ENCORE CAPITAL GROUP INC
Form 10-Q
August 07, 2014
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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 June 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
COMMISSION FILE NUMBER: 000-26489
ENCORE CAPITAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	48-1090909
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3111 Camino Del Rio North, Suite 1300 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No 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 July 29, 2014
Common Stock, $0.01 par value	25,631,325 shares

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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)

	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$123,407	$126,213
Investment in receivable portfolios, net	1,987,985	1,590,249
Deferred court costs, net	45,577	41,219
Receivables secured by property tax liens, net	279,608	212,814
Property and equipment, net	58,839	55,783
Other assets	217,471	154,783
Goodwill	879,910	504,213
Total assets	$3,592,797	$2,685,274
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	$163,958	$137,272
Debt	2,715,866	1,850,431
Other liabilities	99,209	95,100
Total liabilities	2,979,033	2,082,803
Commitments and contingencies		
Redeemable noncontrolling interest	31,730	26,564
Redeemable equity component of convertible senior notes	10,488	—
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, 25,631 shares and 25,457 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	256	255
Additional paid-in capital	116,037	171,819
Accumulated earnings	441,369	394,628
Accumulated other comprehensive gain	10,936	5,195
Total Encore Capital Group, Inc. stockholders' equity	568,598	571,897
Noncontrolling interest	2,948	4,010
Total equity	571,546	575,907
Total liabilities, redeemable equity and equity	$3,592,797	$2,685,274

The following table includes assets that can only be used to settle the liabilities of the Company's consolidated variable interest entities ("VIEs"). These assets and liabilities are included in the consolidated statements of financial condition above. See Note 11 "Variable Interest Entities" for additional information on the Company's VIEs.

	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$52,827	$62,403
Investment in receivable portfolios, net	1,002,980	620,312
Deferred court costs, net	4,317	—
Receivables secured by property tax liens, net	127,273	—

Property and equipment, net	14,816	13,755
Other assets	91,366	33,772
Goodwill	728,045	376,296
Liabilities		
Accounts payable and accrued liabilities	$80,791	$47,219
Debt	1,699,343	846,676
Other liabilities	7,261	1,897

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Revenue from receivable portfolios, net	$248,231	$152,024	$485,799	$292,707
Other revenues	14,149	380	25,498	681
Net interest income	6,815	3,717	11,639	7,319
Total revenues	269,195	156,121	522,936	300,707
Operating expenses				
Salaries and employee benefits	64,355	32,969	122,492	61,801
Cost of legal collections	50,029	44,483	99,854	86,741
Other operating expenses	22,041	13,797	48,464	27,062
Collection agency commissions	9,153	5,230	17,429	8,559
General and administrative expenses	38,282	27,601	74,976	43,943
Depreciation and amortization	6,829	2,158	12,946	4,004
Total operating expenses	190,689	126,238	376,161	232,110
Income from operations	78,506	29,883	146,775	68,597
Other (expense) income				
Interest expense	(43,218)	(7,482)	(81,180)	(14,336)
Other income (expense)	75	(4,122)	340	(3,963)
Total other expense	(43,143)	(11,604)	(80,840)	(18,299)
Income before income taxes	35,363	18,279	65,935	50,298
Provision for income taxes	(14,010)	(7,267)	(25,752)	(19,838)
Net income	21,353	11,012	40,183	30,460
Net loss attributable to noncontrolling interest	2,208	—	6,558	—
Net income attributable to Encore Capital Group, Inc. stockholders	$23,561	$11,012	$46,741	$30,460
Earnings per share attributable to Encore Capital Group, Inc.:				
Basic	$0.91	$0.46	$1.81	$1.28
Diluted	$0.86	$0.44	$1.68	$1.24
Weighted average shares outstanding:				
Basic	25,798	23,966	25,774	23,707
Diluted	27,492	24,855	27,790	24,652

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$21,353	$11,012	$40,183	$30,460
Other comprehensive gain (loss), net of tax:				
Unrealized gain (loss) on derivative instruments	480	(1,574)	2,068	(954)
Unrealized gain (loss) on foreign currency translation	3,525	(583)	3,674	(697)
Other comprehensive gain (loss), net of tax	4,005	(2,157)	5,742	(1,651)
Comprehensive income	25,358	8,855	45,925	28,809
Comprehensive loss attributable to noncontrolling interest:				
Net loss	2,208	—	6,558	—
Unrealized gain on foreign currency translation	(618)	—	(470)	—
Comprehensive loss attributable to noncontrolling interests	1,590	—	6,088	—
Comprehensive income attributable to Encore Capital Group, Inc. stockholders	$26,948	$8,855	$52,013	$28,809

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended June 30, 2014	2013
Operating activities:		
Net income	$40,183	$30,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,946	4,004
Other non-cash interest expense	13,974	3,550
Stock-based compensation expense	9,551	5,180
Recognized loss on termination of derivative contract	—	3,630
Deferred income taxes	9,616	(3,297)
Excess tax benefit from stock-based payment arrangements	(10,756)	(3,848)
Reversal of allowances on receivable portfolios, net	(6,652)	(4,680)
Changes in operating assets and liabilities		
Deferred court costs and other assets	(23,801)	(7,010)
Prepaid income tax and income taxes payable	(9,038)	(19,559)
Accounts payable, accrued liabilities and other liabilities	1,574	2,821
Net cash provided by operating activities	37,597	11,251
Investing activities:		
Cash paid for acquisitions, net of cash acquired	(303,532)	(293,329)
Purchases of receivable portfolios, net of put-backs	(475,121)	(98,196)
Collections applied to investment in receivable portfolios, net	325,451	260,531
Originations and purchases of receivables secured by tax liens	(85,014)	(87,961)
Collections applied to receivables secured by tax liens	53,216	27,097
Purchases of property and equipment	(8,943)	(5,335)
Other	—	(5,530)
Net cash used in investing activities	(493,943)	(202,723)
Financing activities:		
Payment of loan costs	(14,673)	(11,846)
Proceeds from credit facilities	679,872	514,065
Repayment of credit facilities	(732,857)	(228,175)
Proceeds from senior secured notes	288,645	—
Repayment of senior secured notes	(7,500)	(6,250)
Proceeds from issuance of convertible senior notes	161,000	150,000
Proceeds from issuance of securitized notes	134,000	—
Repayment of securitized notes	(8,793)	—
Proceeds from issuance of preferred equity certificates	20,596	—
Repayment of preferred equity certificates	(6,297)	—
Purchases of convertible hedge instruments	(33,576)	(15,750)
Repurchase of common stock	(16,815)	(729)
Taxes paid related to net share settlement of equity awards	(18,375)	(8,420)
Excess tax benefit from stock-based payment arrangements	10,756	3,848
Other, net	1,859	(610)
Net cash provided by financing activities	457,842	396,133
Net increase in cash and cash equivalents	1,496	204,661

Effect of exchange rate changes on cash	(4,302)	—
Cash and cash equivalents, beginning of period	126,213	17,510
Cash and cash equivalents, end of period	$123,407	$222,171
Supplemental disclosures of cash flow information:		
Cash paid for interest	$54,672	$12,537
Cash paid for income taxes	37,805	40,513
Supplemental schedule of non-cash investing and financing activities:		
Fixed assets acquired through capital lease	$3,766	$1,189

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, the “Company”), is an international specialty finance company providing debt recovery solutions for consumers and property owners 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 partnering 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. Encore, through certain subsidiaries, is a market leader in portfolio purchasing and recovery in the United States. Encore’s subsidiary, Janus Holdings Luxembourg S.a.r.l. (“Janus Holdings”), through its indirectly held United Kingdom-based subsidiary Cabot Credit Management Limited (“Cabot”), is a market leader in debt management in the United Kingdom, historically specializing in higher balance, semi-performing accounts. Cabot’s February 2014 acquisition of Marlin Financial Group Limited (“Marlin”) provides Cabot with substantial litigation-enhanced collections capabilities for non-performing accounts. Encore’s majority-owned subsidiary, Grove Holdings (“Grove”), through its subsidiaries, is a 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. Encore’s majority-owned subsidiary, Refinancia S.A. (“Refinancia”), through its subsidiaries, is one of the market leaders in debt collection and management in Colombia and Peru. In addition, through Encore’s subsidiary, Propel Financial Services, LLC (“Propel”), the Company assists property owners who are delinquent on their property taxes by structuring affordable monthly payment plans and purchases delinquent tax liens directly from selected taxing authorities.

Portfolio Purchasing and Recovery

United States. The Company purchases receivable portfolios based on robust, account-level valuation methods and employs a suite of proprietary statistical and behavioral models across the full extent of its operations. These investments allow the Company to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with its methods or goals and precisely align the accounts it purchases with its operational channels to maximize future collections. As a result, the Company has been able to realize significant returns from the receivables it acquires. The Company maintains strong relationships with many of the largest credit and telecommunication providers, and possesses one of the industry’s best collection staff retention rates.

The Company uses insights discovered during its purchasing process to build account collection strategies. The Company’s proprietary consumer-level collectability analysis is the primary determinant of whether an account will be actively serviced post-purchase. The Company continuously refines this analysis to determine the most effective collection strategy to pursue for each account it owns. After the Company’s preliminary analysis, it seeks to collect on only a fraction of the accounts it purchases, through one or more of its collection channels. The channel identification process is analogous to a funneling system, where the Company first differentiates those consumers who it believes are not able to pay from those who are able to pay. Consumers who the Company believes are financially incapable of making any payments, facing extenuating circumstances or hardships (such as medical issues), serving in the military, or currently receiving social security as their only source of income are excluded from the next step of its collection process and are designated as inactive. The remaining pool of accounts in the funnel then receives further evaluation. At that point, the Company analyzes and determines a consumer’s perceived willingness to pay. Based on that analysis, the Company will pursue collections through letters and/or phone calls to its consumers. Despite its efforts to reach consumers and work out a settlement option, only a small number of consumers who are contacted choose to engage with the Company. Those who do are often offered deep discounts on their obligations, or are presented with payment plans that are better suited to meet their daily cash flow needs. The majority of contacted consumers, however, ignore both the Company’s calls and letters, and therefore the Company must then make the difficult decision whether or not to pursue collections through legal means.

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

United Kingdom. Through Cabot, portfolio receivables are purchased using a proprietary pricing model. This model allows Cabot to value portfolios with a high degree of accuracy and quantify portfolio performance in order to maximize future

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collections. As a result, Cabot has been able to realize significant returns from the assets it has acquired. Cabot maintains strong relationships with many of the largest financial service providers in the United Kingdom.

Cabot also uses insights discovered during its purchasing process to build account collection strategies. Cabot's proprietary consumer-level collectability analysis is the primary determinant of how an account will be serviced post-purchase. Cabot continuously refines this analysis to determine the most effective collection strategy to pursue for each account it owns. In recent years, Cabot has concentrated on buying portfolios that are defined as semi-performing, in which over 50% of the accounts in a portfolio have made a payment in three of the last four months immediately prior to the portfolio purchase. Cabot will try to establish contact with these consumers, in order to transfer payment arrangements and gauge the willingness of these consumers to pay. Consumers who Cabot believes are financially incapable of making any payments, those having negative disposable income, or those experiencing hardships (such as medical issues or mental incapacity), are managed outside of normal collection routines.

