period, the commission rate as a percentage of related gross collections was 7.9% and 29.2% for our collection outsourcing channels in the United States and Europe, respectively. During the nine months ended September 30, 2016, we incurred $28.2 million in commissions, or 18.2%, of the related gross collections of $155.0 million. During the period, the commission rate as a percentage of related gross collections was 9.5% and 21.6% for our collection outsourcing channels in the United States and Europe, respectively.

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

General and Administrative Expenses

General and administrative expenses decreased $2.4 million, or 6.8%, to $32.5 million during the three months ended September 30, 2017, from $34.9 million during the three months ended September 30, 2016. Excluding acquisition, integration and restructuring related expenses, and settlement fees and related administrative expenses of $0.2 million and $5.1 million during the three months ended September 30, 2017 and 2016, respectively, general and administrative expenses increased by $2.6 million, or 8.6%, to $32.3 million during the three months ended September 30, 2017, from $29.7 million during the three months ended September 30, 2016, primarily due to additional infrastructure costs at our domestic sites.

General and administrative expenses decreased $0.2 million, or 0.3%, to $102.8 million during the nine months ended September 30, 2017, from $103.0 million during the nine months ended September 30, 2016. Excluding acquisition, integration and restructuring related expenses, gain on reversal of contingent consideration and settlement fees and related administrative expenses of $1.3 million and $12.3 million during the nine months ended September 30, 2017 and 2016, respectively, general and administrative expenses increased by $10.7 million, or 11.8%, to $101.4 million during the three months ended September 30, 2017, from $90.8 million during the three months ended September 30, 2016, primarily due to additional infrastructure costs at our domestic sites, partially offset by the impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

Depreciation and Amortization

Depreciation and amortization expense increased by $0.5 million, or 6.1%, to $8.5 million during the three months ended September 30, 2017, from $8.0 million during the three months ended September 30, 2016. Depreciation and amortization expense decreased $0.3 million, or 1.2%, to $25.8 million during the nine months ended September 30, 2017, from $26.1 million during the nine months ended September 30, 2016. During the nine months ended September 30, 2016, one of our international subsidiaries wrote-off approximately $0.9 million of intangible assets, which resulted in the decrease of amortization expense in the nine months ended September 30, 2017 as compared to the same period in the prior year.

Interest Expense

Interest expense increased to $52.8 million during the three months ended September 30, 2017, from $48.6 million during the three months ended September 30, 2016. Interest expense increased to $152.5 million during the nine months ended September 30, 2017, from $149.9 million during the nine months ended September 30, 2016.

The following tables summarize our interest expense (*in thousands):*

	Three Months Ended September 30,		
	2017	2016	$ Change
Stated interest on debt obligations	$ 40,613	$ 39,494	$ 1,119
Interest expense on preferred equity certificates	6,626	5,903	723
Amortization of loan fees and other loan costs	3,682	3,157	525
Amortization of debt discount	2,592	2,620	(28)
Accretion of debt premium	(758)	(2,542)	1,784
Total interest expense	$ 52,755	$ 48,632	$ 4,123

	Nine Months Ended September 30,		
	2017	2016	$ Change
Stated interest on debt obligations	$ 117,785	$ 122,004	$ (4,219)
Interest expense on preferred equity certificates	19,177	18,684	493
Amortization of loan fees and other loan costs	10,643	9,217	1,426
Amortization of debt discount	7,719	7,869	(150)
Accretion of debt premium	(2,855)	(7,854)	4,999
Total interest expense	$ 152,469	$ 149,920	$ 2,549

The payment of the accumulated interest on the preferred equity certificates issued in connection with the acquisition of a controlling interest in Cabot will only be required in connection with the disposition of the noncontrolling interests of J.C. Flowers and management.

The increase in interest expense during the three and nine months ended September 30, 2017 as compared to the corresponding periods in 2016 were primarily attributable to higher interest expense in the United States related to our recent issuance of convertible debt and higher weighted interest rates. The increase during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 was partially offset by decreased interest expense resulting from the favorable impact of foreign currency translation, primarily from the weakening of the British Pound against the U.S. dollar.

Other Income

Other income or expense consists primarily of foreign currency exchange gains or losses and interest income. Other income was $8.9 million during the three months ended September 30, 2017, up from other income of $4.1 million during the three months ended September 30, 2016. The increase during the three months ended September 30, 2017 was primarily due to a gain related to the redemption of senior secured notes during the period. Other income was $12.0 million during the nine months ended September 30, 2017, down from other income of $14.4 million during the nine months ended September 30, 2016. The decrease during the nine months ended September 30, 2017 was primarily due to a higher net gain recognized on foreign exchange contracts in the prior period.

Income Taxes

We recorded income tax expense for income from continuing operations of $17.8 million and income tax benefit of $13.8 million, during each of the three months ended September 30, 2017 and 2016, respectively. Income tax expense for income from continuing operations was $43.4 million and $9.8 million during the nine months ended September 30, 2017 and 2016, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Federal provision	35.0 %	(35.0)%	35.0 %	35.0 %
State provision (benefit)	3.3 %	(2.2)%	3.3 %	2.2 %
International (benefit) provision[1]	(7.9)%	16.0 %	(2.2)%	19.3 %
Permanent items	(0.7)%	0.3 %	0.2 %	3.3 %
Other[2]	0.0 %	(0.1)%	0.0 %	(6.7)%
Effective rate	29.7 %	(21.0)%	36.3 %	53.1 %

(1) Relates primarily to lower tax rates on income or loss attributable to international operations. Effective January 1, 2017, there was a change to U.K. tax law that resulted in an unfavorable deductibility on interest expenses as compared to the prior period.

(2) Includes the effect of discrete items.

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

The effective tax rates fluctuated significantly during the periods presented due to the following factors.

In accordance with the authoritative guidance for income taxes, each interim period is considered an integral part of the annual period and tax expense or benefit is measured using an estimated annual effective income tax rate. The estimated annual effective income tax rate for the full year is applied to the respective interim period, taking into account year-to-date amounts and projected amounts for the year. Since we operate in foreign countries with varying tax rates that are much lower than the tax rate in the United States, the magnitude of the impact of the results from the international operations have on our quarterly effective tax rate is dependent on the level of income or loss from the international operations in the period. During the second and third quarter of 2017, we recorded allowance reversals on certain portfolio pool groups in Europe and incurred pre-tax income. As required under the authoritative guidance for interim tax reporting, we considered this income and the related tax expense in determining the estimated annual effective income tax rate for the year, which is then applied to our quarterly pre-tax results in determining tax expense. Since the income is taxed at a much lower tax rate in the United Kingdom, which results in lower tax expense than the same income taxed at a higher rate in the United States, the income and related reduced tax expense has the effect of lowering the estimated annual effective tax rate. Additionally, since the estimated annual effective tax rate for the year will also be lower due to the aforementioned factors, we expect that our tax expense in the fourth quarter will likely be less than would normally be expected if the allowance reversal had not occurred.

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 three and nine months ended September 30, 2017 and 2016 was immaterial.

Cost per Dollar Collected

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States	42.9%	41.0%	42.6%	39.7%
Europe	28.4%	40.3%	28.9%	35.0%
Other geographies	45.9%	44.1%	48.3%	42.5%
Overall cost per dollar collected	38.4%	41.1%	38.8%	38.5%

Our overall cost per dollar collected (or “cost-to-collect”) for the three months ended September 30, 2017 was 38.4%, down 270 basis points from 41.1% during the corresponding period in the prior year. Overall cost-to-collect increased to 38.8% during the nine months ended September 30, 2017, from 38.5% during the corresponding period in the prior year. Cost-to-collect increased in the United States and other geographies and decreased in Europe during the periods presented.

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

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

Cost-to-collect in Europe deceased primarily due to the recording of a large court costs reserve in the United Kingdom during the three months ended September 30, 2016. Refer to “Cost of Legal Collections” in the operating expenses section above for further details.

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

Non-GAAP Disclosure

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

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

Adjusted 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, acquisition, integration and restructuring related expenses, settlement fees and related administrative expenses, amortization of certain acquired intangible assets and other charges or gains that are not indicative of ongoing operations.

The following table provides a reconciliation between income from continuing operations and diluted income from continuing operations per share attributable to Encore calculated in accordance with GAAP to adjusted income from continuing operations and adjusted income from continuing operations per share attributable to Encore, respectively. GAAP diluted earnings per share for the three and nine months ended September 30, 2017, includes the effect of approximately 0.5 million, and 0.2 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 9, "Debt —Encore Convertible 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 common shares that are issuable upon conversion of the notes are included in our diluted earnings per share, the hedge transactions will offset the impact of this dilution and no shares will be issued unless our stock price exceeds the effective conversion price, thereby creating a discrepancy between the accounting effect of those notes under GAAP and their economic impact. There was no dilutive effect relating to our convertible senior notes during the three and nine months ended September 30, 2016.

