ENCORE CAPITAL GROUP INC
Form 10-Q
August 08, 2013
Table of Contents

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, 2013

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 ¨ Accelerated filer x 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, 2013
Common Stock, $0.01 par value	25,252,071 shares

Table of Contents

ENCORE CAPITAL GROUP, INC.

INDEX TO FORM 10-Q

	Page
PART I FINANCIAL INFORMATION	3
Item 1 Condensed Consolidated Financial Statements (Unaudited)	3
Condensed Consolidated Statements of Financial Condition	3
Condensed Consolidated Statements of Comprehensive Income	4
Condensed Consolidated Statements of Stockholders Equity	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3 Quantitative and Qualitative Disclosures About Market Risk	48
Item 4 Controls and Procedures	48
PART II OTHER INFORMATION	49
Item 1 Legal Proceedings	49
Item 1A Risk Factors	49
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 6 Exhibits	59
SIGNATURES	61

Table of Contents

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, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$ 222,171	$ 17,510
Investment in receivable portfolios, net	1,096,698	873,119
Deferred court costs, net	40,056	35,407
Receivables secured by property tax liens, net	198,065	135,100
Property and equipment, net	36,788	23,223
Other assets	91,881	31,535
Goodwill	119,788	55,446
Total assets	$ 1,805,447	$ 1,171,340
Liabilities and stockholders equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 76,846	$ 45,450
Deferred tax liabilities, net	104,303	8,236
Debt	1,107,659	706,036
Other liabilities	6,269	5,802
Total liabilities	1,295,077	765,524
Commitments and contingencies		
Stockholders 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, 25,252 shares and 23,191 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	253	232
Additional paid-in capital	163,753	88,029
Accumulated earnings	349,789	319,329
Accumulated other comprehensive loss	(3,425)	(1,774)
Total stockholders equity	510,370	405,816
Total liabilities and stockholders equity	$ 1,805,447	$ 1,171,340

See accompanying notes to condensed consolidated financial statements

Table of Contents

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Comprehensive Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Revenues				
Revenue from receivable portfolios, net	$ 152,024	$ 138,731	$ 292,707	$ 265,136
Other revenue	380	183	681	188
Interest income tax lien business	5,051	2,982	9,766	2,982
Interest expense tax lien business	(1,334)	(650)	(2,447)	(650)
Net interest income tax lien business	3,717	2,332	7,319	2,332
Total revenues	156,121	141,246	300,707	267,656
Operating expenses				
Salaries and employee benefits	32,969	25,190	61,801	47,494
Cost of legal collections	44,483	41,024	86,741	79,659
Other operating expenses	13,797	12,427	27,062	24,025
Collection agency commissions	5,230	4,166	8,559	8,125
General and administrative expenses	27,601	18,582	43,943	32,240
Depreciation and amortization	2,158	1,420	4,004	2,660
Total operating expenses	126,238	102,809	232,110	194,203
Income from operations	29,883	38,437	68,597	73,453
Other (expense) income				
Interest expense	(7,482)	(6,497)	(14,336)	(12,012)
Other (expense) income	(4,122)	(106)	(3,963)	161
Total other expense	(11,604)	(6,603)	(18,299)	(11,851)
Income from continuing operations before income taxes	18,279	31,834	50,298	61,602
Provision for income taxes	(7,267)	(12,846)	(19,838)	(24,506)
Income from continuing operations	11,012	18,988	30,460	37,096
Loss from discontinued operations, net of tax		(2,392)		(9,094)
Net income	$ 11,012	$ 16,596	$ 30,460	$ 28,002
Weighted average shares outstanding:				
Basic	23,966	24,919	23,707	24,850
Diluted	24,855	25,825	24,652	25,822
Basic earnings (loss) per share from:				

Continuing operations	$	0.46	$	0.76	$	1.28	$	1.49
Discontinued operations	$		$	(0.09)	$		$	(0.36)
Net basic earnings per share	$	0.46	$	0.67	$	1.28	$	1.13
Diluted earnings (loss) per share from:								
Continuing operations	$	0.44	$	0.74	$	1.24	$	1.44
Discontinued operations	$		$	(0.10)	$		$	(0.36)
Net diluted earnings per share	$	0.44	$	0.64	$	1.24	$	1.08
Other comprehensive loss:								
Unrealized loss on derivative instruments, net of tax		(1,574)		(1,790)		(954)		(1,108)
Unrealized loss on foreign currency translation, net of tax		(583)				(697)		
Other comprehensive loss, net of tax		(2,157)		(1,790)		(1,651)		(1,108)
Comprehensive income	$	8,855	$	14,806	$	28,809	$	26,894