The remaining pool of accounts then receives further evaluation. Cabot analyzes and estimates a consumer's perceived willingness to pay. Based on that analysis, Cabot pursues collections through letters and/or phone calls to its consumers. Where contact is made and consumers indicate a willingness to pay, a patient approach of forbearance is applied using regulatory protocols within the United Kingdom to assess affordability and ensure that plans are fair and balanced and therefore, sustainable.

Where consumers are not locatable or refuse to engage in a constructive dialogue, Cabot will pass these accounts through a litigation scorecard and rule set in order to assess suitability for legal action. Through Cabot's newly acquired subsidiary, Marlin, a leading acquirer of non-performing consumer debt in the United Kingdom, Cabot has a competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables.

On April 1, 2014, the Company completed the acquisition of a controlling equity ownership interest in Grove. Grove, through its subsidiaries, is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or IVAs) in the United Kingdom and bank and non-bank receivables in Spain.

Colombia and Peru. Refinancia is one of the market leaders in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including providing financial solutions to individuals with defaulted credit records, payment plan guarantee services through merchants and loan guarantee services to financial institutions.

Tax Lien Business

Propel's principal activities are the acquisition and servicing of residential and commercial tax liens on real property. These liens take priority over most other liens. By funding tax liens, Propel provides state and local taxing authorities and governments with much needed tax revenue. To the extent permitted by local law, Propel works with property owners to structure affordable payment plans designed to allow them to keep their property while paying their property tax obligation over time. Propel maintains a foreclosure rate of less than one-half of one percent.

Propel's receivables secured by property tax liens include Texas tax liens, Nevada tax liens, and tax lien certificates in various other states (collectively, "Tax Liens"). With Texas and Nevada Tax Liens, Texas or Nevada property owners choose to have the taxing authority transfer their tax lien to Propel. Propel pays their tax lien obligation to the taxing authority and the property owner pays Propel over time at a lower interest rate than would be assessed by the taxing authority. Propel's arrangements with Texas and Nevada property owners provide them with repayment plans that are both affordable and flexible when compared with other payment options. Propel also purchases Tax Liens in various other states directly from taxing authorities, securing rights to outstanding property tax payments, interest and penalties. In most cases, such Tax Liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase.

Financial Statement Preparation and Presentation

The accompanying interim condensed consolidated financial statements have been prepared by Encore, 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”).

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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, 2013. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

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

Basis of Consolidation

The consolidated financial statements have been prepared in conformity with GAAP, and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. The Company also consolidates 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) the obligation to absorb losses or the right to receive benefits. Refer to Note 11, "Variable Interest Entities," for further details. All intercompany transactions and balances have been eliminated in consolidation.

On June 13, 2013, the Company completed its merger with Asset Acceptance Capital Corp. ("AACC"), on July 1, 2013, the Company completed its acquisition of Cabot (the "Cabot Acquisition"), and on February 7, 2014, Cabot acquired Marlin. The condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2013 only include the results of operations of AACC since the closing date of the merger with AACC and do not include the results of operations of Cabot, as the acquisition was not completed until after June 30, 2013. The condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2014 includes the results of the operations of Marlin since the date of the acquisition.

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 are translated as of the balance sheet date and revenue and expenses are translated at an average rate over the period. Currency translation adjustments are recorded as a component of other comprehensive income. Transaction gains and losses are included in other income or expense.

Reclassifications

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

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard "Revenue from Contracts with Customers." This new standard supersedes the existing revenue recognition guidance under GAAP, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The new standard, which does not apply to financial instruments, is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is in the process of evaluating the impact of the adoption of the standard on its financial statements.

Note 2: Business Combinations

Marlin Acquisition

On February 7, 2014, Cabot, through its subsidiary Cabot Financial Holdings Group Limited ("Cabot Financial Holdings"), entered into a Share Sale and Purchase Agreement (the "Marlin Purchase Agreement"), pursuant to which Cabot acquired (a) the entire issued share capital of Marlin, and (b) certain subordinated fixed rate loan notes of Marlin Financial Intermediate Limited, which is a direct wholly-owned subsidiary of Marlin (the "Marlin Acquisition"), from funds managed by Duke Street LLP and certain individuals, including certain executive management of Marlin (collectively, the "Sellers").

Pursuant to the terms and conditions of the Marlin Purchase Agreement and certain ancillary agreements, Cabot Financial Holdings purchased from the Sellers all of the issued and outstanding equity securities of Marlin and certain subordinated fixed rate loan notes of Marlin Financial Intermediate Limited and assumed substantially all of the outstanding debt of Marlin

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Intermediate Holdings plc, a subsidiary of Marlin. The purchase price consisted of £166.8 million (approximately $274.1 million) in cash consideration, of which £44.8 million (approximately $73.7 million) was used to pay off Marlin's fixed rate loan notes. In addition, Cabot assumed £150.0 million (approximately $246.5 million) of Marlin's outstanding senior secured notes. The Marlin Acquisition was financed with borrowings under Cabot's existing revolving credit facility and under Cabot's new senior secured bridge facilities. Refer to Note 10, "Debt" for further details of Cabot's revolving credit facility and senior secured bridge facilities.

The Marlin Acquisition was accounted for using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the acquisition. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the respective assets and liabilities. As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the allocation of the purchase price. The initial purchase price allocation presented below was based on the preliminary assessment of assets acquired and liabilities assumed, which is subject to change based on the final valuation study that is expected to be completed by the fourth quarter of 2014.

The components of the preliminary purchase price allocation for the Marlin Acquisition are as follows (in thousands):

Purchase price:		
Cash paid at acquisition	$274,068	
Allocation of purchase price:		
Cash	$16,342	
Investment in receivable portfolios	208,450	
Deferred court costs	914	
Property and equipment	1,508	
Other assets	18,091	
Liabilities assumed	(301,180	)
Identifiable intangible assets	1,819	
Goodwill	328,124	
Total net assets acquired	$274,068	

The goodwill recognized is primarily attributable to (i) the ability to utilize Marlin's proven competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables and (ii) synergies that are expected to be achieved by applying Cabot's scoring model to Marlin's portfolio. The Company is still finalizing its analysis of the effects of these synergies which, when finalized, will be incorporated into Marlin and Cabot's estimated remaining collections. The entire goodwill of $328.1 million related to the Marlin Acquisition is not deductible for income tax purposes.

Total acquisition and integration costs related to the Marlin Acquisition were approximately $9.8 million for the six months ended June 30, 2014, and have been expensed in the accompanying condensed consolidated statements of income within general and administrative expenses.

Pro forma financial information for the Marlin Acquisition has not been included as the computation of such information is impracticable.

Other Acquisitions

In addition to the business combination transaction discussed above, the Company completed certain other acquisitions in 2013, including the acquisition of Refinancia in December 2013. On April 1, 2014, the Company completed the acquisition of approximately 68.2% of the equity ownership interest in Grove. On May 2, 2014, Propel completed the acquisition of a portfolio of tax liens and other assets in a transaction valued at approximately $43.0 million. These acquisitions were immaterial to the Company's financial statements individually and in the aggregate.

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Note 3: Earnings Per Share

Basic earnings per share is calculated by dividing net earnings attributable to Encore by the weighted average number of shares of common stock outstanding during the period. Diluted 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, warrants, and the dilutive effect of convertible senior notes.

On April 24, 2014, the Company's Board of Directors approved a $50.0 million share repurchase program. Repurchases under this program are expected to be made with cash on hand and may be made from time to time, subject to market conditions and other factors, in the open market, through solicited or unsolicited privately negotiated transactions or otherwise. During the three months ended June 30, 2014, the Company has repurchased 400,000 shares of its common stock for approximately $16.8 million. The program does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at the Company's discretion.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average common shares outstanding—basic	25,798	23,966	25,774	23,707
Dilutive effect of stock-based awards	651	849	800	945
Dilutive effect of convertible senior notes	1,043	40	1,195	—
Dilutive effect of warrants	—	—	21	—
Weighted average common shares outstanding—diluted	27,492	24,855	27,790	24,652

No anti-dilutive employee stock options were outstanding during the three and six months ended June 30, 2014 or 2013.

The Company has the following convertible senior notes outstanding: $115.0 million convertible senior notes due 2017 at a conversion price equivalent to approximately $31.56 per share of the Company's common stock (the "2017 Convertible Notes"), $172.5 million convertible senior notes due 2020 at a conversion price equivalent to approximately $45.72 per share of the Company's common stock (the "2020 Convertible Notes"), and $161.0 million convertible senior notes due 2021 at a conversion price equivalent to approximately $59.39 per share of the Company's common stock (the "2021 Convertible Notes").

In the event of conversion, the 2017 Convertible Notes are convertible into cash up to the aggregate principal amount and permit the excess conversion premium to be settled in cash or shares of Company's common stock. For the 2020 Convertible Notes and 2021 Convertible Notes, the Company has the option to pay cash, issue shares of common stock or any combination thereof for the aggregate amount due upon conversion. The Company's intent is to settle the principal amount of the 2020 and 2021 Convertible Notes in cash upon conversion. As a result, upon conversion of all the convertible senior notes, only the amounts payable in excess of the principal amounts are considered in diluted earnings per share under the treasury stock method. For the three months ended June 30, 2014 and 2013, diluted earnings per share includes the effect of the common shares issuable upon conversion of the 2017 Convertible Notes because the average stock price exceeded the conversion price of these notes. For the six months ended June 30, 2014, diluted earnings per share includes the effect of the common shares issuable upon conversion of the 2017 Convertible Notes and the 2020 Convertible Notes because the average stock price exceeded the conversion price of these notes. However, as described in Note 10, "Debt—Encore Convertible Senior Notes," the Company entered into certain hedge transactions that have the effect of increasing the effective conversion price of the 2017 Convertible Notes to $60.00 and the 2020 Convertible Notes to $61.55. On January 2, 2014, the 2017 Convertible Notes became convertible as certain conditions for conversion were met in the immediately preceding calendar quarter as defined in the applicable indenture. However, none of the 2017 Convertible Notes were converted during the three and six months ended June 30, 2014.

In conjunction with the issuance of the 2017 Convertible Notes, the Company entered into privately negotiated transactions with certain counterparties and sold warrants to purchase approximately 3.6 million shares of its common stock. The warrants had an exercise price of $44.19. On December 16, 2013, the Company entered into amendments with the same counterparties to exchange the original warrants with new warrants with an exercise price of $60.00. All other terms and settlement provisions remain unchanged. The warrant restrike transaction was completed on February 6, 2014. Diluted earnings per share includes the effect of these warrants for the six months ended June 30, 2014. The effect of the warrants was anti-

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dilutive for the three months ended June 30, 2014 and 2013, and six months ended June 30, 2013. Refer to Note 10, “Debt—Encore Convertible Senior Notes—2017 Convertible Senior Notes” for further details of the warrant restrike transaction.