We have presented the following metrics both including and excluding the dilutive effect of the convertible senior notes to better illustrate the economic impact of the notes and the related hedging transactions to shareholders, with the GAAP diluted share calculation under the "Per Diluted Share-Accounting" column and the non-GAAP calculation under the "Per Diluted Share-Economic" column *(in thousands, except per share data):*

	Three Months Ended September 30,					
	2017			2016		
	$	Per Diluted Share—Accounting	Per Diluted Share—Economic	$	Per Diluted Share—Accounting	Per Diluted Share—Economic
GAAP net income (loss) attributable to Encore, as reported	$ 28,194	$ 1.05	$ 1.07	$ (1,524)	$ (0.06)	$ (0.06)
Adjustments:						
Convertible notes non-cash interest and issuance cost amortization	3,135	0.12	0.12	2,983	0.12	0.12
Acquisition, integration and restructuring related expenses(1)	342	0.01	0.01	3,843	0.15	0.15
Settlement fees and related administrative expenses(2)	—	—	—	2,613	0.10	0.10
Amortization of certain acquired intangible assets(3)	803	0.03	0.03	529	0.02	0.02
Income tax effect of the adjustments(4)	(1,321)	(0.04)	(0.04)	(3,263)	(0.13)	(0.13)
Adjustments attributable to noncontrolling interest(5)	(461)	(0.02)	(0.02)	(1,568)	(0.06)	(0.06)
Adjusted income attributable to Encore	$ 30,692	$ 1.15	$ 1.17	$ 3,613	$ 0.14	$ 0.14

(1) Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

(2) Amount represents litigation and government settlement fees and related administrative expenses. For the three months ended September 30, 2016, amount consists of settlement and administrative fees related to certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

(3) As we continue to acquire debt solution service providers around the world, the acquired intangible assets, such as trade names and customer relationships, have grown substantially. These intangible assets are valued at the time of the acquisition and amortized over their estimated lives. We believe that amortization of acquisition-related intangible assets, especially the amortization of an acquired company's trade names and customer relationships, is the result of pre-acquisition activities. In addition, the amortization of these acquired intangibles is a non-cash static expense that is not affected by operations during any reporting period. As a result, the amortization of certain acquired intangible assets is excluded from our adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations per share.

(4) Amount represents the total income tax effect of the adjustments, which is generally calculated based on the applicable marginal tax rate of the jurisdiction in which the portion of the adjustment occurred.

(5) Certain of the above pre-tax adjustments include expenses recognized by our partially-owned subsidiaries. This adjustment represents the portion of the non-GAAP adjustments that are attributable to noncontrolling interest.

	Nine Months Ended September 30,					
	2017			2016		
	$	Per Diluted Share—Accounting	Per Diluted Share—Economic	$	Per Diluted Share—Accounting	Per Diluted Share—Economic
GAAP net income from continuing operations attributable to Encore, as reported	$ 70,746	$ 2.68	$ 2.70	$ 56,940	$ 2.20	$ 2.20
Adjustments:						
Convertible notes non-cash interest and issuance cost amortization	9,227	0.35	0.35	8,813	0.34	0.34
Acquisition, integration and restructuring related expenses(1)	4,717	0.18	0.18	10,173	0.39	0.39
Gain on reversal of contingent consideration(2)	(2,773)	(0.10)	(0.10)	—	—	—
Settlement fees and related administrative expenses(3)	—	—	—	6,299	0.24	0.24
Amortization of certain acquired intangible assets(4)	1,951	0.07	0.07	2,178	0.08	0.08
Income tax effect of the adjustments(5)	(3,753)	(0.14)	(0.14)	(8,884)	(0.34)	(0.34)
Adjustments attributable to noncontrolling interest(6)	(1,755)	(0.07)	(0.07)	(4,059)	(0.15)	(0.15)
Adjusted income from continuing operations attributable to Encore	$ 78,360	$ 2.97	$ 2.99	$ 71,460	$ 2.76	$ 2.76

(1) Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors’ results.

(2) Amount represents a gain recognized as a result of reversing a liability for contingent consideration that was established when we acquired a debt solution service provider in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 4, “Fair Value Measurement - Contingent Consideration,” in the notes to our consolidated financial statements for further details.

(3) Amount represents litigation and government settlement fees and related administrative expenses. For the nine months ended September 30, 2016 amount consists of settlement and administrative fees related to certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors’ results.

(4) As we continue to acquire debt solution service providers around the world, the acquired intangible assets, such as trade names and customer relationships, have grown substantially. These intangible assets are valued at the time of the acquisition and amortized over their estimated lives. We believe that amortization of acquisition-related intangible assets, especially the amortization of an acquired company’s trade names and customer relationships, is the result of pre-acquisition activities. In addition, the amortization of these acquired intangibles is a non-cash static expense that is not affected by operations during any reporting period. As a result, the amortization of certain acquired intangible assets is excluded from our adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations per share.

(5) Amount represents the total income tax effect of the adjustments, which is generally calculated based on the applicable marginal tax rate of the jurisdiction in which the portion of the adjustment occurred.

(6) Certain of the above pre-tax adjustments include expenses recognized by our partially-owned subsidiaries. This adjustment represents the portion of the non-GAAP adjustments that are attributable to noncontrolling interest.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
GAAP net income (loss), as reported	$ 42,144	$ (51,946)	$ 76,199	$ 5,494
Adjustments:				
Loss from discontinued operations, net of tax	—	—	199	3,182
Interest expense	52,755	48,632	152,469	149,920
Interest income[1]	(943)	(694)	(2,641)	(1,813)
Provision (benefit) for income taxes	17,844	(13,768)	43,442	9,831
Depreciation and amortization	8,522	8,032	25,819	26,128
Stock-based compensation expense	3,531	633	7,041	9,502
Acquisition, integration and restructuring related expenses[2]	342	3,843	4,717	9,255
Gain on reversal of contingent consideration[3]	—	—	(2,773)	—
Settlement fees and related administrative expenses[4]	—	2,613	—	6,299
Adjusted EBITDA	$ 124,195	$ (2,655)	$ 304,472	$ 217,798
Collections applied to principal balance[5]	$ 159,408	$ 247,427	$ 522,247	$ 591,786

(1) In the fourth quarter of 2016, we made a change to our presentation of adjusted EBITDA to adjust for interest income. In previous years we did not include interest income as an adjustment because it was immaterial. We have updated prior periods for comparability.

(2) Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

(3) Amount represents a gain recognized as a result of reversing a liability for contingent consideration that was established when we acquired a debt solution service provider in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 4, "Fair Value Measurement - Contingent Consideration," in the notes to our consolidated financial statements for further details.

(4) Amount represents litigation and government settlement fees and related administrative expenses. For the three and nine months ended September 30, 2016, amount consists of settlement and administrative fees related to certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

(5) Collections applied to principal balance represents (a) gross collections from receivable portfolios less (b) revenue from receivable portfolios, net.

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, acquisition, integration and restructuring related operating expenses, settlement fees and related administrative expenses and other charges or gains that are not indicative of ongoing operations. Adjusted operating expenses related to our portfolio purchasing and recovery business for the periods presented are as follows *(in thousands):*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
GAAP total operating expenses, as reported	$ 202,829	$ 200,597	$ 609,252	$ 603,805
Adjustments:				
Stock-based compensation expense	(3,531)	(633)	(7,041)	(9,502)
Operating expenses related to non-portfolio purchasing and recovery business[1]	(28,934)	(26,446)	(83,864)	(81,584)
Acquisition, integration and restructuring related expenses[2]	(342)	(3,843)	(4,717)	(10,173)
Gain on reversal of contingent consideration[3]	—	—	2,773	—
Settlement fees and related administrative expenses[4]	—	(2,613)	—	(6,299)
Adjusted operating expenses related to portfolio purchasing and recovery business	$ 170,022	$ 167,062	$ 516,403	$ 496,247

(1) Operating expenses related to non-portfolio purchasing and recovery business include operating expenses from other operating segments that primarily engage in fee-based business, as well as corporate overhead not related to our portfolio purchasing and recovery business.

(2) Amount represents acquisition, integration and restructuring related operating expenses. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

(3) Amount represents a gain recognized as a result of reversing a liability for contingent consideration that was established when we acquired a debt solution service provider in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 4, "Fair Value Measurement - Contingent Consideration," in the notes to our consolidated financial statements for further details.

(4) Amount represents litigation and government settlement fees and related administrative expenses. For the three and nine months ended September 30, 2016, amount consists of settlement and administrative fees related to certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

Supplemental Performance Data

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

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

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

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

During the quarter ended September 30, 2016, we revised the forecasting methodology we use to value and calculate IRRs on certain portfolios in Europe and extended the collection forecast from 120 months to 180 months. The increase in the collection forecast from 120 months to 180 months was applied effective July 1, 2016, to certain portfolios in Europe for which we could accurately forecast through such term. For portfolios in Europe that were not extended to 180 months, we continue to include the collection forecast to 120 months in calculating accretion revenue and in our estimated remaining collection disclosures. In the United States, we include the collection forecast to 120 months in calculating accretion revenue. Expected collections beyond the 120 month collection forecast in the United States are included in our estimated remaining collection disclosures but are not included in the calculation of accretion revenue.