See accompanying notes to condensed consolidated financial statements

4

Table of Contents

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Stockholders Equity

(Unaudited, In Thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Total
	Shares	Par	Capital	Earnings	Loss	Equity
Balance at December 31, 2012	23,191	$ 232	$ 88,029	$ 319,329	$ (1,774)	$ 405,816
Net income				30,460		30,460
Unrealized loss on derivative instruments, net of tax					(954)	(954)
Unrealized loss on foreign currency translation adjustments, net of tax					(697)	(697)
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	413	4	(6,065)			(6,061)
Repurchase of common stock	(24)		(729)			(729)
Issuance of common stock	1,672	17	62,335			62,352
Stock-based compensation			5,180			5,180
Issuance of convertible notes			26,850			26,850
Purchase of convertible hedge			(15,750)			(15,750)
Tax benefit related to stock-based compensation			3,749			3,749
Tax benefit related to convertible notes, net			154			154
Balance at June 30, 2013	25,252	$ 253	$ 163,753	$ 349,789	$ (3,425)	$ 510,370

See accompanying notes to condensed consolidated financial statements

Table of Contents

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited, In Thousands)

	Six Months Ended June 30,	
	2013	**2012**
Operating activities:		
Net income	$ 30,460	$ 28,002
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,004	2,660
Impairment charge for goodwill and identifiable intangible assets		10,400
Amortization of loan costs and premium on receivables secured by tax liens	3,550	1,210
Stock-based compensation expense	5,180	4,805
Recognized loss on termination of derivative contract	3,630	
Deferred income taxes	(3,297)	89
Excess tax benefit from stock-based payment arrangements	(3,848)	(1,689)
Loss on sale of discontinued operations		2,416
Reversal for allowances on receivable portfolios, net	(4,680)	(789)
Changes in operating assets and liabilities, net of effects of acquisition		
Other assets	(8,502)	298
Deferred court costs	1,492	(1,664)
Prepaid income tax and income taxes payable	(19,559)	(6,455)
Accounts payable, accrued liabilities and other liabilities	2,821	5,322
Net cash provided by operating activities	11,251	44,605
Investing activities:		
Cash paid for acquisition, net of cash acquired	(293,329)	(185,990)
Purchases of receivable portfolios	(100,650)	(361,446)
Collections applied to investment in receivable portfolios	260,531	207,205
Proceeds from put-backs of receivable portfolios	2,454	1,625
Originations and purchases of receivables secured by tax liens	(87,961)	(14,072)
Collections applied to receivables secured by tax liens	27,097	7,467
Payment on termination of derivative contract	(3,630)	
Purchases of property and equipment	(5,335)	(2,595)
Purchases of intangible assets	(1,900)	
Net cash used in investing activities	(202,723)	(347,806)
Financing activities:		
Payment of loan costs	(11,846)	(1,619)
Repayment of senior secured notes	(6,250)	
Proceeds from credit facilities	514,065	383,399
Repayment of credit facilities	(228,175)	(70,500)
Proceeds from issuance of convertible senior notes	150,000	
Payment of convertible hedge transactions	(15,750)	
Repurchase of common stock	(729)	
Proceeds from exercise of stock options	2,359	2,583
Taxes paid related to net share settlement of equity awards	(8,420)	(2,177)
Excess tax benefit from stock-based payment arrangements	3,848	1,689

Repayment of capital lease obligations	(2,969)	(3,207)
Net cash provided by financing activities	396,133	310,168
Net increase in cash and cash equivalents	204,661	6,967
Cash and cash equivalents, beginning of period	17,510	8,047
Cash and cash equivalents, end of period	$ 222,171	$ 15,014
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 12,537	$ 11,075
Cash paid for income taxes	40,513	23,108
Supplemental schedule of non-cash investing and financing activities:		
Fixed assets acquired through capital lease	1,189	2,779

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 a leading provider of debt management and 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 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. In addition, through Encore s subsidiary, Propel Financial Services, LLC (Propel), the Company assists Texas property owners who are delinquent on their property taxes by paying these taxes on behalf of the property owners in exchange for payment agreements collateralized by the existing tax liens on the property, and acquires tax lien certificates directly from taxing authorities outside of Texas.