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 June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$—	$978	$—	$978
Interest rate cap contracts	—	22	—	22
Liabilities				
Foreign currency exchange contracts	—	(1,418)	—	(1,418)
Temporary Equity				
Redeemable noncontrolling interests	—	—	(31,730)	(31,730)

	Fair Value Measurements as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency exchange contracts	$—	$46	$—	$46
Interest rate cap contracts	—	202	—	202
Liabilities				
Foreign currency exchange contracts	—	(4,123)	—	(4,123)
Temporary Equity				
Redeemable noncontrolling interests	—	—	(26,564)	(26,564)

Derivative Contracts:

The Company uses derivative instruments to minimize its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company’s derivative instruments primarily include interest rate swap agreements, interest rate cap contracts, and foreign currency exchange contracts. 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.

Redeemable Noncontrolling Interests:

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, while others have the right to force a sale of the subsidiary if the Company chooses not to purchase their interests at fair value. The noncontrolling interests subject to these

arrangements are included in temporary equity as redeemable noncontrolling interests, and are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to additional paid-in capital. Future reductions in the carrying amounts are subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not affect the calculation of earnings per share.

The components of the change in the redeemable noncontrolling interests for the period ended June 30, 2014 are presented in the following table:

	Amount
Balance at December 31, 2013	$26,564
Initial redeemable noncontrolling interest related to business combinations	4,753
Net loss attributable to redeemable noncontrolling interests	(5,001)
Adjustment of the redeemable noncontrolling interests to fair value	4,957
Effect of foreign currency translation attributable to redeemable noncontrolling interests	457
Balance at June 30, 2014	$31,730

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 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 buyer'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 estimated blended market participant cost to collect and discount rate is approximately 50.3% and 12.0%, respectively, for United States portfolios, and approximately 30.2% and 19.5%, respectively, for United Kingdom portfolios. Using this method, the fair value of investment in receivable portfolios approximates the carrying value as of June 30, 2014 and December 31, 2013. 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 United States and United Kingdom portfolios by approximately $38.0 million and $34.3 million, respectively, as of June 30, 2014. This fair value calculation does not represent, and should not be construed to represent, the underlying value of the Company or the amount which could be realized if its investment in receivable portfolios were sold. The carrying value of the investment in receivable portfolios was $2.0 billion and $1.6 billion as of June 30, 2014 and December 31, 2013, respectively.

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.

Receivables Secured By Property Tax Liens:

The fair value of receivables secured by property tax liens is estimated by discounting the future cash flows of the portfolio using a discount rate equivalent to the current rate at which similar portfolios would be originated. For tax liens purchased directly from taxing authorities, the fair value is estimated by discounting the expected future cash flows of the portfolio using a discount rate equivalent to the interest rate expected when acquiring these tax liens. The carrying value of receivables secured by property tax liens approximates fair value. Additionally, the carrying value of the related interest receivable also approximates fair value.

Debt:

Encore’s senior secured notes and borrowings under its revolving credit and term loan facilities are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximate fair value.

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Encore’s convertible senior notes are carried at historical cost, adjusted for the debt discount. The carrying value of the convertible senior notes was $448.5 million, net of debt discount of $55.7 million as of June 30, 2014, and $287.5 million, net of debt discount of $42.2 million as of December 31, 2013, respectively. The fair value estimate for these convertible senior notes, which incorporates quoted market prices, was approximately $552.9 million and $412.4 million as of June 30, 2014 and December 31, 2013, respectively.

Propel’s borrowings under its revolving credit facilities, term loan facility, and securitized notes are carried at historical amounts, adjusted for additional borrowings less principal repayments, which approximate fair value.

Cabot’s senior secured notes due 2019 are carried at the fair value determined at the time of the Cabot Acquisition, adjusted by the accretion of debt premium. Cabot’s senior secured notes due 2020 and 2021 are carried at historical cost. Marlin’s senior secured notes due 2020 are carried at the fair value determined at the time of the Marlin Acquisition, adjusted by the accretion of debt premium. The carrying value of all the above senior secured notes then outstanding for the Company was $1.3 billion, including debt premium of $79.4 million, as of June 30, 2014, and $646.9 million, including debt premium of $43.6 million, as of December 31, 2013. The fair value estimate for these senior notes, which incorporates quoted market prices, was approximately $1.3 billion and $680.7 million as of June 30, 2014 and December 31, 2013, respectively.

The Company’s preferred equity certificates are legal obligations to the noncontrolling shareholders at its Janus Holdings and Cabot Holdings subsidiaries. They are carried at the face amount, plus any accrued interest. The Company determined, at the time of the Cabot Acquisition and at June 30, 2014, that the carrying value of these preferred equity certificates approximates fair value.

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. Most of the Company’s derivative financial instruments qualify for hedge accounting treatment under the authoritative guidance for derivatives and hedging. The Company’s Cabot subsidiary also holds interest rate cap contracts with an aggregated notional amount of £125.0 million (approximately $213.7 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 impact of the interest rate cap contracts to the Company’s consolidated financial statements for the three and six months ended June 30, 2014, was immaterial.

Interest Rate Swaps

As of June 30, 2014, the Company had no outstanding interest rate swap agreements. During the three and six months ended June 30, 2013, the Company utilized interest rate swap contracts to manage risks related to interest rate fluctuation. These derivatives were designated as cash flow hedges in accordance with authoritative accounting guidance. The hedging instruments had been highly effective since the inception of the hedge program, therefore no gains or losses were reclassified from other comprehensive income (“OCI”) into earnings as a result of hedge ineffectiveness.

Foreign Currency Exchange Contracts

The Company has operations in foreign countries, which exposes the Company to foreign currency exchange rate fluctuations due to transactions denominated in foreign currencies, including Indian rupees. To mitigate this risk, the Company enters into derivative financial instruments, principally forward contracts, which are designated as cash flow hedges, to mitigate fluctuations in the cash payments of future forecasted transactions in Indian rupees for up to 36 months. 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.

Gains and losses on cash flow hedges are recorded in OCI until the hedged transaction is recorded in the consolidated financial statements. Once the underlying transaction is recorded in the consolidated financial statements, the Company reclassifies the OCI on the derivative into 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 June 30, 2014, the total notional amount of the forward contracts to buy Indian rupees in exchange for United States dollars was $48.2 million. As of June 30, 2014, all outstanding contracts qualified for hedge accounting treatment. The Company estimates that approximately $1.0 million of net derivative loss included in OCI will be reclassified into earnings within the next 12 months. No gains or losses were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the six months ended June 30, 2014, and 2013.

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The Company does not enter into derivative instruments for trading or speculative purposes.

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

	June 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign currency exchange contracts	Other liabilities	$(1,418)	Other liabilities	$(4,123)
Foreign currency exchange contracts	Other assets	978	Other assets	46
Derivatives not designated as hedging instruments:				
Interest rate cap	Other assets	22	Other assets	202

The following table summarizes the effects of derivatives in cash flow hedging relationships on the Company's condensed consolidated statements of income for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Gain or (Loss) Recognized in OCI-Effective Portion		Location of Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion		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			Three Months Ended			Three Months Ended	
	2014	2013		2014	2013		2014	2013
Interest rate swaps	$—	$151	Interest expense	$—	$—	Other (expense) income	$—	$—
Foreign currency exchange contracts	760	(2,540)	Salaries and employee benefits	(219)	(219)	Other (expense) income	—	—
Foreign currency exchange contracts	134	(531)	General and administrative expenses	(40)	(44)	Other (expense) income	—	—

	Gain or (Loss) Recognized in OCI-Effective Portion		Location of Gain or (Loss) Reclassified from OCI into Income - Effective Portion	Gain or (Loss) Reclassified from OCI into Income - Effective Portion		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	
	Six Months Ended			Six Months Ended			Six Months Ended	
	2014	2013		2014	2013		2014	2013
Interest rate swaps	$—	$374	Interest expense	$—	$—	Other (expense) income	$—	$—

Foreign currency exchange contracts	2,645	(1,938)	Salaries and employee benefits	(575)	(268)	Other (expense) income	—	—
Foreign currency exchange contracts	321	(428)	General and administrative expenses	(97)	(52)	Other (expense) income	—	—

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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 a quarter are aggregated into pools based on common risk characteristics. 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 generally 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 comprehensive income as a reduction in revenue, with a corresponding valuation allowance, offsetting the investment in receivable portfolios in the consolidated statements of financial condition.

The Company utilizes its proprietary forecasting models to continuously evaluate the economic life of each pool. The collection forecast of each pool is generally estimated to be between 84 to 96 months based on the expected collection period of each pool (up to 120 months for Cabot's semi-performing pools). The Company often experiences collections beyond the 84 to 96 month collection forecast. As of June 30, 2014, the total estimated remaining collections beyond the 84 to 96 month collection forecast, which are not included in the calculation of the Company's IRRs, were $145.5 million. The collection forecast estimates for Cabot include a 120 month collection period which is included in its estimated remaining collections and is used for calculating its IRRs.

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 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 purchase price 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.

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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, 2013	$2,391,471	$8,465	$2,399,936
Revenue recognized, net	(231,057)	(6,511)	(237,568)
Net additions on existing portfolios[1]	92,325	8,555	100,880
Additions for current purchases[1][2]	591,205	—	591,205
Balance at March 31, 2014	2,843,944	10,509	2,854,453
Revenue recognized, net	(241,523)	(6,708)	(248,231)
Net additions on existing portfolios[1]	80,582	6,135	86,717
Additions for current purchases[1]	218,047	—	218,047
Balance at June 30, 2014	$2,901,050	$9,936	$2,910,986

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Balance at December 31, 2012	$984,944	$17,366	$1,002,310
Revenue recognized, net	(135,072)	(5,611)	(140,683)
Net additions on existing portfolios[1]	173,634	7,061	180,695
Additions for current purchases[1]	66,808	—	66,808
Balance at March 31, 2013	1,090,314	18,816	1,109,130
Revenue recognized, net	(144,186)	(7,838)	(152,024)
Net additions on existing portfolios[1]	30,458	10,784	41,242
Additions for current purchases[1][3]	645,865	—	645,865
Balance at June 30, 2013	$1,622,451	$21,762	$1,644,213

(1) Estimated remaining collections and accretable yield include anticipated collections beyond the 84 to 96 month collection forecast for United States portfolios.

(2) Includes $208.5 million of portfolios acquired in connection with the Marlin Acquisition discussed in Note 2, “Business Combinations.”

(3) Includes $383.4 million of portfolios acquired in connection with the merger with AACC.

During the three months ended June 30, 2014, the Company purchased receivable portfolios with a face value of $3.1 billion for $225.8 million, or a purchase cost of 7.3% of face value. The estimated future collections at acquisition for all portfolios purchased during the quarter amounted to $0.4 billion. During the three months ended June 30, 2013, the Company purchased receivable portfolios with a face value of $68.9 billion for $423.1 million, or a purchase cost of 0.6% of face value. Included in this amount is the purchase of receivables related to AACC of $383.4 million with a face value of $68.2 billion or a purchase cost of 0.6% of face value. The lower purchase rate for the AACC portfolio is due to the Company’s purchase of AACC which included all portfolios owned, including accounts that have no value. No value accounts would typically not be included in a portfolio purchase transaction, as the sellers would remove them from the accounts being sold to the Company prior to sale.