Cumulative Collections to Purchase Price Multiple

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

Year of Purchase	Purchase Price[1]	Cumulative Collections through September 30, 2017												
		<2008	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total[2]	CCM[3]
United States:														
<2008	$ 923,144	$1,732,000	$329,254	$225,765	$143,969	$ 96,172	$ 66,574	$ 49,054	$ 36,443	$ 30,837	$ 25,313	$ 16,674	$ 2,752,055	3.0
2008	227,751	—	69,049	165,164	127,799	87,850	59,507	41,773	29,776	23,247	18,563	11,769	634,497	2.8
2009	252,978	—	—	96,529	206,773	164,605	111,569	80,443	58,345	42,960	30,150	18,147	809,521	3.2
2010	357,360	—	—	—	125,853	288,788	220,686	156,806	111,993	83,578	55,650	31,682	1,075,036	3.0
2011	383,907	—	—	—	—	123,596	301,949	226,521	155,180	112,906	77,257	44,875	1,042,284	2.7
2012	548,968	—	—	—	—	—	187,721	350,134	259,252	176,914	113,067	60,098	1,147,186	2.1
2013	552,299	—	—	—	—	—	—	230,051	397,646	298,068	203,386	116,968	1,246,119	2.3
2014	518,899	—	—	—	—	—	—	—	144,178	307,814	216,357	114,978	783,327	1.5
2015	500,796	—	—	—	—	—	—	—	—	105,610	231,102	149,515	486,227	1.0
2016	556,406	—	—	—	—	—	—	—	—	—	110,875	219,266	330,141	0.6
2017	365,504	—	—	—	—	—	—	—	—	—	—	58,876	58,876	0.2
Subtotal	5,188,012	1,732,000	398,303	487,458	604,394	761,011	948,006	1,134,782	1,192,813	1,181,934	1,081,720	842,848	10,365,269	2.0
Europe:														
2013	619,079	—	—	—	—	—	—	134,259	249,307	212,129	165,610	112,576	873,881	1.4
2014	630,342	—	—	—	—	—	—	—	135,549	198,127	156,665	104,839	595,180	0.9
2015	423,331	—	—	—	—	—	—	—	—	65,870	127,084	79,372	272,326	0.6
2016	258,872	—	—	—	—	—	—	—	—	—	44,641	72,050	116,691	0.5
2017	354,623	—	—	—	—	—	—	—	—	—	—	33,751	33,751	0.1
Subtotal	2,286,247	—	—	—	—	—	—	134,259	384,856	476,126	494,000	402,588	1,891,829	0.8
Other geographies:														
2012	6,706	—	—	—	—	—	—	3,848	2,561	1,208	542	415	8,574	1.3
2013	29,568	—	—	—	—	—	—	6,617	17,615	10,334	4,606	2,613	41,785	1.4
2014	86,989	—	—	—	—	—	—	—	9,652	16,062	18,403	7,630	51,747	0.6
2015	91,128	—	—	—	—	—	—	—	—	15,061	57,064	33,693	105,818	1.2
2016	79,815	—	—	—	—	—	—	—	—	—	29,269	30,980	60,249	0.8
2017	35,598	—	—	—	—	—	—	—	—	—	—	9,274	9,274	0.3
Subtotal	329,804	—	—	—	—	—	—	10,465	29,828	42,665	109,884	84,605	277,447	0.8
Total	$7,804,063	$1,732,000	$398,303	$487,458	$604,394	$761,011	$948,006	$1,279,506	$1,607,497	$1,700,725	$1,685,604	$1,330,041	$12,534,545	1.6

(1) Adjusted for Put-Backs and Recalls. Recalls represent accounts that are recalled by the seller in accordance with the respective purchase agreement (“Recalls”).

(2) Cumulative collections from inception through September 30, 2017, excluding collections on behalf of others.

(3) Cumulative Collections Multiple (“CCM”) through September 30, 2017 refers to collections as a multiple of purchase price.

Total Estimated Collections to Purchase Price Multiple

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

	Purchase Price(1)	Historical Collections(2)	Estimated Remaining Collections	Total Estimated Gross Collections	Total Estimated Gross Collections to Purchase Price
United States:					
<2008	$ 923,144	$ 2,752,055	$ 38,277	$ 2,790,332	3.0
2008	227,751	634,497	34,845	669,342	2.9
2009	252,978	809,521	56,908	866,429	3.4
2010	357,360	1,075,036	95,333	1,170,369	3.3
2011	383,907	1,042,284	133,680	1,175,964	3.1
2012	548,968	1,147,186	128,309	1,275,495	2.3
2013(3)	552,299	1,246,119	273,552	1,519,671	2.8
2014(3)	518,899	783,327	305,946	1,089,273	2.1
2015	500,796	486,227	395,347	881,574	1.8
2016	556,406	330,141	737,053	1,067,194	1.9
2017	365,504	58,876	658,857	717,733	2.0
Subtotal	5,188,012	10,365,269	2,858,107	13,223,376	2.5
Europe:					
2013(3)	619,079	873,881	859,511	1,733,392	2.8
2014(3)	630,342	595,180	772,530	1,367,710	2.2
2015(3)	423,331	272,326	512,405	784,731	1.9
2016	258,872	116,691	457,209	573,900	2.2
2017	354,623	33,751	751,251	785,002	2.2
Subtotal	2,286,247	1,891,829	3,352,906	5,244,735	2.3
Other geographies:					
2012	6,706	8,574	1,476	10,050	1.5
2013	29,568	41,785	3,441	45,226	1.5
2014	86,989	51,747	118,054	169,801	2.0
2015(3)	91,128	105,818	99,439	205,257	2.3
2016	79,815	60,249	89,519	149,768	1.9
2017	35,598	9,274	45,340	54,614	1.5
Subtotal	329,804	277,447	357,269	634,716	1.9
Total	$ 7,804,063	$ 12,534,545	$ 6,568,282	$ 19,102,827	2.4

(1) Adjusted for Put-Backs and Recalls.

(2) Cumulative collections from inception through September 30, 2017, excluding collections on behalf of others.

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

Estimated Remaining Gross Collections by Year of Purchase

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

	Estimated Remaining Gross Collections by Year of Purchase[1], [2]										
	2017[3]	2018	2019	2020	2021	2022	2023	2024	2025	>2025	Total
United States:											
<2008	$ 5,034	$ 15,866	$ 9,454	$ 4,931	$ 2,306	$ 686	$ —	$ —	$ —	$ —	$ 38,277
2008	3,401	11,833	8,036	5,211	3,375	2,189	800	—	—	—	34,845
2009	5,586	19,205	12,452	8,074	5,229	3,391	2,204	767	—	—	56,908
2010	9,389	31,422	20,371	13,205	8,558	5,554	3,610	2,346	878	—	95,333
2011	13,229	42,826	28,378	18,394	11,925	7,748	5,036	3,274	2,140	730	133,680
2012	13,060	38,423	26,342	17,028	11,015	8,647	5,709	3,711	2,412	1,962	128,309
2013[4]	25,627	81,605	59,748	38,702	25,101	16,297	10,388	6,608	4,295	5,181	273,552
2014[4]	28,185	91,872	67,643	42,726	27,576	17,868	11,600	7,425	4,725	6,326	305,946
2015	40,899	125,399	87,220	53,659	31,974	20,341	13,222	8,599	5,523	8,511	395,347
2016	65,971	211,888	166,231	108,299	69,795	41,494	26,615	17,298	11,249	18,213	737,053
2017	39,910	182,800	164,843	103,605	66,894	40,947	23,588	15,611	10,804	9,855	658,857
Subtotal	250,291	853,139	650,718	413,834	263,748	165,162	102,772	65,639	42,026	50,778	2,858,107
Europe:											
2013[4]	26,955	107,388	117,658	106,479	94,789	83,082	72,454	63,704	56,907	130,095	859,511
2014[4]	25,990	102,685	108,492	95,288	82,682	71,323	62,080	53,784	46,259	123,947	772,530
2015[4]	20,364	74,776	74,841	63,069	53,146	44,787	37,961	32,040	27,050	84,371	512,405
2016	15,430	61,324	65,893	57,919	48,625	38,866	31,379	28,768	23,231	85,774	457,209
2017	35,571	129,572	104,093	84,222	69,024	59,323	50,326	42,759	35,531	140,830	751,251
Subtotal	124,310	475,745	470,977	406,977	348,266	297,381	254,200	221,055	188,978	565,017	3,352,906
Other geographies:											
2012	148	479	311	229	193	116	—	—	—	—	1,476
2013	523	1,628	734	320	176	60	—	—	—	—	3,441
2014	3,114	14,654	35,845	40,479	22,535	1,178	130	119	—	—	118,054
2015[4]	7,055	25,586	23,482	16,579	10,056	6,273	4,499	3,015	2,124	770	99,439
2016	6,283	23,591	21,095	15,161	10,115	5,469	3,156	2,222	1,635	792	89,519
2017	2,057	9,643	9,984	7,666	5,628	3,939	2,694	1,482	1,139	1,108	45,340
Subtotal	19,180	75,581	91,451	80,434	48,703	17,035	10,479	6,838	4,898	2,670	357,269
Total	$ 393,781	$ 1,404,465	$ 1,213,146	$ 901,245	$ 660,717	$ 479,578	$ 367,451	$ 293,532	$ 235,902	$ 618,465	$ 6,568,282

(1) ERC for Zero Basis Portfolios can extend beyond our collection forecasts. As of September 30, 2017, ERC for Zero Basis Portfolios include approximately $298.6 million for purchased consumer and bankruptcy receivables in the United States. ERC for Zero Basis Portfolios in Europe and other geographies were immaterial.

(2) The collection forecast of each pool is generally estimated up to 120 months in the United States and up to 180 months in Europe. Expected collections beyond the 120 month collection forecast in the United States are included in ERC but are not included in the calculation of IRRs.

(3) 2017 amount consists of three months data from October 1, 2017 to December 31, 2017.

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

Unamortized Balances of Portfolios

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

	Unamortized Balance as of September 30, 2017	Purchase Price(1)	Unamortized Balance as a Percentage of Purchase Price	Unamortized Balance as a Percentage of Total
United States:				
2008	$ 2,187	$ 227,751	1.0%	0.2%
2009	—	252,978	0.0%	0.0%
2010	—	357,360	0.0%	0.0%
2011	5,119	383,907	1.3%	0.4%
2012	18,042	548,968	3.3%	1.5%
2013(2)	53,250	552,299	9.6%	4.5%
2014(2)	125,059	518,899	24.1%	10.6%
2015	222,897	500,796	44.5%	19.0%
2016	402,542	556,406	72.3%	34.3%
2017	346,524	365,504	94.8%	29.5%
Subtotal	1,175,620	4,264,868	27.6%	100.0%
Europe:				
2013(2)	269,158	619,079	43.5%	19.6%
2014(2)	294,938	630,342	46.8%	21.5%
2015(2)	240,126	423,331	56.7%	17.5%
2016	215,499	258,872	83.2%	15.7%
2017	352,591	354,623	99.4%	25.7%
Subtotal	1,372,312	2,286,247	60.0%	100.0%
Other geographies:				
2013	308	29,568	1.0%	0.2%
2014	61,215	86,989	70.4%	33.8%
2015(2)	39,487	91,128	43.3%	21.8%
2016	49,979	79,815	62.6%	27.6%
2017	29,890	35,598	84.0%	16.6%
Subtotal	180,879	323,098	56.0%	100.0%
Total	$ 2,728,811	$ 6,874,213	39.7%	100.0%

(1) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put-Backs, Recalls, and other adjustments.