Portfolio purchasing and recovery

The Company purchases receivables 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 in the United States, 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.

Tax Lien Business

Propel s principal activities are the acquisition and servicing of residential and commercial tax liens secured by a lien on the underlying real property. This lien takes 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 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 tax lien transfers (TLTs) and tax lien certificates (TLCs). With TLTs, property owners choose to transfer their tax liens to Propel in order to pay their tax lien obligations over time and at a lower interest rate than is being assessed by the tax authority. TLTs provide property owners with repayment plans that are both affordable and flexible when compared with other payment options. Propel also purchases TLCs directly from taxing authorities, securing rights to future property tax payments, interest and penalties. In most cases, TLCs continue to be serviced by the taxing authority. When the taxing authority is paid, it repays the Company the outstanding balance of the lien plus interest, which is 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 U.S. 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.

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, 2012. 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 accounting principles generally accepted in the United States 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

Encore is a Delaware holding company whose principal assets are its investments in various wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

On July 1, 2013, the Company completed its acquisition (the Cabot Acquisition) of 50.1% of the equity interest in Janus Holdings Luxembourg S.a.r.l. (Janus Holdings), the indirect holding company of U.K. and Ireland based Cabot Credit Management Limited (Cabot), from an affiliate of J.C. Flowers & Co. LLC (J.C. Flowers). Through its acquisition of Janus Holdings the Company s equity ownership of Cabot currently amounts to 41.7%, after reflecting the ownership of Cabot s management team. Encore s equity interest will automatically increase to approximately 42.8% by June 2014, following the redemption or conversion of certain Bridge Preferred Equity Certificates. The Company holds a controlling interest in Janus Holdings and will consolidate the financial results and financial position of the consolidated group. The Company s condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2013 do not include the results of operations of Janus Holdings, because the Cabot Acquisition was not completed until July 1, 2013. For additional information relating to the Cabot Acquisition, please refer to the Company s Current Report on Form 8-K filed with the SEC on May 30, 2013 and July 8, 2013.

On June 13, 2013, the Company completed its merger (the AACC Merger) with Asset Acceptance Capital Corp. (AACC). The condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2013 include the results of operations of AACC only since the closing date of the AACC Merger. For additional information relating to the AACC Merger, please refer to the Company s Current Reports on Form 8-K filed with the SEC on March 6, 2013 and June 17, 2013.

On May 8, 2012, the Company completed its acquisition of Propel, BNC Retax, LLC, RioProp Ventures, LLC, and certain related affiliates (collectively, the Propel Entities). The condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2012 include the results of operations of Propel only since the closing date of the acquisition. For additional acquisition related information relating to the Propel Entities, please refer to the Company s Current Report on Form 8-K filed with the SEC on July 24, 2012.

Reclassifications

Certain immaterial amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

Note 2: Discontinued Operations

On May 16, 2012, the Company completed the sale of substantially all of the assets and certain of the liabilities of its bankruptcy servicing subsidiary, Ascension Capital Group, Inc. (Ascension), to a subsidiary of American InfoSource, L.P. (AIS). As part of the sale, the Company agreed to fund certain agreed-upon operating losses in the first year of AIS ownership of the Ascension business, not to exceed $4.0 million. If the Ascension business becomes profitable under AIS ownership, the Company will be paid an earn-out equal to 40% of Ascension s EBITDA for the first five years commencing May 16, 2012. The Company received no proceeds from the sale and recognized the entire $4.0 million loss contingency during the second quarter of 2012. Additionally, the Company did not receive any earn-out from AIS during the first year subsequent to the sale.

The Company performed an interim goodwill impairment test for Ascension as of March 31, 2012 and concluded that the entire goodwill balance relating to Ascension of $9.9 million was impaired. Additionally, the Company wrote-off the remaining identifiable intangible assets of approximately $0.4 million relating to Ascension as of March 31, 2012.