During the six months ended June 30, 2014, the Company purchased receivable portfolios with a face value of $7.4 billion for $693.3 million, or a purchase cost of 9.4% of face value. Purchases of charged-off credit card portfolios include $208.5 million of receivables acquired in conjunction with the Marlin Acquisition. The estimated future collections at acquisition for all portfolios purchased during the period amounted to $1.4 billion. During the six months ended June 30, 2013, the Company purchased receivable portfolios with a face value of $70.5 billion for $481.9 million, or a purchase cost of 0.7% of face value. As discussed above, included in this amount is the purchase of receivables related to our merger with AACC.

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 June 30, 2014 and 2013, Zero Basis Revenue was approximately $3.4 million and $4.7 million, respectively. During the six months ended June 30, 2014 and 2013, Zero Basis Revenue was approximately $7 million and $9.4 million, respectively.

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

	Three Months Ended June 30, 2014			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$1,900,177	$3,853	$—	$1,904,030
Purchases of receivable portfolios	225,762	—	—	225,762
Transfer of portfolios	(7,163)	7,163	—	—
Gross collections[(1)]	(400,983)	(1,589)	(6,708)	(409,280)
Put-backs and recalls	(5,588)	(254)	—	(5,842)
Foreign currency adjustments	24,765	319	—	25,084
Revenue recognized	241,407	—	3,402	244,809
Portfolio allowance reversals, net	116	—	3,306	3,422
Balance, end of period	$1,978,493	$9,492	$—	$1,987,985
Revenue as a percentage of collections[(2)]	60.2%	—%	50.7%	59.8%

	Three Months Ended June 30, 2013			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$801,525	$—	$—	$801,525
Purchases of receivable portfolios	423,113	—	—	423,113
Transfer of portfolios	(6,649)	6,649	—	—
Gross collections[(1)]	(269,710)	(842)	(7,836)	(278,388)
Put-backs and recalls	(1,543)	(31)	(2)	(1,576)
Revenue recognized	143,607	—	4,743	148,350
Portfolio allowance reversals, net	579	—	3,095	3,674
Balance, end of period	$1,090,922	$5,776	$—	$1,096,698
Revenue as a percentage of collections[(2)]	53.2%	—%	60.5%	53.3%

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	Six Months Ended June 30, 2014			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$1,585,587	$4,662	$—	$1,590,249
Purchases of receivable portfolios[3]	693,327	—	—	693,327
Transfer of portfolios	(7,163)	7,163	—	—
Gross collections[1]	(790,486)	(2,249)	(13,219)	(805,954)
Put-backs and recalls	(8,823)	(403)	—	(9,226)
Foreign currency adjustments	33,471	319	—	33,790
Revenue recognized	472,154	—	6,993	479,147
Portfolio allowance reversals, net	426	—	6,226	6,652
Balance, end of period	$1,978,493	$9,492	$—	$1,987,985
Revenue as a percentage of collections[2]	59.7%	—%	52.9%	59.5%

	Six Months Ended June 30, 2013			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$873,119	$—	$—	$873,119
Purchases of receivable portfolios [4]	481,884	—	—	481,884
Transfer of portfolios	(6,649)	6,649	—	—
Gross collections[1]	(534,269)	(842)	(13,447)	(548,558)
Put-backs and recalls	(2,421)	(31)	(2)	(2,454)
Revenue recognized	278,622	—	9,405	288,027
Portfolio allowance reversals, net	636	—	4,044	4,680
Balance, end of period	$1,090,922	$5,776	$—	$1,096,698
Revenue as a percentage of collections[2]	52.2%	—%	69.9%	52.5%

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

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

(3) Purchases of portfolio receivables include $208.5 million acquired in connection with the Marlin Acquisition in February 2014 discussed in Note 2, "Business Combinations."

(4) Includes $383.4 million of portfolios acquired in connection with the merger with AACC.

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	$89,850	$104,267	$93,080	$105,273
Provision for portfolio allowances	—	—	—	479
Reversal of prior allowances	(3,422)	(3,674)	(6,652)	(5,159)
Balance at end of period	$86,428	$100,593	$86,428	$100,593

Note 7: Deferred Court Costs, Net

Within the United States, the Company contracts with a nationwide network of attorneys that specialize in collection matters. The Company generally refers charged-off accounts to its contracted attorneys when it believes the related consumer has sufficient assets to repay the indebtedness and has, to date, been unwilling to pay. In connection with the Company's agreement with the contracted attorneys, it advances certain out-of-pocket court costs ("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 its analysis of court costs that have been

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advanced and those that have been recovered. Historically, the Company wrote off Deferred Court Costs not recovered within three years of placement. However, as a result of a history of court cost recoveries beyond three years, the Company has determined that court costs are recovered over a longer period of time. As a result, in January 2013, on a prospective basis, the Company began increasing its deferral period from three years to five years. Collections received from debtors are first applied against related court costs with the balance applied to the debtors' account balance.

Deferred Court Costs consist of the following as of the dates presented (in thousands):

	June 30, 2014	December 31, 2013
Court costs advanced	$465,258	$399,274
Court costs recovered	(175,849)	(147,166)
Court costs reserve	(243,832)	(210,889)
	$45,577	$41,219

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

	Court Cost Reserve			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	$(227,275)	$(162,500)	$(210,889)	$(149,080)
Provision for court costs	(16,557)	(13,594)	(32,943)	(27,014)
Balance at end of period	$(243,832)	$(176,094)	$(243,832)	$(176,094)

Note 8: Receivables Secured by Property Tax Liens, Net

Propel's receivables are secured by property tax liens. Repayment of the property tax liens is generally dependent on the property owner but can also come through payments from other lien holders or foreclosure on the properties. Propel records these receivables secured by property tax liens at their outstanding principal balances, adjusted for, if any, charge-offs, allowance for losses, deferred fees or costs, and unamortized premiums or discounts. Interest income is reported on the interest method and includes amortization of net deferred fees and costs over the term of the agreements. Propel accrues interest on all past due receivables secured by tax liens as the receivables are collateralized by tax liens that are in a priority position over most other liens on the properties. If there is doubt about the ultimate collection of the accrued interest on a specific portfolio, it would be placed on non-accrual basis and, at that time, all accrued interest would be reversed. No receivables secured by property tax liens have been placed on a non-accrual basis. The typical redemption period for receivables secured by property tax liens is within 84 months.

On May 6, 2014, Propel, through its subsidiaries, completed the securitization of a pool of approximately $141.5 million in receivables secured by property tax liens on real property located in the State of Texas. In connection with the securitization, investors purchased approximately $134.0 million in aggregate principal amount of 1.44% notes collateralized by these property tax liens. The special purpose entity that is used for the securitization is consolidated by the Company as a VIE. The receivables recognized as a result of consolidating this VIE do not represent assets that can be used to satisfy claims against the Company's general assets.

At June 30, 2014, the Company had approximately $279.6 million in receivables secured by property tax liens, of which $127.3 million was carried at the VIE.

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Note 9: Other Assets

Other assets consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Debt issuance costs, net of amortization	$43,164	$28,066
Prepaid income taxes	34,565	5,009
Deferred tax assets	21,475	13,974
Prepaid expenses	20,119	23,487
Funds held in escrow	18,965	—
Identifiable intangible assets, net	18,224	23,549
Security deposits	10,831	2,500
Service fee receivables	9,329	8,954
Interest receivable	9,043	7,956
Other financial receivables	7,374	7,962
Recoverable legal fees	2,883	3,049
Other	21,499	30,277
	$217,471	$154,783

Note 10: Debt

The Company is in compliance with all covenants under its financing arrangements. The components of the Company’s consolidated debt and capital lease obligations are as follows (in thousands):

	June 30, 2014	December 31, 2013
Encore revolving credit facility	$274,000	$356,000
Encore term loan facility	149,906	140,625
Encore senior secured notes	51,250	58,750
Encore convertible notes	448,500	287,500
Less: Debt discount	(55,689)	(42,240)
Propel facilities	112,288	170,630
Propel securitized notes	125,207	—
Cabot senior secured notes	1,179,693	603,272
Add: Debt premium	79,384	43,583
Cabot senior revolving credit facility	82,066	—
Preferred equity certificates	217,858	199,821
Capital lease obligations	13,551	12,219
Other	37,852	20,271
	$2,715,866	$1,850,431

Encore Revolving Credit Facility and Term Loan Facility

On February 25, 2014, Encore amended its revolving credit facility and term loan facility (the “Credit Facility”) pursuant to a Second Amended and Restated Credit Agreement. On August 1, 2014, Encore further amended the Credit Facility pursuant to Amendment No. 1 to the Second Amended and Restated Credit Agreement (as amended, the “Restated Credit Agreement”). The Restated Credit Agreement includes a revolving credit facility tranche of $692.6 million, a term loan facility tranche of $153.8 million, and an accordion feature that would allow the Company to increase the revolving credit facility by an additional $250.0 million. Including the accordion feature, the maximum amount that can be borrowed under the Credit Facility is $1.1 billion. The Restated Credit Agreement has a five-year maturity, expiring in February 2019, except with respect to two

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subtranches of the term loan facility of $60.0 million and $6.3 million, maturing in February 2017 and November 2017, respectively.

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

- A revolving loan of $692.6 million, with interest at a floating rate equal to, at the Company's option, either: (1) reserve adjusted London Interbank Offered Rate ("LIBOR"), plus a spread that ranges from 250 to 300 basis points depending on the Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 150 to 200 basis points depending on the Company's cash flow leverage ratio. "Alternate Base Rate," as defined in the 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 and (iii) reserved adjusted LIBOR determined on a daily basis for a one month interest period, plus 1.0% per annum;
- An $87.5 million five-year term loan, 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 Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 150 to 200 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes $4.4 million in 2014, $4.4 million in 2015, $6.6 million in 2016, $8.8 million in 2017, and $8.8 million in 2018 with the remaining principal due at the end of the term;
- A $60.0 million term loan maturing on February 25, 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 200 to 250 basis points, depending on the Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 100 to 150 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes $3.0 million in 2014, $3.0 million in 2015, and $4.5 million in 2016 with the remaining principal due at the end of the term;
- A $6.3 million term loan maturing on November 3, 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 Company's cash flow leverage ratio; or (2) Alternate Base Rate, plus a spread that ranges from 150 to 200 basis points, depending on the Company's cash flow leverage ratio. Principal amortizes $0.4 million in 2014, $0.5 million in 2015, $0.6 million in 2016 and $0.5 million in 2017 with the remaining principal due at the end of the term;
- A borrowing base equal to (1) the lesser of (i) 30%—35% (depending on the Company's trailing 12-month cost per dollar collected) of all eligible non-bankruptcy estimated remaining collections, initially set at 33%, plus 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy, and (ii) the product of the net book value of all receivable portfolios acquired on or after January 1, 2005 multiplied by 95%, minus (2) the sum of the aggregate principal amount outstanding of Encore's Senior Secured Notes (as defined below) plus the aggregate principal amount outstanding under the term loans;
- The allowance of additional unsecured or subordinated indebtedness not to exceed $750.0 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 $50.0 million of Encore's common stock after February 25, 2014, subject to compliance with certain covenants and available borrowing capacity;
- A change of control definition, which excludes acquisitions of stock by Red Mountain Capital Partners LLC, JCF FPK LLP 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 in the aggregate, for acquisitions after August 1, 2014;
- A basket to allow for investments in unrestricted subsidiaries of $250.0 million;
- A basket to allow for investments in certain subsidiaries of Propel of $200.0 million;
- An annual foreign portfolio investment basket of $150.0 million; and
- Collateralization by all assets of the Company, other than the assets of unrestricted subsidiaries as defined in the Restated Credit Agreement.