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

Estimated Future Amortization of Portfolios

As of September 30, 2017, we had $2.7 billion in investment in receivable portfolios. This balance will be amortized based upon current projections of cash collections in excess of revenue applied to the principal balance. The estimated amortization of the investment in receivable portfolios balance is as follows *(in thousands):*

Years Ending December 31,	United States	Europe	Other Geographies	Total Amortization
2017[1]	$ 68,506	$ 30,228	$ 3,062	$ 101,796
2018	314,086	133,082	16,812	463,980
2019	294,496	179,493	44,755	518,744
2020	188,087	152,236	51,398	391,721
2021	123,396	130,653	35,421	289,470
2022	77,596	114,055	11,877	203,528
2023	49,095	101,021	6,467	156,583
2024	30,402	89,393	4,649	124,444
2025	18,168	82,813	3,987	104,968
2026	9,704	90,345	2,237	102,286
2027	2,084	85,420	214	87,718
2028	—	85,061	—	85,061
2029	—	44,204	—	44,204
2030	—	29,823	—	29,823
2031	—	20,329	—	20,329
2032	—	4,156	—	4,156
Total	$ 1,175,620	$ 1,372,312	$ 180,879	$ 2,728,811

(1) 2017 amount consists of three months data from October 1, 2017 to December 31, 2017.

Headcount by Function by Geographic Location

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

	Headcount as of September 30,			
	2017		2016	
	Domestic	International	Domestic	International
General & Administrative	883	2,286	915	2,152
Account Manager	344	3,572	266	3,229
Total	1,227	5,858	1,181	5,381

Purchases by Quarter

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

Quarter	# of Accounts	Face Value	Purchase Price
Q1 2015	734	$ 1,041,011	$ 125,154
Q2 2015(1)	2,970	5,544,885	418,780
Q3 2015	1,267	2,085,381	187,180
Q4 2015(1)	2,363	4,068,252	292,608
Q1 2016	1,450	3,544,338	256,753
Q2 2016	946	2,841,527	233,116
Q3 2016	874	1,475,381	206,359
Q4 2016	1,159	1,943,775	210,491
Q1 2017	807	1,657,393	218,727
Q2 2017	1,347	2,441,909	246,415
Q3 2017	1,010	3,018,072	292,332

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

Liquidity and Capital Resources

Liquidity

The following table summarizes our cash flow activity, including the cash flows from discontinued operations, for the periods presented *(in thousands)*:

	Nine Months Ended September 30,	
	2017	2016
	(Unaudited)	
Net cash provided by operating activities	$ 81,691	$ 85,268
Net cash used in investing activities	(207,780)	(91,613)
Net cash provided by financing activities	155,309	13,687

Operating Cash Flows

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

Net cash provided by operating activities was $81.7 million and $85.3 million during the nine months ended September 30, 2017 and 2016, respectively. Cash provided by operating activities during the nine months ended September 30, 2017 was primarily related to net income of $76.2 million, various non-cash add backs in operating activities, and changes in operating assets and liabilities. Cash provided by operating activities during the nine months ended September 30, 2016 was primarily related to net income of $5.5 million, adjustments for discontinued operations, various non-cash add backs in operating activities, and changes in operating assets and liabilities.

Investing Cash Flows

Net cash used in investing activities was $207.8 million and $91.6 million during the nine months ended September 30, 2017 and 2016, respectively.

The cash flows used in investing activities during the nine months ended September 30, 2017 were primarily related to receivable portfolio purchases of $739.5 million, offset by collection proceeds applied to the principal of our receivable portfolios in the amount of $549.5 million. The cash flows used in investing activities during the nine months ended September 30, 2016 were primarily related to receivable portfolio purchases of $712.7 million, offset by collection proceeds applied to the principal of our receivable portfolios in the amount of $507.6 million and $106.0 million of proceeds from divestiture of Propel, net of cash divested.

Capital expenditures for fixed assets acquired with internal cash flows were $20.5 million and $16.5 million for nine months ended September 30, 2017 and 2016, respectively.

Financing Cash Flows

Net cash provided by financing activities was $155.3 million and $13.7 million during the nine months ended September 30, 2017 and 2016, respectively. Net cash used in financing activities from discontinued operations was $15.5 million during the nine months ended September 30, 2016.

The cash provided by financing activities during the nine months ended September 30, 2017 primarily reflects $928.1 million in borrowings under our credit facilities, $325.0 million proceeds from senior secured notes and $150.0 million of proceeds from the issuance of Encore's convertible senior notes due 2022, offset by $972.5 million in repayments of amounts outstanding under our credit facilities, $203.2 million of repayments of senior secured notes and $60.4 million in repayments of Encore's convertible notes due 2017. The cash provided by financing activities during the nine months ended September 30, 2016 primarily reflects $455.8 million in borrowings under our credit facilities, offset by $444.0 million in repayments of amounts outstanding under our credit facilities.

Capital Resources

Historically, we have met our cash requirements by utilizing our cash flows from operations, bank borrowings, convertible debt offerings, and equity offerings. From time to time, depending on the capital markets, we consider additional financings to fund our operations and acquisitions. Our primary cash requirements have included the purchase of receivable portfolios, the acquisition of U.S. and international entities, operating expenses, the payment of interest and principal on borrowings, and the payment of income taxes.

We have a revolving credit facility and term loan facility pursuant to a Third Amended and Restated Credit Agreement dated December 20, 2016 (as amended, the "Restated Credit Agreement"). The Restated Credit Agreement includes a revolving credit facility of $826.7 million (the "Revolving Credit Facility"), a term loan facility of $191.5 million (the "Term Loan Facility", and together with the Revolving Credit Facility, the "Senior Secured Credit Facilities"), and an accordion feature that allows the Company to increase the Senior Secured Credit Facilities by an additional $250.0 million (approximately $125.3 million of which has been exercised). The Senior Secured Credit Facilities have a five year maturity expiring in December 2021, except with respect to (1) revolving commitments under the Revolving Credit Facility of $32.1 million and $168.6 million expiring in November 2017 and February 2019, respectively, and (2) two subtranches of the Term Loan Facility of $4.8 million and $18.0 million, expiring in November 2017 and February 2019, respectively. As of September 30, 2017, we had $149.6 million outstanding and $382.0 million of availability under the Revolving Credit Facility and $188.7 million outstanding under the Term Loan Facility.

Through Cabot Financial (UK) Limited ("Cabot Financial UK"), an indirect subsidiary, we have a revolving credit facility of £250.0 million (the "Cabot Credit Facility"). The Cabot Credit Facility includes an uncommitted accordion facility which will allow the facility to be increased by an additional £50.0 million, subject to obtaining the requisite commitments and compliance with the terms of Cabot Financial UK's other indebtedness. As of September 30, 2017, we had £56.5 million (approximately $75.7 million) outstanding and £193.5 million (approximately $259.2 million) of availability under the Cabot Credit Facility.

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

We are in compliance with all covenants under our financing arrangements. See Note 9, "Debt" to our condensed consolidated financial statements for a further discussion of our debt.

In March 2017, we sold $150.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2022 (the "2022 Convertible Notes") that mature on March 15, 2022 in private placement transactions. The 2022 Convertible Notes bear interest at a rate of 3.25% per year, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2017.

The net proceeds from the sale of the $150.0 million aggregate principal amount of the 2022 Convertible Notes were approximately $145.3 million, after deducting the initial purchasers' discounts and the estimated offering expenses. We used approximately $60.4 million of the net proceeds from the offering to repurchase, in separate transactions, $50.0 million aggregate principal amount of our 3.0% 2017 convertible senior notes (the “2017 Convertible Notes”). As of March 31, 2017, the remaining principal amount of the 2017 Convertible Notes was $65.0 million and will mature on November 27, 2017.

In 2010 and 2011 we entered into an aggregate of $75.0 million of senior secured notes with certain affiliates of Prudential Capital Group and in August 2017, we entered into an additional $325.0 million in senior secured notes with a group of insurance companies (the “Senior Secured Notes”). As of September 30, 2017, $327.1 million of the Senior Secured Notes were outstanding of which $2.1 million matures in 2018.

In August 2017 Cabot Securitisation UK Limited, a subsidiary of Cabot, entered into a senior facility agreement (the “Senior Facility Agreement”) for an initial committed amount of £260.0 million (approximately $332.9 million) with an uncommitted accordion feature of £90.0 million (approximately $115.2 million) (the “Cabot Securitisation Senior Facility”). A portion of the proceeds from the Senior Facility Agreement were used to redeem in full the outstanding 10.5% Senior Secured Notes due 2020 issued by Marlin Intermediate Holdings plc (“Marlin”), another subsidiary of Cabot.

Our cash and cash equivalents at September 30, 2017 consisted of $39.8 million held by U.S.-based entities and $148.4 million held by foreign entities. Most of our cash and cash equivalents held by foreign entities is indefinitely reinvested and may be subject to material tax effects if repatriated. However, we believe that our U.S. sources of cash and liquidity are sufficient to meet our business needs in the United States and do not expect that we will need to repatriate the funds.