Table of Contents

Ascension s operations are presented as discontinued operations for the three and six months ended June 30, 2012, in the Company s condensed consolidated statements of comprehensive income. The following table presents the revenue and components of discontinued operations, net of tax (*in thousands*):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Revenue	$ 1,892	$ 5,704
Loss from discontinued operations before income taxes	$ (924)	$ (11,942)
Income tax benefit	362	4,678
Loss from discontinued operations	(562)	(7,264)
Loss on sale of discontinued operations, before income taxes	(2,416)	(2,416)
Income tax benefit	586	586
Loss on sale of discontinued operations	(1,830)	(1,830)
Total loss from discontinued operations	$ (2,392)	$ (9,094)

Note 3: Business Combinations

Cabot Acquisition

On July 1, 2013, the Company completed its acquisition of 50.1% of the equity interest in Janus Holdings, the indirect holding company of Cabot, from J.C. Flowers. See Note 17 Subsequent Events for information regarding the Cabot Acquisition.

AACC Merger

On June 13, 2013, the Company completed the merger with AACC, another leading provider of debt management and recovery solutions in the United States. The purchase price consisted of $150.8 million in cash consideration and 1.7 million shares of Encore common stock valued at $37.30 per share. In addition, the Company paid off approximately $165.7 million of AACC debt on the closing date of the AACC Merger.

The AACC Merger 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 merger. 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 in 2013.

The components of the preliminary purchase price allocation for the AACC Merger are as follows (*in thousands*):

Purchase price:	
Cash paid at acquisition	$ 316,485
Stock consideration	62,352
Total purchase price	$ 378,837

Allocation of purchase price:		
Cash	$	23,156
Investment in receivable portfolios		381,233
Deferred court costs		6,141
Property plant and equipment		11,003
Other assets		16,004
Liabilities assumed		(128,541)
Identifiable intangible assets		1,490
Goodwill		68,351
Total net assets acquired	$	378,837

The entire goodwill of $68.4 million related to AACC was assigned to the Company s portfolio purchasing reporting unit and is not deductible for income tax purposes. The goodwill recognized is primarily attributable to expected synergies when combining AACC with the Company.

Table of Contents

The amount of revenue and net income included in the Company s condensed consolidated statement of comprehensive income for the three months ended June 30, 2013 related to AACC was $10.0 million and $0.9 million, respectively.

The following summary presents unaudited pro forma consolidated results of operations for the three and six months ended June 30, 2013 and 2012 as if the AACC Merger had occurred on January 1, 2012. The following unaudited pro forma financial information does not necessarily reflect the actual results that would have occurred had the Company and AACC been combined during the periods presented, nor is it necessarily indicative of the future results of operations of the combined companies (*in thousands*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Consolidated pro forma revenue	$ 194,764	$ 196,474	$ 390,052	$ 381,443
Consolidated pro forma income from continuing operations	14,733	22,644	35,996	46,514

Note 4: Earnings per Share

Basic earnings per share is calculated by dividing net earnings available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, restricted stock, and the dilutive effect of the convertible senior notes.

The components of basic and diluted earnings per share are as follows *(in thousands, except earnings per share)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Income from continuing operations	$ 11,012	$ 18,988	$ 30,460	$ 37,096
Loss from discontinued operations, net of tax		(2,392)		(9,094)
Net income available for common stockholders	$ 11,012	$ 16,596	$ 30,460	$ 28,002
Weighted average common shares outstanding basic	23,966	24,919	23,707	24,850
Dilutive effect of stock-based awards	849	906	945	972
Dilutive effect of convertible senior notes	40			
Weighted average common shares outstanding diluted	24,855	25,825	24,652	25,822
Basic earnings (loss) per share from:				
Continuing operations	$ 0.46	$ 0.76	$ 1.28	$ 1.49
Discontinued operations	$	$ (0.09)	$	$ (0.36)
Net basic earnings per share	$ 0.46	$ 0.67	$ 1.28	$ 1.13
Diluted earnings (loss) per share from:				
Continuing operations	$ 0.44	$ 0.74	$ 1.24	$ 1.44
Discontinued operations	$	$ (0.10)	$	$ (0.36)
Net diluted earnings per share	$ 0.44	$ 0.64	$ 1.24	$ 1.08

No anti-dilutive employee stock options were outstanding during the three and six months ended June 30, 2013. Employee stock options to purchase approximately 391,900 and 300,400 shares of common stock during the three and six months ended June 30, 2012, respectively, were outstanding but not included in the computation of diluted earnings per share because the effect on diluted earnings per share would be

anti-dilutive.