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At June 30, 2014, the outstanding balance under the Restated Credit Agreement was $423.9 million. The weighted average interest rate was 2.89% and 3.20% for the three months ended June 30, 2014 and 2013, respectively, and 2.90% and 3.17% for the six months ended June 30, 2014 and 2013, respectively.

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 (the “Senior Secured Notes”). $25.0 million of the Senior Secured Notes bear an annual interest rate of 7.375%, mature in 2018 and require quarterly principal payments of $1.25 million. Prior to May 2013, these notes required quarterly payments of interest only. The remaining $50.0 million of Senior Secured Notes bear an annual interest rate of 7.75%, 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 June 30, 2014, $51.3 million is outstanding under these obligations.

The Senior Secured Notes are guaranteed in full by certain of Encore’s subsidiaries. Similar to, and pari passu with, Encore’s credit facility, the Senior Secured Notes are also collateralized by all of the assets of the Company other than the assets of unrestricted subsidiaries as defined in the Restated Credit Agreement. 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, the Senior Secured Notes may be accelerated at the election of the holder or holders of a majority in principal amount of the Senior Secured Notes upon certain events of default by Encore, including the breach of affirmative covenants regarding guarantors, collateral, most favored lender treatment, minimum revolving credit facility commitment or the breach of any negative covenant. If Encore prepays the Senior Secured Notes at any time for any reason, 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 are substantially similar to those in the Restated Credit Agreement. Prudential Capital Group 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. The terms of the Senior Secured Notes were amended in connection with the Restated Credit Agreement in order to properly align certain provisions between the two agreements.

Encore Convertible Senior Notes

2017 Convertible Senior Notes

On November 27, 2012, Encore sold $100.0 million in aggregate principal amount of 3.0% convertible senior notes due November 27, 2017 in a private placement transaction. On December 6, 2012, the initial purchasers exercised, in full, their option to purchase an additional $15.0 million of the convertible senior notes, which resulted in an aggregate principal amount of $115.0 million of the convertible senior notes outstanding (collectively, the “2017 Convertible Notes”). Interest on the 2017 Convertible Notes is payable semi-annually, in arrears, on May 27 and November 27 of each year, beginning on May 27, 2013. The 2017 Convertible Notes are the Company’s general unsecured obligations. In the event of conversion, the 2017 Convertible Notes are convertible into cash up to the aggregate principal amount and permits the excess conversion premium to be settled in cash or shares of the Company’s common stock. The 2017 Convertible Notes are convertible at an initial conversion rate of 31.6832 shares of the Company’s common stock per $1,000 principal amount of the 2017 Convertible Notes, subject to adjustment upon certain events, which is equivalent to an initial conversion price of approximately $31.56 per share of the Company’s common stock.

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 Company determined that the fair value of the 2017 Convertible Notes was approximately $100.3 million, and designated the residual value of approximately $14.7 million as the equity component. Additionally, the Company allocated approximately $3.3 million of the $3.8 million original Convertible Notes issuance cost as debt issuance cost and the remaining $0.5 million as equity issuance cost.

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 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 $185.0 million as of June 30, 2014. 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. Upon conversion, the holders of the 2017 Convertible Notes will be paid in cash for the principal amount and issued shares or a combination of cash and shares for the remaining value of the 2017 Convertible Notes. As a result, the Company reclassified $10.5 million of the equity component to temporary equity as of June 30, 2014. 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 were converted during the three and six months ended June 30, 2014.

In accordance with authoritative guidance related to derivatives and hedging and earnings per share calculation, only the conversion spread of the 2017 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 $31.56. The average share price of the Company's common stock for the three and six months ended June 30, 2014 and three months ended June 30, 2013 exceeded $31.56. The dilutive effect from the 2017 Convertible Notes was approximately 1.0 million, 1.2 million, and less than 0.1 million shares for the three and six months ended June 30, 2014, and three months ended June 30, 2013, respectively. The effect of the 2017 Convertible Notes was anti-dilutive during the six months ended June 30, 2013. See Note 3, "Earnings Per Share" for additional information.

Concurrent with the pricing of the 2017 Convertible Notes, the Company entered into privately negotiated convertible note hedge transactions (together, the "Convertible Note Hedge Transactions") with certain counterparties. The Convertible Note Hedge Transactions collectively cover, subject to customary anti-dilution adjustments, the number of shares of the Company's common stock underlying the 2017 Convertible Notes, as described below. Concurrently with entering into the Convertible Note Hedge Transactions, the Company also entered into separate, privately negotiated warrant transactions (together, the "Warrant Transactions") with the same counterparties, whereby the Company sold to the counterparties warrants to purchase, collectively, subject to customary anti-dilution adjustments, up to the same number of shares of the Company's common stock as in the Convertible Note Hedge Transactions. Subject to certain conditions, the Company may settle the warrants in cash or on a net-share basis.

The Convertible Note Hedge Transactions are expected generally to reduce the potential dilution and/or offset the potential cash payments the Company is required to make in excess of the principal amount upon conversion of the 2017 Convertible Notes in the event that the market price per share of the Company's common stock, is greater than the strike price of the Convertible Note Hedge Transactions, which initially corresponds to the conversion price of the 2017 Convertible Notes and is subject to anti-dilution adjustments. However, if the market price per share of the Company's common stock, as measured under the terms of the Warrant Transactions, exceeds the strike price of the warrants, there would nevertheless be dilution to the extent that such market price exceeds the strike price of the warrants, unless the Company elects, subject to certain conditions, to settle the Warrant Transactions in cash. The strike price of the Warrant Transactions was initially $44.19 per share of the Company's common stock and was subject to certain adjustments under the terms of the Warrant Transactions. Taken together, the Convertible Note Hedge Transactions and the Warrant Transactions had the effect of increasing the effective conversion price of the 2017 Convertible Notes to $44.19 per share.

On December 16, 2013, the Company entered into amendments to the warrants to increase the strike price from $44.19 to $60.00. All other terms and settlement provisions of the warrants remained unchanged. Warrants representing approximately 358,000 shares of common stock were modified as of December 31, 2013. The remaining 3.3 million shares represented by the warrants were modified between January 1, 2014 and February 6, 2014. The Company paid the holders of the warrants approximately $7.66 per warrant, or approximately $27.9 million in total in consideration for amending the warrants. The Company recorded the payment as a reduction of shareholders' equity in the condensed consolidated statements of financial condition because, prior to being amended, the warrants were classified in permanent equity. The amended warrants meet the definition of derivatives; however, because these instruments have been determined to be indexed to the Company's own stock and meet the criteria for equity classification, the amended warrants have also been recorded in shareholders' equity in the

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condensed consolidated statements of financial condition. The costs for the warrant restrike completed in 2013 and 2014 were approximately $2.7 million and $25.2 million, respectively.

2020 Convertible Senior Notes

On June 24, 2013, Encore sold $150.0 million in aggregate principal amount of 3.0% convertible senior notes due July 1, 2020 in a private placement transaction. On July 18, 2013, the initial purchasers exercised, in full, their option to purchase an additional $22.5 million of the convertible senior notes, which resulted in an aggregate principal amount of $172.5 million of the convertible senior notes outstanding (collectively, the "2020 Convertible Notes"). The 2020 Convertible Notes are general unsecured obligations of the Company. Interest on the 2020 Convertible Notes is payable semi-annually, in arrears, on January 1 and July 1 of each year, beginning on January 1, 2014. Prior to January 1, 2020, the 2020 Convertible Notes will be convertible only during specified periods, if certain conditions are met. On or after January 1, 2020, the 2020 Convertible Notes will be convertible regardless of these conditions. Upon conversion, holders 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 conversion rate for the 2020 Convertible Notes is 21.8718 shares per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $45.72 per share of common stock. As of June 30, 2014, none of the conditions allowing holders of the 2020 Convertible Notes to convert their notes had occurred.

As noted above, upon conversion, holders of the Company's 2020 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. However, 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 the average share price of the Company's common stock during any quarter exceeds $45.72. The average share price of the Company's common stock for the six months ended June 30, 2014 exceeded $45.72. The dilutive effect from the 2020 Convertible Notes was less than 0.1 million shares for the six months ended June 30, 2014. The effect of the 2020 Convertible notes was anti-dilutive for the three months ended June 30, 2014, and the three and six months ended June 30, 2013. See Note 3, "Earnings Per Share" for additional information.

In connection with the pricing of the 2020 Convertible Notes, the Company entered into privately negotiated capped call transactions (the "Capped Call Transactions") with one or more of the initial purchasers (or their affiliates) and one or more other financial institutions (the "Option Counterparties"). The Capped Call Transactions cover, collectively, the number of shares of the Company's common stock underlying the 2020 Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2020 Convertible Notes. The cost of the Capped Call Transactions was approximately $18.1 million. In accordance with authoritative guidance, the Company recorded the net cost of the Capped Call Transactions 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 Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount upon conversion of the 2020 Convertible Notes in the event that the market price of the Company's common stock is greater than the strike price of the Capped Call Transactions (which initially corresponds to the initial conversion price of the 2020 Convertible Notes and is subject to certain adjustments under the terms of the Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the Capped Call Transactions. The cap price of the Capped Call Transactions is $61.5475 per share, and is subject to certain adjustments under the terms of the Capped Call Transactions.

The Capped Call Transactions are separate transactions, in each case, entered into by the Company with the Option Counterparties, and are not part of the terms of the 2020 Convertible Notes and will not affect any holder's rights under the 2020 Convertible Notes. Holders of the 2020 Convertible Notes do not have any rights with respect to the Capped Call Transactions.

The net proceeds from the issuance of the 2020 Convertible Notes were approximately $167.4 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses paid by the Company. The Company used approximately $18.1 million of the net proceeds from this offering to pay the cost of the Capped Call Transactions and used the remainder of the net proceeds from this offering to pay a portion of the purchase price for the Cabot Acquisition and for general corporate purposes.

The Company determined that the fair value of the 2020 Convertible Notes at the date of issuance was approximately $140.2 million, and designated the residual value of approximately $32.3 million as the equity component. Additionally, the

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Company allocated approximately $4.9 million of the $6.0 million original 2020 Convertible Notes issuance cost as debt issuance costs and the remaining $1.1 million as equity issuance costs.