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

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rates. At September 30, 2017, there had not been a material change in any of the foreign currency risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Interest Rates. At September 30, 2017, there had not been a material change in the interest rate risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

There is no material change in the information reported under “Part I-Item 1A-Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 6 – Exhibits

Number	Description
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1/A filed on June 14, 1999, File No. 333-77483)
3.2	Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 4, 2002, File No. 000-26489)
3.3	Bylaws, as amended through February 8, 2011 (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K filed on February 14, 2011)
4.1	Senior Facility Agreement, dated August 23, 2017, between Cabot Securitisation UK Limited, Cabot Financial (UK) Limited, HSBC Corporate Trust Company (UK) Limited as Security Trustee and Senior Agent and Goldman Sachs International Bank as Senior Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 28, 2017)
10.1	Third Amended and Restated Senior Secured Note Purchase Agreement, dated as of August 11, 2017, by and among Encore Capital Group, Inc. and the purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 17, 2017)
10.2	Second Amended and Restated Intercreditor Agreement, dated as of August 11, 2017, by and among Encore Capital Group, Inc., certain of its subsidiaries, SunTrust Bank, as administrative agent for the lenders, the holders of the Company's 7.75% Senior Secured Notes due 2017, 7.375% Senior Secured Notes due 2018 and 5.625% Senior Secured Notes due 2024, and SunTrust Bank, as collateral agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 17, 2017)
10.3	Letter Agreement, dated August 3, 2017, related to the Third Amended and Restated Credit Agreement dated as of December 20, 2016 (filed herewith)
10.4	Amendment No. 2, dated August 11, 2017, to Second Amended and Restated Pledge and Security Agreement, dated November 5, 2012, by and among Encore Capital Group, Inc., certain of its subsidiaries and SunTrust Bank, as collateral agent (filed herewith)
10.5	Incremental Facility Agreement, dated August 15, 2017, by and among Encore Capital Group, Inc., DNB Capital, LLC, SunTrust Bank, and each of the guarantors, party thereto (filed herewith)
10.6	Incremental Facility Agreement, dated September 26, 2017, by and among Encore Capital Group, Inc., Regions Bank, SunTrust Bank, and each of the guarantors, party thereto (filed herewith)
31.1	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

SIGNATURES

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

ENCORE CAPITAL GROUP, INC.

By: /s/ Jonathan C. Clark

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

Date: November 2, 2017

Exhibit 10.3

[SunTrust Robinson Humphrey Letterhead]

August 3, 2017

Encore Capital Group, Inc.
3111 Camino Del Rio North
Suite 103
San Diego, California 92108
Attention: Chief Financial Officer

Ladies and Gentlemen:

Reference is hereby made to that certain Third Amended and Restated Credit Agreement, dated as of December 20, 2016 (as amended by that certain (i) Incremental Term Loan and Extension Agreement, dated as of March 2, 2017 (the "March Incremental and Extension Agreement"), (ii) Incremental Facility Agreement, dated as of March 29, 2017, (iii) Amendment No. 1 to Third Amended and Restated Credit Agreement, dated as of June 13, 2017 and (iv) Amendment No. 2 to Third Amended and Restated Credit Agreement, dated as of June 29, 2017, and as may be further amended, restated, modified, supplemented, extended or replaced from time to time, the "Credit Agreement"), by and among Encore Capital Group, Inc. ("Borrower"), the several banks and other financial institutions and lenders from time to time party thereto (the "Lenders"), SunTrust Bank, as administrative agent (in such capacity, the "Administrative Agent") and collateral agent, issuing bank and swingline lender. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings set forth in the Credit Agreement.

Each of the parties hereto desires to amend the Credit Agreement, pursuant to Sections 2.25(c) and 2.25(f) thereof, to reflect the appropriate basis for calculating scheduled payments in respect of the Term Loan A-2 by reducing the principal amount of the Term Loan A-2 as set forth in Section 2.9(f) of the Credit Agreement, which amount was reduced in connection with the Extension by certain Lenders effected pursuant to the March Incremental and Extension Agreement.

Each of the Borrower and the Administrative Agent hereby agrees that Section 2.9(f) of the Credit Agreement is hereby amended by replacing the part therein that reads "26,786,952.40" with "21,876,238.12" and that such amendment shall be deemed to be effective on and as of March 2, 2017.

The provisions of Sections 10.3, 10.6 and 10.7 of the Credit Agreement are incorporated herein as if fully set forth herein.

[Signatures on Following Pages]

Very truly yours,

SUNTRUST BANK, as Administrative Agent

By: /s/ Paula Mueller
Name: Paula Mueller
Title: Director

Accepted and Agreed
as of the date first set forth above:

ENCORE CAPITAL GROUP, INC., as Borrower

By: /s/ Jonathan Clark
Name: Jonathan Clark
Title: EVP & CFO

AMENDMENT NO. 2 TO
SECOND AMENDED AND RESTATED PLEDGE AND SECURITY AGREEMENT

THIS AMENDMENT NO. 2 TO SECOND AMENDED AND RESTATED PLEDGE AND SECURITY AGREEMENT (this "Amendment") is made as of August 11, 2017, by and among ENCORE CAPITAL GROUP, INC., a Delaware corporation ("Borrower"), each of the other Loan Parties party to the Security Agreement (as defined below), and SUNTRUST BANK, in its capacity as Collateral Agent to the Secured Parties (the "Collateral Agent") under that certain Second Amended and Restated Pledge and Security Agreement, dated as of November 5, 2012 (as amended by that certain Amendment No. 4 to Second Amended and Restated Credit Agreement and Amendment No. 1 to Second Amended and Restated Pledge and Security Agreement, dated as of December 20, 2016 and as may be further amended, restated, supplemented or otherwise modified from time to time, the "Security Agreement") by the Borrower and the other Loan Parties party thereto from time to time in favor of Collateral Agent. All capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Security Agreement (either as defined therein or as incorporated by reference to other documents).

W I T N E S S E T H:

WHEREAS, the Loan Parties and the Note Purchasers have entered into the Third Amended and Restated Senior Secured Note Purchase Agreement (the "Note Purchase Agreement") on the date hereof for the purpose of issuing additional notes thereunder;

WHEREAS, it is a condition precedent to the obligations of the Note Purchasers to enter into the Note Purchase Agreement that each of the Loan Parties enter into this Amendment to amend the Security Agreement; and

WHEREAS, each of the parties hereto desires to amend the Security Agreement as more fully set forth herein.

NOW, THEREFORE, in consideration of the premises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, each of the undersigned hereby agrees as follows:

1. Amendment to Security Agreement.

(a) Section 1.1 of the Security Agreement is hereby amended by deleting the phrase "(as in effect on the date hereof)" set forth therein.

2. Representations and Warranties. Each Loan Party hereby confirms to the Collateral Agent and the Secured Parties that the representations and warranties set forth in the Loan Documents and the Note Documents made by such Loan Party are true and correct in all material respects as of the date hereof (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date and, to the extent such representations and warranties are already qualified by concepts of materiality, shall be true and correct in all respects), and shall be deemed to be remade as of the date hereof. Each Loan Party hereby represents and warrants to the Collateral Agent that: (i) such Loan Party has full power and authority to execute and deliver this Amendment and to perform its obligations hereunder; (ii) upon the execution and delivery hereof, this Amendment shall be valid, binding and enforceable upon such Loan Party in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the

enforcement of creditors' rights generally and by general principles of equity; and (iii) the execution and delivery of this Amendment does not and shall not contravene, conflict with, violate or constitute a default under (A) the articles or certificate of incorporation, articles or certificate of formation, bylaws, limited liability company agreement or other similar constituent documents of such Loan Party, as applicable, (B) any applicable law, rule, regulation, judgment, decree or order, except for any such violation which could not reasonably be expected to have a Material Adverse Effect or (C) the provisions of any material indenture, instrument or agreement to which the Borrower or any of its Restricted Subsidiaries is a party or is subject, or by which it, or its Property, is bound, or result in, or require, the creation or imposition of any Lien in, of or on the Property of the Borrower or a Restricted Subsidiary pursuant to the terms of, any such indenture, instrument or agreement. Each Loan Party hereby confirms to the Collateral Agent that the covenants set forth in the Security Agreement have been complied with, and such covenants are reaffirmed and remade as of the date hereof.

3. Ratification of Liability; Effect. Each of the Loan Documents and the Note Documents (in each case, if applicable, as amended or otherwise modified through the date hereof) shall remain in full force and effect in accordance with their respective terms. Each Loan Party hereby ratifies and confirms its liabilities, obligations and agreements under each of the Loan Documents and the Note Documents to which it is a party, and acknowledges that (i) as of the date hereof, such Loan Party has no defenses, claims or set-offs to the enforcement by the Collateral Agent or any other Secured Party of such liabilities, obligations and agreements, (ii) as of the date hereof Collateral Agent and each Secured Party have fully performed all obligations to such Loan Party which Collateral Agent and each Secured Party may have had or have on and as of the date hereof and (iii) the Collateral Agent does not waive, diminish or limit any term, condition or covenant contained in the Loan Documents and the Note Documents (in each case, if applicable, as amended or otherwise modified through the date hereof).

4. Successors and Assigns. This Amendment shall be binding upon each Loan Party and its successors and assigns and shall inure to the benefit of the Collateral Agent and the Secured Parties and their respective successors and permitted assigns; all references herein to a Loan Party shall be deemed to include their respective successors and assigns. The successors and assigns of each Loan Party shall include, without limitation, their respective receivers, trustees or debtors-in-possession.

5. Governing Law. This Amendment and any claims, controversies, disputes or causes of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Amendment and the transactions contemplated hereby shall be construed in accordance with and be governed by the law (without giving effect to the conflict of law principles thereof) of the State of New York.

6. Severability. Any provision of this Amendment held to be illegal, invalid or unenforceable in any jurisdiction, shall, as to such jurisdiction, be ineffective to the extent of such illegality, invalidity or unenforceability without affecting the legality, validity or enforceability of the remaining provisions hereof; and the illegality, invalidity or unenforceability of a particular provision in a particular jurisdiction shall not invalidate or render unenforceability such provision in any other jurisdiction.

7. Merger. This Amendment constitutes the entire agreement among the parties hereto regarding the subject matters hereof and supersedes all prior agreements and understandings, oral or written, regarding such subject matters.

8. Execution in Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts (including by telecopy or by email, in pdf format), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an

executed counterpart of a signature page of this Amendment by telecopy, email, .PDF or other similar electronic format, shall be effective as delivery of a manually executed counterpart of this Amendment.

9. Section Headings. The section headings herein are for convenience of reference only, and shall not affect in any way the interpretation of any of the provisions hereof.

[Remainder of Page Intentionally Left Blank; Signature Page Follows.]

IN WITNESS WHEREOF, this Amendment has been duly executed by the undersigned as of the day and year first set forth above.