2021 Convertible Senior Notes

On March 5, 2014, Encore sold $140.0 million in aggregate principal amount of 2.875% convertible senior notes due March 15, 2021 in a private placement transaction. On March 6, 2014, the initial purchasers exercised, in full, their option to purchase an additional $21.0 million of the convertible senior notes, which resulted in an aggregate principal amount of $161.0 million of the convertible senior notes outstanding (collectively, the “2021 Convertible Notes”). The 2021 Convertible Notes are general unsecured obligations of the Company. Interest on the 2021 Convertible Notes is payable semi-annually, in arrears, on March 15 and September 15 of each year, beginning on September 15, 2014. Prior to September 15, 2020, the 2021 Convertible Notes will be convertible only during specified periods, if certain conditions are met. On or after September 15, 2020, the 2021 Convertible Notes will be convertible regardless of these conditions. Upon conversion, holders 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 conversion rate for the 2021 Convertible Notes is 16.8386 shares per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $59.39 per share of common stock. As of June 30, 2014, none of the conditions allowing holders of the 2021 Convertible Notes to convert their notes had occurred.

As noted above, upon conversion, holders of the Company’s 2021 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. However, 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 the average share price of the Company’s common stock during any quarter exceeds $59.39.

In connection with the pricing of the 2021 Convertible Notes, the Company entered into privately negotiated capped call transactions (the “2014 Capped Call Transactions”) with one or more of the initial purchasers (or their affiliates) and one or more other financial institutions (the “2014 Option Counterparties”). The Capped Call Transactions cover, collectively, the number of shares of the Company’s common stock underlying the 2021 Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2021 Convertible Notes. The cost of the 2014 Capped Call Transactions was approximately $19.5 million. In accordance with authoritative guidance, the Company recorded the cost of the 2014 Capped Call Transactions 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 2014 Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount upon conversion of the 2021 Convertible Notes in the event that the market price of the Company’s common stock is greater than the strike price of the 2014 Capped Call Transactions (which initially corresponds to the initial conversion price of the 2021 Convertible Notes and is subject to certain adjustments under the terms of the 2014 Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the 2014 Capped Call Transactions. The cap price of the Capped Call Transactions is $83.1425 per share, and is subject to certain adjustments under the terms of the 2014 Capped Call Transactions.

The 2014 Capped Call Transactions are separate transactions, in each case, entered into by the Company with the 2014 Option Counterparties, and are not part of the terms of the 2021 Convertible Notes and will not affect any holder’s rights under the 2021 Convertible Notes. Holders of the 2021 Convertible Notes do not have any rights with respect to the 2014 Capped Call Transactions.

The net proceeds from the sale of the 2021 Convertible Notes were approximately $155.7 million, after deducting the initial purchasers’ discounts and commissions and the estimated offering expenses paid by the Company. The Company used approximately $19.5 million of the net proceeds from this offering to pay the cost of the 2014 Capped Call Transactions and used the remainder of the net proceeds from this offering to pay for general corporate purposes, including working capital.

The Company determined that the fair value of the 2021 Convertible Notes at the date of issuance was approximately $143.6 million, and designated the residual value of approximately $17.4 million as the equity component. Additionally, the Company allocated approximately $4.7 million of the $5.3 million original 2021 Convertible Notes issuance cost as debt issuance costs and the remaining $0.6 million as equity issuance costs.

The balances of the liability and equity components of all of the convertible senior notes outstanding were as follows (in thousands):

	June 30, 2014	December 31, 2013
Liability component—principal amount	$448,500	$287,500
Unamortized debt discount	(55,689)	(42,240)
Liability component—net carrying amount	$392,811	$245,260
Equity component	$53,821	$46,954

The debt discount is being amortized into interest expense over the remaining life of the convertible notes using the effective interest rates, which are 6.00%, 6.35%, and 4.70% for the 2017, 2020, and 2021 Convertible Notes, respectively.

Interest expense related to the convertible notes was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense—stated coupon rate	$3,308	$948	$5,764	$1,806
Interest expense—amortization of debt discount	2,181	710	3,936	1,317
Total interest expense—convertible notes	$5,489	$1,658	$9,700	$3,123

Propel Facilities

Propel Facility I

Propel has a $200.0 million syndicated loan facility (the “Propel Facility I”). The Propel Facility I is used to originate or purchase tax lien assets related to properties in Texas and Arizona.

The Propel Facility I expires in May 2015 and includes the following key provisions:

- Interest at Propel’s option, at either: (1) LIBOR, plus a spread that ranges from 300 to 375 basis points, depending on Propel’s cash flow leverage ratio; or (2) Prime Rate, which is defined in the agreement as the rate of interest per annum equal to the sum of (a) the interest rate quoted in the “Money Rates” section of The Wall Street Journal from time to time and designated as the “Prime Rate” plus (b) the Prime Rate Margin, which is a spread that ranges from 0 to 75 basis points, depending on Propel’s cash flow leverage ratio;
- A borrowing base of 90% of the face value of the tax lien collateralized payment arrangements;
- Interest payable monthly; principal and interest due at maturity;
- 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 lender to terminate the Propel Facility I and declare all amounts outstanding to be immediately due and payable.

The Propel Facility I is primarily collateralized by the Tax Liens in Texas and requires Propel to maintain various financial covenants, including a minimum interest coverage ratio and a maximum cash flow leverage ratio.

At June 30, 2014, the outstanding balance on the Propel Facility I was $32.3 million. The weighted average interest rate was 4.37% and 3.51% for the three months ended June 30, 2014 and 2013, respectively, and 3.90% and 3.53% for the six months ended June 30, 2014 and 2013, respectively.

Propel Facility II

On May 9, 2013, the Company, through affiliates of Propel, entered into a $100.0 million revolving credit facility (the “Propel Facility II”). The Propel Facility II is used to purchase tax liens from taxing authorities in various states.

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The Propel Facility II expires in May 2017 and includes the following key provisions:

- During the first two years of the four-year term, the committed amount can be drawn on a revolving basis. During the following two years, no additional draws are permitted, and all proceeds from the tax liens are used to repay any amounts outstanding under the facility. After the four-year period ends, if any amounts are still outstanding, an alternate interest rate applies until all amounts owed are repaid;
- Prior to the expiration of the four-year term, interest at a per annum floating rate equal to LIBOR plus a spread of 325 basis points;
- Following the expiration of the four-year term or upon the occurrence of an event of default, interest at 400 basis points plus the greater of (i) a per annum floating rate equal to LIBOR plus a spread of 325 basis points, or (ii) Prime Rate, which is defined in the agreement as the rate most recently announced by the lender at its branch in San Francisco, California, from time to time as its prime commercial rate for United States dollar-denominated loans made in the United States;
- Proceeds from the tax liens are applied to pay interest, principal and other obligations incurred in connection with the Propel Facility II on a monthly basis as defined in the agreement;
- Special purpose entity covenants designed to protect the bankruptcy-remoteness of the borrowers and additional restrictions and covenants, which limit, among other things, the payment of certain dividends, the occurrence of additional indebtedness and liens and use of the collections proceeds from the certain Tax Liens; and
- Events of default which, upon occurrence, may permit the lender to terminate the Propel Facility II and declare all amounts outstanding to be immediately due and payable.

The Propel Facility II is collateralized by the Tax Liens acquired under the Propel Facility II. At June 30, 2014, the outstanding balance on the Propel Facility II was $49.3 million. The weighted average interest rate was 5.60% and 5.17% for the three months ended June 30, 2014 and 2013, respectively, and 6.36% and 5.17% the six months ended June 30, 2014 and 2013.

On May 6, 2014, the Propel Facility II was amended by the parties to provide for the following changes:

- The commitment amount was increased from $100.0 million to the following: (a) during the period from July 1, 2014 to and including September 30, 2014, $190.0 million or (b) at any other time, $150.0 million;
- Termination of the revolving period for purchasing tax liens from taxing authorities was extended for a period of two years to May 15, 2017 (unless terminated earlier in accordance with the terms of the facility);
- The maturity date was extended two years to May 10, 2019;
- The amended facility allows for (a) the funding of tax liens in both Texas and Nevada in an aggregate amount up to $80.0 million (in addition to allowing for the purchase of tax liens in states other than Texas and Nevada) and (b) the right to finance vacant land in an amount equal to 5% of eligible assets (collectively the “Additional Assets”);
- The applicable interest rate for advances related to tax liens in Texas is LIBOR plus 2.50%;
- In connection with the Additional Assets, the amended facility provides for certain technical changes throughout the governing tax lien loan and security agreement (e.g., definitions, waterfall mechanics, representations and warranties) which were required to facilitate the addition of the Additional Assets; and
- The amended Propel Facility II increases the advance rate for certain states.

Propel Term Loan Facility

On May 2, 2014, the Company, through affiliates of Propel, entered into a $31.9 million term loan facility (the “Propel Term Loan Facility”). The Propel Term Loan Facility was entered into to fund the acquisition of a portfolio of tax liens and other assets in a transaction valued at approximately $43.0 million and matures in October 2016.

At June 30, 2014, the outstanding balance on the Propel Term Loan Facility was $30.7 million, and the weighted average interest rate was 5.55% for the three months ended June 30, 2014.

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Propel Securitized Notes

On May 6, 2014, Propel, through its affiliates, completed the securitization of a pool of approximately $141.5 million in payment agreements and contracts relating to unpaid real property taxes, assessments, and other charges secured by liens on real property located in the State of Texas (the "Texas Tax Liens"). In connection with the securitization, investors purchased in a private placement approximately $134.0 million in aggregate principal amount of 1.44% notes collateralized by the Texas Tax Liens (the "Propel Securitized Notes"), due May 15, 2029. The payment agreements and contracts will continue to be serviced by Propel.

The Propel Securitized Notes are payable solely from the collateral and represent non-recourse obligations of the consolidated securitization entity PFS Tax Lien Trust 2014-1, a Delaware statutory trust and an affiliate of Propel. Interest accrues monthly at the rate of 1.44% per annum. Principal and interest on the Propel Securitized Notes are payable on the 15th day of each calendar month, commencing on June 16, 2014. Propel used the net proceeds to pay down borrowings under the Propel Facility I.

At June 30, 2014, the outstanding balance on the Propel Securitized Notes was $125.2 million.

Cabot Senior Secured Notes

On September 20, 2012, Cabot Financial (Luxembourg) S.A. ("Cabot Financial"), an indirect subsidiary of Janus Holdings, 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 August 2, 2013, Cabot Financial issued £100 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, beginning on February 1, 2014.

Of the proceeds from the issuance of the Cabot 2020 Notes, approximately £75.0 million (approximately $113.8 million) was used to repay all amounts outstanding under the senior credit facilities of Cabot Financial (UK) Limited ("Cabot Financial UK"), an indirect subsidiary of Janus Holdings, and £25.0 million (approximately $37.9 million) was used to partially repay a portion of the J Bridge PECs to an affiliate of J.C. Flowers & Co. LLC ("J.C. Flowers") in connection to the Cabot Acquisition.

On March 27, 2014, Cabot Financial issued £175.0 million (approximately $291.8 million) in aggregate principal amount of 6.5% Senior Secured Notes due 2021 (the "Cabot 2021 Notes" and, together with the Cabot 2019 Notes and Cabot 2020 Notes, the "Cabot Notes"). Interest on the Cabot 2021 Notes is payable semi-annually, in arrears, on April 1 and October 1 of each year, beginning on October 1, 2014. The total debt issuance cost associated with the Cabot 2021 Notes was approximately $4.4 million.

Of the proceeds from the issuance of the Cabot 2021 Notes, approximately £105.0 million (approximately $174.8 million) was used to repay all amounts outstanding under the Senior Secured Bridge Facilities described below.

The Cabot Notes are fully and unconditionally guaranteed on a senior secured basis by the following indirect subsidiaries of the Company: Cabot, 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 Cabot) and substantially all the assets of Cabot Financial and the guarantors (other than Cabot).

On July 25, 2013, Marlin Intermediate Holdings plc, a subsidiary of Marlin, 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 Marlin Acquisition. 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.

The Marlin Bonds are fully and unconditionally guaranteed on a senior secured basis by Cabot Financial Limited and each of Cabot Financial Limited's material subsidiaries other than Marlin Intermediate Holdings plc, each of which is an indirect subsidiary of the Company.

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

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Interest expense—stated coupon rate	$26,605	$45,860
Interest income—accretion of debt premium	(2,573)	(4,805)
Total interest expense—Cabot Notes and Marlin Bonds	$24,032	$41,055

Cabot Senior Revolving Credit Facility

On September 20, 2012, 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"). This agreement was amended and restated on June 28, 2013 to increase the size of the revolving credit facility to £85.0 million (approximately $140.6 million) (the "Cabot Credit Facility").

The Cabot Credit Facility has a five-year term expiring in September 2017, and includes the following key provisions:

- Interest at LIBOR plus a maximum of 4.0% depending on the loan to value ("LTV") ratio determined quarterly, calculated as being the ratio of the net financial indebtedness of Cabot (as defined in the Cabot Credit Agreement) to Cabot's estimated remaining collections capped at 84-months;
- A restrictive covenant that limits the LTV ratio to 0.75;
- 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: Cabot, Cabot Financial Limited, and all material subsidiaries of Cabot Financial Limited. The Cabot Credit Facility is secured by a first ranking security interest in all the outstanding shares of Cabot Financial UK and the guarantors (other than Cabot) and substantially all the assets of Cabot Financial UK and the guarantors (other than Cabot).

On February 7, 2014, Cabot Financial UK acquired all of the equity interest of Marlin, a leading acquirer of non-performing consumer debt in the United Kingdom, for an aggregate purchase price of approximately £166.8 million (approximately $274.1 million). The Marlin Acquisition was financed with £75.0 million (approximately $122.3 million) in borrowings under the Cabot Credit Facility and under the Senior Secured Bridge Facilities described below.

At June 30, 2014, the outstanding borrowings under the Cabot Credit Facility were approximately $82.1 million. The weighted average interest rate was 3.09% and 3.41% for the three and six months ended June 30, 2014, respectively.

Senior Secured Bridge Facilities

The Marlin Acquisition was financed with borrowings under the existing Cabot Credit Facility and under new senior secured bridge facilities (the "Senior Secured Bridge Facilities") that Cabot Financial Limited entered into on February 7, 2014 pursuant to a Senior Secured Bridge Facilities Agreement. The Senior Secured Bridge Facilities were paid off in full by using proceeds from borrowings under the £175.0 million (approximately $291.8 million) Cabot 2021 Notes issued on March 21, 2014.

The Senior Secured Bridge Facilities Agreement provided for (a) a senior secured bridge facility in an aggregate principal amount of up to £105.0 million ("Bridge Facility A") and (b) a senior secured bridge facility in an aggregate principal amount of up to £151.5 million ("Bridge Facility B," and together with Bridge Facility A, the "Bridge Facilities"). The purpose of Bridge Facility A was to provide funding for the financing, in full or in part, of the purchase price for the Marlin Acquisition and the payment of costs, fees and expenses in connection with the Marlin Acquisition, and was fully drawn on as of the closing of the Marlin Acquisition. The purpose of Bridge Facility B was to finance, in full or in part, the repurchase of any bonds tendered in any change of control offer required to be made to the holders of the Marlin Bonds and the premium payable thereon. Bridge Facility B was intended to be utilized only to the extent that any holders of the Marlin Bonds elected to tender their Marlin Bonds within a defined period. No Marlin Bonds were tendered during the defined period and Bridge Facility B expired without drawdown. The Senior Secured Bridge Facilities Agreement also provided for uncommitted incremental facilities in an amount of up to £80.0 million for the purposes of financing future debt portfolio acquisitions. The Senior

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Secured Bridge Facilities had an initial term of one year and an extended term of 6.5 years if they were not repaid during the first year of issuance.

Prior to their initial maturity date, the rate of interest payable under the Senior Secured Bridge Facilities was the aggregate, per annum, of (i) LIBOR, plus (ii) an initial spread of 6.00% per annum (such spread stepping up by 50 basis points for each three-month period that the Senior Secured Bridge Facilities remained outstanding), not to exceed total caps set forth in the Senior Secured Bridge Facilities Agreement.

Loan fees associated with the Senior Secured Bridge Facilities were approximately $2.0 million. These fees were originally recorded as debt issuance costs and were written off at the time of repayment and termination of the agreement. This $2.0 million was charged to interest expense in the Company's condensed consolidated financial statements for the six months ended June 30, 2014.

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 Cabot Acquisition by acquiring 50.1% of the equity interest in Janus Holdings, the indirect holding company of United Kingdom based Cabot from certain funds advised by J.C. Flowers & Co. LLC ("J.C. Flowers"). Encore Europe purchased from J.C. 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 preferred equity certificates with a face value of £10,177,781 (approximately $15.5 million) (the "J Bridge PECs"), (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. In accordance with authoritative guidance related to debt and equity securities, 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. 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 interests 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, respectively, 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 June 30, 2014, the outstanding balance of the PECs and their accrued interests was approximately $217.9 million.

Capital Lease Obligations

The Company has capital lease obligations primarily for computer equipment. As of June 30, 2014, the Company's combined obligations for these equipment leases were approximately $13.6 million. These lease obligations require monthly or quarterly payments through 2018 and have implicit interest rates that range from zero to approximately 8.97%.

Note 11: 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.

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The Company’s VIEs include its subsidiary Janus Holdings and its special purpose entity used for the Propel securitization.
Janus Holdings is the immediate 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.
Propel uses a special purpose entity to issue asset-backed securities to investors. The Company has determined that the special purpose entity is a VIE and Propel is the primary beneficiary of the VIE. Propel has the power to direct the activities of the VIE because it has the ability to exercise discretion in the servicing of the financial assets and add assets to revolving structures.
Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.
The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.
Note 12: Income Taxes
During the three months ended June 30, 2014, and 2013, the Company recorded income tax provisions of $14.0 million and $7.3 million, respectively. During the six months ended June 30, 2014, and 2013, the Company recorded income tax provisions of $25.8 million and $19.8 million, respectively.
The effective tax rates for the respective periods are shown below:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
Federal provision	35.0	%	35.0	%	35.0	%	35.0	%
State provision	5.8	%	6.6	%	5.8	%	6.6	%
State benefit	(2.0	)%	(2.3	)%	(2.0	)%	(2.3	)%
International benefit[1]	(1.9	)%	—	%	(3.4	)%	—	%
Permanent items[2]	3.5	%	0.5	%	3.7	%	0.1	%
Other	(0.8	)%	—	%	(0.1	)%	—	%
Effective rate	39.6	%	39.8	%	39.0	%	39.4	%

(1) Relates primarily to the lower tax rate on the income attributable to international operations.
(2) Represents a provision for nondeductible items.

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 six months ended June 30, 2014 was immaterial.
As of June 30, 2014, the Company had a gross unrecognized tax benefit of $88.2 million primarily related to an uncertain tax position associated with AACC’s tax revenue recognition policy. This uncertain tax position, if recognized, would result in a net tax benefit of $18.7 million and would have a favorable effect on the Company’s effective tax rate. There was no material change to the unrecognized tax benefit during the three months ended June 30, 2014. The uncertain tax benefit is included in “Other liabilities” in the Company’s condensed consolidated statements of financial condition.
During the three and six months ended June 30, 2014, the Company did not provide for United States income taxes or foreign withholding taxes on the quarterly undistributed earnings from operations of its subsidiaries operating outside of the United States. Undistributed net income of these subsidiaries during the three and six months ended June 30, 2014, was approximately $6.0 million and $3.6 million, respectively.

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Note 13: 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 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 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 involve potential compensatory or punitive damage claims, fines, sanctions, or injunctive relief. Many continue on for some length of time and involve substantial litigation, effort, and negotiation before a result is achieved, and during the process the Company often cannot determine the substance or timing of any eventual outcome.

There have been 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, 2013.

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 revises its estimates when additional information becomes available. As of June 30, 2014, the Company has no material reserves for litigation. Additionally, based on the current status of litigation 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 June 30, 2014, the Company has entered into agreements to purchase receivable portfolios with a face value of approximately $0.7 billion for a purchase price of approximately $81.0 million. Most of these purchase commitments do not extend past one year.

Note 14: Segment Information

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

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Segment operating income includes income from operations before depreciation, amortization of intangible assets, and stock-based compensation expense. The following table provides a reconciliation of revenue and segment operating income by reportable segment to consolidated results and was derived from the segments' internal financial information as used for corporate management purposes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Portfolio purchasing and recovery	$262,087	$152,091	$510,676	$292,774
Tax lien business	7,108	4,030	12,260	7,933
	$269,195	$156,121	$522,936	$300,707
Operating income:				
Portfolio purchasing and recovery	$87,718	$33,478	$165,286	$76,158
Tax lien business	2,332	742	3,986	1,623
	90,050	34,220	169,272	77,781
Depreciation and amortization	(6,829)	(2,158)	(12,946)	(4,004)
Stock-based compensation	(4,715)	(2,179)	(9,551)	(5,180)
Other expense	(43,143)	(11,604)	(80,840)	(18,299)
Income from operations before income taxes	$35,363	$18,279	$65,935	$50,298

Additionally, assets are allocated to operating segments for management review. As of June 30, 2014, total segment assets were $3.2 billion and $391.9 million for the portfolio purchasing and recovery segment and tax lien business segment, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues[(1)] :				
Domestic	$189,012	$156,121	$374,553	$300,707
International	80,183	—	148,383	—
	$269,195	$156,121	$522,936	$300,707

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

Note 15: Goodwill and Identifiable Intangible Assets

In accordance with authoritative guidance, goodwill is tested at the reporting unit level annually for impairment and in interim periods if certain events occur that indicate the fair value of a reporting unit may be below its carrying value. Goodwill was allocable to reporting units included in the Company's reportable segments, as follows (in thousands):

	Portfolio Purchasing and Recovery	Tax Lien Business	Total
Balance, December 31, 2013	$454,936	$49,277	$504,213
Goodwill acquired	352,177	—	352,177
Effect of foreign currency translation	23,520	—	23,520
Balance, June 30, 2014	$830,633	$49,277	$879,910

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

	As of June 30, 2014			As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$6,225	$(320)	$5,905	$1,975	$(74)	$1,901
Developed technologies	7,519	(1,209)	6,310	4,909	(468)	4,441
Trade name and other	4,904	(857)	4,047	15,631	(386)	15,245
Other intangibles—indefinite lived	1,962	—	1,962	1,962	—	1,962
Total intangible assets	$20,610	$(2,386)	$18,224	$24,477	$(928)	$23,549

Note 16: Subsequent Events

Acquisition of Atlantic

On August 6, 2014, the Company acquired all of the outstanding equity interests of Atlantic Credit & Finance, Inc. (“Atlantic”) for approximately $70.0 million in cash pursuant to a Stock Purchase Agreement dated August 1, 2014 by and among the Company, Atlantic and the sellers. Atlantic acquires and liquidates consumer finance receivables originated and charged off by national financial institutions. At the closing of the transaction, the Company made additional payments totaling approximately $126.1 million to retire certain indebtedness and other obligations of Atlantic. The Company financed the acquisition through borrowings under its Restated Credit Agreement and cash on hand.