LOAN PARTIES:

ENCORE CAPITAL GROUP, INC.
MIDLAND CREDIT MANAGEMENT, INC.
MIDLAND INTERNATIONAL LLC
MIDLAND PORTFOLIO SERVICES, INC.
MIDLAND FUNDING LLC
MRC RECEIVABLES CORPORATION
MIDLAND FUNDING NCC-2 CORPORATION
ASSET ACCEPTANCE CAPITAL CORP.
ASSET ACCEPTANCE, LLC
ATLANTIC CREDIT & FINANCE, INC.

By: /s/ Jonathan Clark
Name: Jonathan Clark
Title: Treasurer

[SIGNATURE PAGE TO AMENDMENT TO PLEDGE AND SECURITY AGREEMENT]

MIDLAND INDIA LLC

By: /s/ Ashish Masih
Name: Ashish Masih
Title: President

[SIGNATURE PAGE TO AMENDMENT TO PLEDGE AND SECURITY AGREEMENT]

ASSET ACCEPTANCE RECOVERY SERVICES, LLC
ASSET ACCEPTANCE SOLUTIONS GROUP, LLC
LEGAL RECOVERY SOLUTIONS, LLC

By: /s/ Darin Herring
Name: Darin Herring
Title: Vice President, Operations

[SIGNATURE PAGE TO AMENDMENT TO PLEDGE AND SECURITY AGREEMENT]

ATLANTIC CREDIT & FINANCE SPECIAL FINANCE UNIT, LLC
ATLANTIC CREDIT & FINANCE SPECIAL FINANCE UNIT III, LLC

By: /s/ Greg Call
Name: Greg Call
Title: Secretary

[SIGNATURE PAGE TO AMENDMENT TO PLEDGE AND SECURITY AGREEMENT]

<u>COLLATERAL AGENT</u>:

SUNTRUST BANK, as Collateral Agent

By: <u>/s/ Paula Mueller</u>
Name: Paula Mueller
Title: Director

[SIGNATURE PAGE TO AMENDMENT TO PLEDGE AND SECURITY AGREEMENT]

Exhibit 10.5

INCREMENTAL FACILITY AGREEMENT
DNB Capital, LLC
August 15, 2017

Encore Capital Group, Inc.
3111 Camino Del Rio North
Suite 103
San Diego, California 92108
Attention: Chief Financial Officer

Re: Incremental Facility Agreement

Ladies and Gentlemen:

Reference is hereby made to that certain Third Amended and Restated Credit Agreement, dated as of December 20, 2016 (as amended by that certain Incremental Term Loan and Extension Agreement, dated as of March 2, 2017, that certain Incremental Facility Agreement, dated as of March 29, 2017, that certain Amendment No. 1 to Third Amended and Restated Credit Agreement, dated as of June 13, 2017, that certain Amendment No. 2 to Third Amended and Restated Credit Agreement, dated as of June 29, 2017 and as may be further amended, restated, modified, supplemented, extended or replaced from time to time, the "Credit Agreement"), by and among Encore Capital Group, Inc. ("Borrower"), the several banks and other financial institutions and lenders from time to time party thereto (the "Lenders"), SunTrust Bank, as administrative agent (in such capacity, the "Administrative Agent") and collateral agent, issuing bank and swingline lender. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings set forth in the Credit Agreement. This Incremental Facility Agreement (this "Agreement") (i) is an "Incremental Facility Amendment" (as defined in the Credit Agreement) and the Credit Agreement is hereby amended in accordance with the terms and conditions herein and (ii) shall be deemed to be a "Loan Document" under the Credit Agreement.

At the request of the Borrower DNB Capital, LLC, a New York limited liability company (the "Incremental Lender") hereby agrees to make an Incremental Term Loan to the Borrower in the amount of $25,000,000 (the "Incremental Term Loan") on the Agreement Effective Date (as defined below). The Incremental Term Loan provided pursuant to this Agreement shall be subject to all of the terms and conditions set forth in the Credit Agreement, including without limitation, Section 2.5 thereof.

The Incremental Lender, the Borrower and the Administrative Agent each acknowledges and agrees that the Incremental Term Loan provided pursuant to this Agreement shall constitute a "Term Loan" for all purposes of the Credit Agreement and the other applicable Loan Documents. Furthermore, each of the parties to this Agreement hereby agrees that (i) the Incremental Term Loan shall be subject to the terms set forth on Annex I hereto, (ii) except as otherwise expressly set forth herein, the Incremental Term Loan shall be on the same terms and conditions as the Term Loan A-3 under the Credit Agreement and (iii) the Incremental Term Loan shall constitute a "Term Loan A-3" for all purposes of the Credit Agreement and the other applicable Loan Documents.

The Incremental Lender hereby (i) confirms that it has received a copy of the Credit Agreement and the other Loan Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement and to become a Lender under the Credit Agreement, (ii) agrees that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement and the other Loan Documents, (iii) irrevocably authorizes the Administrative Agent to take such action on its behalf under this Agreement, the other Loan Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties as are specifically delegated to or required of the Administrative Agent by the terms thereof and such other powers as are reasonably incidental thereto and (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement and the other Loan Documents are required to be performed by it as a Lender.

In order to effect the Incremental Term Loan as contemplated hereby, each party hereto acting pursuant to Section 2.24(d) of the Credit Agreement hereby agrees that the Credit Agreement is hereby amended by amending and restating Section 2.9(g) in its entirety to read as follows:

> "(g) The Borrower unconditionally promises to pay to the Administrative Agent for the account of the Lenders holding the Term Loan A-3, (i) on each of March 31, 2017 and June 30, 2017, $1,219,757.36, (ii) on the last Business Day of each of March, June, September and December commencing on September 29, 2017, a principal amount equal to $122,580,588.57 multiplied by (A) 1.25%, for the first six (6) such quarterly installments, (B) 1.875%, for the next eight (8) quarterly installments thereafter and (C) 2.5%, for the next four (4) quarterly installments thereafter; provided, that, to the extent not previously paid, the aggregate unpaid principal balance of the Term Loan A-3 shall be due and payable on the Term Loan A-3 Maturity Date. Payments under this clause (g) shall be made to each Lender holding a Term Loan A-3 based on such Lender's Pro Rata Share thereof and all such payments shall be adjusted from time to time to account for optional and mandatory prepayments made hereunder."

Upon the date of (i) the execution of a counterpart of this Agreement by the Incremental Lender, the Administrative Agent, the Borrower and each Guarantor, (ii) the delivery to the Administrative Agent of a fully executed counterpart (including by way of facsimile or other form of electronic transmission permitted under the Credit Agreement) hereof, (iii) the payment of any fees as agreed between Borrower and SunTrust Robinson Humphrey, Inc. ("STRH") set forth in paragraph C(b)(i) of that certain Engagement Letter, dated November 14, 2016 by and between Borrower and STRH, and (iv) the satisfaction (or waiver in writing) of any other conditions precedent set forth in Section 5 of Annex I hereto (such date, the "Agreement Effective Date") the Incremental Lender shall (i) fund the Incremental Term Loan on the terms, and subject to the conditions, set forth in the Credit Agreement and in this Agreement and (ii) shall have all of the rights and obligations of a Lender under the Credit Agreement and the other Loan Documents. As of the Agreement Effective Date, and after giving effect to the transactions contemplated by this Agreement, the aggregate outstanding principal amount of the Term Loans held by each of the Lenders are as set forth on Annex II.

Each of the Borrower and each Guarantor acknowledges and agrees that (i) it shall be liable for all Obligations with respect to the Incremental Facility (as defined in the Credit

Agreement) created hereunder and (ii) all such Obligations (including the Incremental Term Loan made by the Incremental Lender) shall constitute (and be included in the definition of) "Secured Obligations" under the Credit Agreement and be entitled to the benefits of the respective Collateral Documents and the Guaranty Agreement as, and to the extent, provided in the Credit Agreement and in such other Loan Documents.

The Borrower may accept this Agreement by signing the enclosed copies in the space provided below, and returning one copy of same to the Incremental Lender and one copy to the Administrative Agent before the close of business on August 15, 2017. If the Borrower does not so accept this Agreement by such time, the obligations of the Incremental Lender to provide the Incremental Term Loan as set forth in this Agreement shall be deemed canceled and of no force or effect.

After the execution and delivery to the Administrative Agent of a fully executed copy of this Agreement (including by way of counterparts and by facsimile transmission) by the parties hereto, this Agreement may only be changed, modified or varied by written instrument in accordance with the requirements for the modification of Loan Documents pursuant to Section 10.2 of the Credit Agreement.

THIS AGREEMENT AND THE OBLIGATIONS HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES (BUT, IN ANY EVENT, GIVING EFFECT TO SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

[Signature Pages Follow]

Very truly yours,

DNB Capital, LLC, a New York limited liability company

By: /s/ Philip F. Kurpiewski
Name: Philip F. Kurpiewski
Title: Senior Vice President

By: /s/ Rune Nilsen, Jr.
Name: Rune Nilsen, Jr.
Title: Senior Vice President

Agreed and Accepted as of the date first written above:

SUNTRUST BANK, as Administrative Agent,
Issuing Bank and Swingline Lender

By: /s/ Paula Mueller
Name: Paula Mueller
Title: Director

Agreed and Accepted as of the date first written above:

ENCORE CAPITAL GROUP, INC.

By: /s/ Jonathan Clark
Name: Jonathan Clark
Title: Chief Financial Officer

Each Guarantor acknowledges and agrees to each the foregoing provisions of this Incremental Facility Agreement and to the establishment of the Incremental Term Loan and the Obligations incurred related thereto.

MIDLAND CREDIT MANAGEMENT, INC.
MIDLAND FUNDING LLC
MIDLAND PORTFOLIO SERVICES, INC.
MIDLAND FUNDING NCC-2 CORPORATION
MIDLAND INTERNATIONAL LLC
MRC RECEIVABLES CORPORATION
ASSET ACCEPTANCE CAPITAL CORP.
ASSET ACCEPTANCE, LLC
ATLANTIC CREDIT & FINANCE, INC.