The Company will account for this acquisition using the acquisition method of accounting and, accordingly, the tangible and intangible assets acquired and liabilities assumed will be recorded at their estimated fair values as of the date of the acquisition. The results of operations of Atlantic will be consolidated with those of the Company beginning on the date of the acquisition. As of the date of this Quarterly Report on Form 10-Q, the Company has not completed its preliminary purchase price allocation because the Company has not had sufficient time.

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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 meanin of the securities laws. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “intend,” “plan,” “will,” “may,” and s 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” and those set forth in our subsequent Quarterly Reports on Form 10-Q under “Part II, Item 1A, Risk Factors,” could cause our actual results, performance, achievements, or industry results to be very different from the results, performance, achievements or industry results expressed or implied by these forward-looking statements. Our business, financial condition, or results of operations could also be materially and adversely affected by other factors besides those listed. Forward-looking statements speak only as of the date the statements were made. We do not undertake any obligation to update or revise any forward-looking statements to reflect new information or future events, or for any other reason, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized. In addition, it is generally our policy not to make any specific projections as to future earnings, and we do not endorse projections regarding future performance that may be made by third parties.

Our Business and Operating Segments

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

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

Our long-term growth strategy involves extending our knowledge about financially distressed consumers, growing our core portfolio purchase and recovery business, expanding into new asset classes and geographic areas, utilizing our core capabilities to align our business, investor and financial strategies to drive shareholder return, and investing in initiatives to safeguard and promote consumer financial health.

Portfolio Purchasing and Recovery

United States. Our portfolio purchasing and recovery segment purchases receivables based on robust, account-level valuation methods and employs proprietary statistical and behavioral models across the full extent of our U.S. operations.

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These investments allow us to value portfolios accurately (and limit the risk of overpaying), avoid buying portfolios that are incompatible with our methods or goals, and align the accounts we purchase with our business channels to maximize future collections. As a result, we have been able to realize significant returns from the receivables we acquire. We maintain strong relationships with many of the largest credit and telecommunication providers in the United States and believe we possess one of the industry's best collection staff retention rates.

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

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

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

United Kingdom. Through Cabot, we purchase receivable portfolios using a proprietary pricing model that utilizes account-level statistical and behavioral data. This model allows Cabot to value portfolios accurately and quantify portfolio performance in order to maximize future collections. As a result, Cabot has been able to realize significant returns from the assets it has acquired. Cabot maintains strong relationships with many of the largest financial service providers in the United Kingdom.

On February 7, 2014, Cabot acquired Marlin (the "Marlin Acquisition"), a leading acquirer of non-performing consumer debt in the United Kingdom. Marlin is differentiated by its proven competitive advantage in the use of litigation-enhanced collections for non-paying financial services receivables. We expect Marlin's litigation capabilities will benefit Cabot's existing portfolio of non-performing accounts. Similarly, we believe that there may be further synergies by applying Cabot's scoring model to Marlin's portfolio.

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

On April 1, 2014, we completed the acquisition of a controlling equity ownership interest in Grove. Grove, through its subsidiaries, is a leading specialty investment firm focused on consumer non-performing loans, including insolvencies (in particular, individual voluntary arrangements, or IVAs) in the United Kingdom and bank and non-bank receivables in Spain.

Colombia and Peru. In December 2013, we acquired a majority ownership interest in Refinancia, a market leader in the management of non-performing loans in Colombia and Peru. In addition to purchasing defaulted receivables, Refinancia offers portfolio management services to banks for non-performing loans. Refinancia also specializes in non-traditional niches in the geographic areas in which it operates, including providing financial solutions to individuals who have previously defaulted on their obligations, payment plan guarantee services to merchants, and loan guarantee services to financial institutions.

Tax Lien Business

Our tax lien business segment focuses on the property tax financing industry. Propel’s principal activities are the acquisition and servicing of residential and commercial tax liens on real property. Propel’s receivables secured by property tax liens include Texas tax liens, Nevada tax liens, and tax lien certificates (collectively, “Tax Liens”). With Texas and Nevada Tax Liens, Texas or Nevada property owners choose to have the taxing authority transfer their tax lien to Propel. Propel pays their tax lien obligation to the taxing authority and the property owner pays Propel over time at a lower interest rate than is being assessed by the taxing authority. Propel's arrangements with Texas and Nevada property owners provide them with repayment plans that are both affordable and flexible when compared with other payment options. Propel also purchases Tax Liens in various other states directly from taxing authorities, securing rights to outstanding property tax payments, interest and penalties. In most cases, such Tax Liens continue to be serviced by the taxing authority. When the taxing authority is paid, it repays Propel the outstanding balance of the lien plus interest, which is established by statute or negotiated at the time of the purchase. During the three months ended June 30, 2014, Propel acquired a portfolio of tax liens and other assets in a transaction valued at approximately $43.0 million. The transaction strengthened Propel's established servicing platform and expanded Propel's operations to 22 states.

Revenue from our tax lien business segment comprised 3% and 2% of total consolidated revenues for the three and six months ended June 30, 2014, respectively, and 3% for each of the three and six months ended June 30, 2013. Operating income from our tax lien business segment comprised 3% and 2% of our total consolidated operating income for the three and six months ended June 30, 2014, respectively, and 2% for each of the three and six months ended June 30, 2013.

Purchases and Collections

Portfolio Pricing, Supply and Demand

United States Markets

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

We believe that smaller competitors are facing difficulties in the portfolio purchasing market because of the high cost to operate due to regulatory pressure and because the 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 us, because the larger market participants are better able to adapt to these pressures. Furthermore, as smaller competitors limit their participation in or exit the market, it may provide additional opportunities for us to purchase portfolios from competitors or to acquire competitors directly.

United Kingdom Markets

While prices for portfolios offered for sale directly from credit issuers in the United Kingdom remain at levels higher than historical averages, as a result of a backlog caused by issuers reducing their sales volumes during the 2008-2010 time period, we believe that the supply of debt sold to debt purchasers has increased and is expected to increase further in the coming year. Additionally, over the last few years, portfolios are being sold earlier in the life cycle, and therefore, include a higher proportion of paying accounts. We expect that as a result of an increase in available funding to industry participants and lower return requirements for certain debt purchasers, pricing will remain elevated. However, we also believe that as Cabot's business increases in scale, and with anticipated improvements in the rate of collections and improved efficiencies in collections, Cabot's margins will remain competitive. Additionally, the acquisition of Marlin resulted in a new channel of liquidation through litigation in the United Kingdom, which will enable Cabot to collect from consumers who have the ability to pay, but are unwilling to do so. This further complements Cabot's success with collecting on semi-performing debt, where consumers have a greater willingness to pay. We believe that the combined companies will have an enhanced ability to compete for portfolios.

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Purchases by Type

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Credit card—United Kingdom[1]	$59,061	$—	$410,380	$—
Credit card—United States[2] [3]	166,701	380,423	282,947	423,837
Consumer bankruptcy receivables—United States[2]	—	39,897	—	39,897
Telecom—United States	—	2,793	—	18,150
	$225,762	$423,113	$693,327	$481,884

(1) Purchases of consumer portfolio receivables in the United Kingdom for the six months ended June 30, 2014 include $208.5 million acquired in connection with the Marlin Acquisition.

(2) Purchases of consumer portfolio receivables for the three and six month periods ended June 30, 2013 include $383.4 million acquired in connection with the merger with Asset Acceptance Capital Corp. ("AACC") ($347.7 million for credit card and $35.7 million for consumer bankruptcy receivables).

(3) Purchases of consumer portfolio receivables in the United States include immaterial portfolios purchased in Latin America.

During the three months ended June 30, 2014, we invested $225.8 million to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating $3.1 billion, for an average purchase price of 7.3% of face value. This is a $197.4 million decrease in the amount invested, compared with the $423.1 million invested during the three months ended June 30, 2013, to acquire charged-off credit card, consumer bankruptcy and telecom portfolios with face values aggregating $68.9 billion, for an average purchase price of 0.6% of face value. Purchases during the three months ended June 30, 2013 included $383.4 million with a face value of $68.2 billion, for a purchase cost of 0.6% of face value, acquired in conjunction with our June 13, 2013 merger with Asset Acceptance Capital Corp. (the "AACC Merger"). The period-over-period decrease in purchases and increase in the percentage of face value was primarily related to the purchase of portfolios acquired through the AACC Merger, as described in greater detail below.

During the six months ended June 30, 2014, we invested $693.3 million to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating $7.4 billion, for an average purchase price of 9.4% of face value. Purchases of charged-off credit card portfolios include $208.5 million of portfolios acquired in conjunction with the Marlin Acquisition. During the six months ended June 30, 2013, we invested $481.9 million to acquire portfolios, primarily charged-off credit card portfolios, with face values aggregating $70.5 billion, for an average purchase price of 0.7% of face value. Purchases during the six months ended June 30, 2013 included $383.4 million with a face value of $68.2 billion, for a purchase cost of 0.6% of face value, acquired in conjunction with the AACC Merger.

Average purchase price, as a percentage of face value, varies from period to period depending on, among other things, the quality of the accounts purchased and the length of time from charge-off to the time we purchase the portfolios. The increase in purchase price as a percentage of face value for the three and six months ended June 30, 2014 was primarily related to the portfolios we acquired through the AACC Merger, our acquisition of a higher percentage of fresh portfolios, and a general increase in the price of portfolios offered for sale directly from credit issuers. The lower purchase rate for the AACC portfolios is due to our acquisition of all portfolios owned by AACC, including accounts that have no value. No value accounts would typically not be included in a portfolio purchase transaction, as the sellers would remove them from the accounts being sold to us prior to sale.

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Collections by Channel

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
United States:				
Legal collections	$155,503	$133,682	$306,532	$255,955
Collection sites	130,788	116,853	267,313	243,415
Collection agencies[(1)]	19,512	27,853	41,413	49,188
Subtotal	305,803	278,388	615,258	548,558