By: /s/ Jonathan Clark
Name: Jonathan Clark
Title: Treasurer

MIDLAND INDIA LLC

By: /s/ Ashish Masih
Name: Ashish Masih
Title: President

ASSET ACCEPTANCE RECOVERY SERVICES, LLC
ASSET ACCEPTANCE SOLUTIONS GROUP, LLC
LEGAL RECOVERY SOLUTIONS, LLC

By: /s/ Darin Herring
Name: Darin Herring
Title: Vice President, Operations

ATLANTIC CREDIT & FINANCE SPECIAL FINANCE UNIT, LLC
ATLANTIC CREDIT & FINANCE SPECIAL FINANCE UNIT III, LLC

By: /s/ Greg Call
Name: Greg Call
Title: Secretary

ANNEX I

TERMS AND CONDITIONS FOR
INCREMENTAL FACILITY AGREEMENT

1. Name of Borrower: Encore Capital Group, Inc., a Delaware corporation.

2. Date upon which the Incremental Term Loan is to be made: August 15, 2017.

3. Date upon which the Incremental Term Loan matures: the Term Loan A-3 Maturity Date.

4. Applicable Margin: Identical to the "Applicable Margin" as defined in the Credit Agreement.

5. Other Conditions Precedent:

(a) No Default or Event of Default has occurred and is continuing or will result from the incurrence by the Borrower of the Incremental Term Loan provided by the Incremental Lender as of the date hereof as contemplated by the Incremental Facility Agreement;

(b) the Borrower and its Restricted Subsidiaries are in pro forma compliance with each of the covenants set forth in Article VI of the Credit Agreement as of the last date of the most recently ended Fiscal Quarter after giving effect to the Incremental Term Loan provided by the Incremental Lender under the Incremental Facility Agreement on the date hereof; and

(c) each of the conditions in Section 3.2 of the Credit Agreement have been satisfied.

ANNEX II

TERM LOAN AMOUNTS, ADDITIONAL TERM LOAN A-3 COMMITMENT AMOUNTS AND INCREMENTAL OR EXTENDED TERM LOAN A-3 AMOUNTS OF INCREASING LENDERS, EXTENDING LENDERS AND NON-EXTENDING LENDERS

Extending Lenders (including any Incremental Lender joining after the Closing Date):

Lender	Aggregate Amount of Term Loan A-2 of Existing Lender Converted to Term Loan A-3 on the Closing Date	Additional Term Loan A-3 Commitment of Increasing Lenders as of the Closing Date	Incremental or Extended Term Loan A-3 made or Extended after the Closing Date	Total Term Loan A-3 as of the Agreement Effective Date[1]
SunTrust Bank	$12,690,361.06	$2,331,019.21		$14,645,845.77
Bank of America	13,469,866.33	1,551,513.94		14,645,845.77
ING Capital	7,533,482.17	142,787.76		7,484,363.19
MUFG Union Bank, NA	2,260,044.66	2,337,004.18		4,482,122.62
Citibank, NA	5,273,437.52			5,141,601.58
California Bank and Trust	6,428,571.75			6,267,857.45
Flagstar Bank		25,000,000.00		24,375,000.00
Bank Leumi USA	3,570,870.47	661,272.39		4,126,339.26
Northwest Bank	4,656,250.00	343,750.00		4,875,000.00
Umpqua Bank			2,578,124.98	2,513,671.86
Cathay Bank			1,752,232.15	1,708,426.35
Woodforest National Bank			5,000,000.00	4,875,000.00
DNB Capital, LLC			25,000,000.00	25,000,000.00
Total	**$55,882,883.96**	**$32,367,347.48**	**$34,330,357.13**	**$ 120,141,073.85**

Non-Extending Lenders:

Lender	Term Loan A as of the Agreement Effective Date[1]	Term Loan A-2 as of the Agreement Effective Date[1]
Fifth Third Bank		$6,920,602.37
Raymond James Bank, N.A.		7,265,625.00
Chang Hwa		1,383,928.58
Israel Discount Bank	$2,544,642.85	
Amalgamated Bank	1,908,482.12	
Manufacturers Bank		1,383,928.58
Total	**$4,453,124.97**	**$ 16,954,084.53**

[1] Amounts reflect reductions to the outstanding Term Loan principal resulting from amortization prior to the Agreement Effective Date.

Exhibit 10.6
EXECUTION VERSION

INCREMENTAL FACILITY AGREEMENT
REGIONS BANK
September 26, 2017

Encore Capital Group, Inc.
3111 Camino Del Rio North
Suite 103
San Diego, California 92108
Attention: Chief Financial Officer

Re: Incremental Facility Agreement

Ladies and Gentlemen:

Reference is hereby made to that certain Third Amended and Restated Credit Agreement, dated as of December 20, 2016 (as amended by that certain Incremental Term Loan and Extension Agreement, dated as of March 2, 2017, that certain Incremental Facility Agreement, dated as of March 29, 2017, that certain Amendment No. 1 to Third Amended and Restated Credit Agreement, dated as of June 13, 2017, that certain Amendment No. 2 to Third Amended and Restated Credit Agreement, dated as of June 29, 2017, that certain Incremental Facility Agreement, dated as of August 15, 2017 and as may be further amended, restated, modified, supplemented, extended or replaced from time to time, the "Credit Agreement"), by and among Encore Capital Group, Inc. ("Borrower"), the several banks and other financial institutions and lenders from time to time party thereto (the "Lenders"), SunTrust Bank, as administrative agent (in such capacity, the "Administrative Agent") and collateral agent, issuing bank and swingline lender. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings set forth in the Credit Agreement. This Incremental Facility Agreement (this "Agreement") (i) is an "Incremental Facility Amendment" (as defined in the Credit Agreement) and the Credit Agreement is hereby amended in accordance with the terms and conditions herein and (ii) shall be deemed to be a "Loan Document" under the Credit Agreement.

At the request of the Borrower, Regions Bank (the "Incremental Lender") hereby agrees to (i) provide an Incremental Revolving Commitment to the Borrower in the amount of $25,000,000 (the "Incremental Revolving Commitment") and (ii) make an Incremental Term Loan to the Borrower in the amount of $50,000,000 (the "Incremental Term Loan" and together with the Incremental Revolving Commitment and the Revolving Loans funded pursuant thereto, the "Incremental Facility") on the Agreement Effective Date (as defined below). The Incremental Facility provided pursuant to this Agreement shall be subject to all of the terms and conditions set forth in the Credit Agreement, including without limitation, Section 2.2 thereof with respect to the Incremental Revolving Commitment and the Revolving Loans funded pursuant thereto and Section 2.5 thereof with respect to the Incremental Term Loan.

The Incremental Lender, the Borrower and the Administrative Agent each acknowledges and agrees that the Incremental Revolving Commitment provided pursuant to this Agreement shall constitute a "Revolving Commitment" for all purposes under the Credit Agreement and the other applicable Loan Documents and the Incremental Term Loan provided pursuant to this Agreement shall constitute a "Term Loan" for all purposes of the Credit Agreement and the other applicable Loan Documents. Furthermore, each of the parties to this Agreement hereby agrees that (i) the Incremental Facility shall be subject to the terms set forth on Annex I hereto, (ii) the Incremental Revolving Commitment, and the Revolving Loans funded thereunder, shall be on the same terms and conditions as the Revolving Commitments and Revolving Loans under the Credit Agreement, (iii) except as otherwise expressly set forth herein, the Incremental Term Loan shall be on the same terms and conditions as the Term Loan A-3 under the Credit Agreement and (iv) the Incremental Term Loan shall constitute a "Term Loan A-3" for all purposes of the Credit Agreement and the other applicable Loan Documents.

The Incremental Lender hereby (i) confirms that it has received a copy of the Credit Agreement and the other Loan Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement and to become a Lender under the Credit Agreement, (ii) agrees that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement and the other Loan Documents, (iii) irrevocably authorizes the Administrative Agent to take such action on its behalf under this Agreement, the other Loan Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties as are specifically delegated to or required of the Administrative Agent by the terms thereof and such other powers as are reasonably incidental thereto and (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement and the other Loan Documents are required to be performed by it as a Lender.

In order to effect the Incremental Term Loan as contemplated hereby, each party hereto acting pursuant to Section 2.24(d) of the Credit Agreement hereby agrees that the Credit Agreement is hereby amended by replacing the amount "$122,580,588.57" in Section 2.9(g)(ii) with "$172,580,588.57.

Upon the date of (i) the execution of a counterpart of this Agreement by the Incremental Lender, the Administrative Agent, the Borrower and each Guarantor, (ii) the delivery to the Administrative Agent of a fully executed counterpart (including by way of facsimile or other form of electronic transmission permitted under the Credit Agreement) hereof, (iii) the payment of any fees as agreed between Borrower and SunTrust Robinson Humphrey, Inc. ("STRH") set forth in paragraph C(b)(i) of that certain Engagement Letter, dated November 14, 2016 by and between Borrower and STRH, and (iv) the satisfaction (or waiver in writing) of any other conditions precedent set forth in Section 5 of Annex I hereto (such date, the "Agreement Effective Date") the Incremental Lender shall (a) be obligated to fund the Revolving Loans pursuant to the Incremental Revolving Commitment to be made by it, and participate in Letters of Credit and Swingline Loans required to be participated in by it on terms, and subject to the conditions, set forth in the Credit Agreement and in this Agreement, (b) fund the Incremental Term Loan on the terms, and subject to the conditions, set forth in the Credit Agreement and in this Agreement, (c) have all of the rights and obligations of a Lender under the Credit Agreement and the other Loan Documents and (d) the Incremental Lender will have the title of "Co-Documentation Agent" in any and all marketing materials and documentation in connection with the Credit Agreement (including on the cover page thereof). As of the Agreement Effective Date, and after giving effect to the transactions contemplated by this Agreement, the aggregate outstanding principal amount of the Term Loans and/or the Revolving Commitments held by each of the Lenders are as set forth on Annex II and Annex III respectively.

Each of the Borrower and each Guarantor acknowledges and agrees that (i) it shall be liable for all Obligations with respect to the Incremental Facility created hereunder and (ii) all such Obligations (including the Incremental Term Loan and the Revolving Loans made by the Incremental Lender pursuant to its Incremental Revolving Commitments) shall constitute (and be included in the definition of) “Secured Obligations” under the Credit Agreement and be entitled to the benefits of the respective Collateral Documents and the Guaranty Agreement as, and to the extent, provided in the Credit Agreement and in such other Loan Documents.

The Borrower may accept this Agreement by signing the enclosed copies in the space provided below, and returning one copy of same to the Incremental Lender and one copy to the Administrative Agent before the close of business on September 26, 2017. If the Borrower does not so accept this Agreement by such time, the obligations of the Incremental Lender to provide the Incremental Facility as set forth in this Agreement shall be deemed canceled and of no force or effect.

After the execution and delivery to the Administrative Agent of a fully executed copy of this Agreement (including by way of counterparts and by facsimile transmission) by the parties hereto, this Agreement may only be changed, modified or varied by written instrument in accordance with the requirements for the modification of Loan Documents pursuant to Section 10.2 of the Credit Agreement.

THIS AGREEMENT AND THE OBLIGATIONS HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES (BUT, IN ANY EVENT, GIVING EFFECT TO SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

[Signature Pages Follow]

Very truly yours,

REGIONS BANK

By: /s/ Peter Wesemeier
Name: Peter Wesemeier
Title: Managing Director

Agreed and Accepted as of the date first written above:

SUNTRUST BANK, as Administrative Agent,
Issuing Bank and Swingline Lender

By: /s/ Richard W. Jantzen, III
Name: Richard W. Jantzen, III
Title: Vice President

Agreed and Accepted as of the date first written above:

ENCORE CAPITAL GROUP, INC.

By: /s/ Jonathan Clark
Name: Jonathan Clark
Title: Chief Financial Officer

Each Guarantor acknowledges and agrees to each the foregoing provisions of this Incremental Facility Agreement and to the establishment of the Incremental Facility and the Obligations incurred related thereto.

MIDLAND CREDIT MANAGEMENT, INC.
MIDLAND FUNDING LLC
MIDLAND PORTFOLIO SERVICES, INC.
MIDLAND FUNDING NCC-2 CORPORATION
MIDLAND INTERNATIONAL LLC
MRC RECEIVABLES CORPORATION
ASSET ACCEPTANCE CAPITAL CORP.
ASSET ACCEPTANCE, LLC
ATLANTIC CREDIT & FINANCE, INC.

By: /s/ Jonathan Clark
Name: Jonathan Clark
Title: Treasurer

MIDLAND INDIA LLC

By: /s/ Ashish Masih
Name: Ashish Masih
Title: President

ASSET ACCEPTANCE RECOVERY SERVICES, LLC
ASSET ACCEPTANCE SOLUTIONS GROUP, LLC
LEGAL RECOVERY SOLUTIONS, LLC

By: /s/ Darin Herring
Name: Darin Herring
Title: Vice President, Operations

ATLANTIC CREDIT & FINANCE SPECIAL FINANCE UNIT, LLC
ATLANTIC CREDIT & FINANCE SPECIAL FINANCE UNIT III, LLC

By: /s/ Greg Call
Name: Greg Call
Title: Secretary

ANNEX I

TERMS AND CONDITIONS FOR
INCREMENTAL FACILITY AGREEMENT

1. Name of Borrower: Encore Capital Group, Inc., a Delaware corporation.

2. Date upon which the Incremental Facility is to become effective: September 26, 2017.

3. Maturity Dates:

(a) Date upon which the Incremental Revolving Commitment Terminates: the Revolving Commitment Termination Date.

(b) Date upon which the Incremental Term Loan matures: the Term Loan A-3 Maturity Date.

4. Applicable Margin: Identical to the "Applicable Margin" as defined in the Credit Agreement.

5. Other Conditions Precedent:

(a) No Default or Event of Default has occurred and is continuing or will result from the incurrence by the Borrower of the Incremental Facility provided by the Incremental Lender as of the date hereof as contemplated by the Incremental Facility Agreement;

(b) the Borrower and its Restricted Subsidiaries are in pro forma compliance with each of the covenants set forth in Article VI of the Credit Agreement as of the last date of the most recently ended Fiscal Quarter after giving effect to the Incremental Facility provided by the Incremental Lender under the Incremental Facility Agreement on the date hereof (assuming for such purpose that the Incremental Revolving Commitment provided under the Incremental Facility Agreement is fully drawn on the date hereof); and

(c) each of the conditions in Section 3.2 of the Credit Agreement have been satisfied.

ANNEX II

TERM LOAN AMOUNTS, ADDITIONAL TERM LOAN A-3 COMMITMENT AMOUNTS AND INCREMENTAL OR EXTENDED TERM LOAN A-3 AMOUNTS OF INCREASING LENDERS, EXTENDING LENDERS AND NON-EXTENDING LENDERS

Extending Lenders (including any Incremental Lender joining after the Closing Date):

Lender	Aggregate Amount of Term Loan A-2 of Existing Lender Converted to Term Loan A-3 on the Closing Date	Additional Term Loan A-3 Commitment of Increasing Lenders as of the Closing Date	Incremental or Extended Term Loan A-3 made or Extended after the Closing Date	Total Term Loan A-3 as of the Agreement Effective Date[1]
SunTrust Bank	$12,690,361.06	$2,331,019.21		$14,645,845.77
Bank of America	13,469,866.33	1,551,513.94		14,645,845.77
ING Capital	7,533,482.17	142,787.76		7,484,363.19
MUFG Union Bank, NA	2,260,044.66	2,337,004.18		4,482,122.62
Citibank, NA	5,273,437.52			5,141,601.58
California Bank and Trust	6,428,571.75			6,267,857.45
Flagstar Bank		25,000,000.00		24,375,000.00
Bank Leumi USA	3,570,870.47	661,272.39		4,126,339.26
Northwest Bank	4,656,250.00	343,750.00		4,875,000.00
Umpqua Bank			2,578,124.98	2,513,671.86
Cathay Bank			1,752,232.15	1,708,426.35
Woodforest National Bank			5,000,000.00	4,875,000.00
DNB Capital, LLC			25,000,000.00	25,000,000.00
Regions Bank			50,000,000.00	50,000,000.00
Total	**$55,882,883.96**	**$32,367,347.48**	**$84,330,357.13**	**$ 170,141,073.85**

Non-Extending Lenders:

Lender	Term Loan A as of the Agreement Effective Date[1]	Term Loan A-2 as of the Agreement Effective Date[1]
Fifth Third Bank		$6,920,602.37
Raymond James Bank, N.A.		7,265,625.00
Chang Hwa		1,383,928.58
Israel Discount Bank	$2,544,642.85	
Amalgamated Bank	1,908,482.12	
Manufacturers Bank		1,383,928.58
Total	**$4,453,124.97**	**$16,954,084.53**

[1] Amounts reflect reductions to the outstanding Term Loan principal resulting from amortization prior to the Agreement Effective Date.

ANNEX III

REVOLVING COMMITMENT AMOUNTS OF NEW LENDER, INCREMENTAL LENDERS, INCREASING LENDERS, EXTENDING LENDERS AND NON-EXTENDING LENDERS

New Lender:

Lender	Revolving Commitment Amount as of the Agreement Effective Date
UMPQUA BANK	$41,041,666.67

Incremental Lenders:

Lender	Revolving Commitment Amount as of the Agreement Effective Date
WOODFOREST NATIONAL BANK	$20,000,000.00
REGIONS BANK	$25,000,000.00

Extending Lenders:

Lender	2021 Revolving Commitment Amount as of the Agreement Effective Date
SunTrust Bank	$83,278,619.73
Bank of America	83,278,619.73
ING Capital	67,323,730.07
Credit Suisse AG Cayman Island	50,000,000.00
Union Bank, NA	45,402,951.16
Citibank NA	43,749,999.98
Morgan Stanley Bank NA	40,625,000.00
California Bank and Trust	32,380,952.00
Flagstar Bank	5,000,000.00
PrivateBank and Trust Co.	25,000,000.00
UBS AG	20,000,000.00
Bank Leumi	10,767,857.14
CTBC Bank Corp	10,000,000.00
Opus Bank	10,000,000.00
Cathay Bank	13,164,285.70
TOTAL (New, Incremental and Extending)	**$626,013,682.18**

Non-Extending Lenders:

Lender	Revolving Commitment Amount as of the Agreement Effective Date
2017 Lenders	
Israel Discount Bank	$16,190,476.19
Amalgamated Bank	15,892,857.14
Total 2017 Lenders	**$32,083,333.33**
2019 Lenders	
Fifth Third Bank	51,070,190.48
Citizens Bank, NA	35,000,000.00
Raymond James Bank, N.A.	20,000,000.00
Chang Hwa	19,345,238.10
Barclays Bank PLC	20,000,000.00
Western Alliance Bank	15,000,000.00
Manufacturers Bank	8,214,285.70
Total 2019 Lenders	**$168,629,714.28**

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Ashish Masih, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Encore Capital Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /S/ ASHISH MASIH

Ashish Masih
President and Chief Executive Officer

Date: November 2, 2017

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Jonathan C. Clark, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Encore Capital Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JONATHAN C. CLARK

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

Date: November 2, 2017

Exhibit 32.1

ENCORE CAPITAL GROUP, INC.

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

In connection with the Quarterly Report of Encore Capital Group, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

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

/s/ Ashish Masih

Ashish Masih

President and Chief Executive Officer

November 2, 2017

/s/ Jonathan C. Clark

Jonathan C. Clark

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

November 2, 2017

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