The dilutive effect of the Company s convertible senior notes was approximately 40,000 shares for the three months ended June 30, 2013. The effect of the convertible senior notes was anti-dilutive for the six months ended June 30, 2013. See Note 11 Debt for additional details.

Warrants to purchase approximately 3.6 million shares of the Company s common stock were outstanding at June 30, 2013 but were not included in the computation of diluted earnings per share because the warrants exercise price of $44.1875 was greater than the average share price of the Company s common stock during the three and six months ended June 30, 2013; therefore, the effect of the warrants was anti-dilutive for those periods.

Table of Contents

Note 5: 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, 2013			
	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swap agreements	$	$ (271)	$	$ (271)
Foreign currency exchange contracts		(4,056)		(4,056)

	Fair Value Measurements as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swap agreements	$	$ (645)	$	$ (645)
Foreign currency exchange contracts		(2,010)		(2,010)

Fair values of derivative instruments included in Level 2 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.

Financial instruments not required to be carried at fair value

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, using an estimated market participant cost to collect of approximately 48.0% and discount rate of approximately 12.0%. Using this method, the fair value of investment in receivable portfolios approximates book value as of June 30, 2013 and December 31, 2012, respectively. A 100 basis point fluctuation in the cost to collect and discount rate used would result in an increase or decrease in the fair value by approximately $21.6 million and $20.7 million, respectively, as of June 30, 2013. 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 $1.1 billion and $873.1 million as of June 30, 2013 and December 31, 2012, respectively.

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.

The fair value of receivables secured by property tax liens is estimated as follows: for tax lien transfer receivables, the fair value 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 and; for tax lien certificates receivables, 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 certificates. The carrying value of receivables secured by property tax liens approximates fair value. Additionally, the carrying value of interest receivable approximates fair value.

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

The Company s convertible senior notes are carried at historical cost, adjusted for debt discount. The carrying value of the convertible senior notes was $265.0 million, net of debt discount of $41.2 million, and $115.0 million, net of debt discount of $14.4 million as of June 30, 2013 and December 31, 2012, respectively. The fair value estimate for these convertible senior notes incorporates quoted market prices, which was approximately $286.1 million and $128.3 million as of June 30, 2013 and December 31, 2012, respectively.

Table of Contents

Note 6: Derivatives and Hedging Instruments

The Company uses derivative instruments to manage risks related to interest rates and foreign currency. The Company s outstanding interest rate swap contracts and foreign currency exchange contracts qualify for hedge accounting treatment under the authoritative guidance for derivatives and hedging.

Interest Rate Swaps

The Company may periodically enter into derivative financial instruments, typically interest rate swap agreements, to reduce its exposure to fluctuations in interest rates on variable interest rate debt and their impact on earnings and cash flows. As of June 30, 2013, the Company had three interest rate swap agreements outstanding with a total notional amount of $75.0 million. Under the swap agreements, the Company receives floating interest rate payments based on one-month reserve-adjusted LIBOR and makes interest payments based on fixed interest rates. The Company intends to continue electing the one-month reserve-adjusted LIBOR as the benchmark interest rate on the debt being hedged through its term. No credit spread was hedged. The Company designates its interest rate swap instruments as cash flow hedges.

The authoritative accounting guidance requires companies to recognize derivative instruments as either an asset or liability measured at fair value in the statement of financial position. The effective portion of the change in fair value of the derivative instrument is recorded in other comprehensive income (OCI). The ineffective portion of the change in fair value of the derivative instrument, if any, is recognized in interest expense in the period of change. From the inception of the hedging program, the Company has determined that the hedging instruments are highly effective.

Foreign Currency Exchange Contracts

The Company has operations in India, which exposes the Company to foreign currency exchange rate fluctuations due to transactions denominated in Indian rupees, such as employee salaries and rent expenditures. 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 the Company 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 was 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, 2013, the total notional amount of the forward contracts to buy Indian rupees in exchange for U.S. dollars was $46.4 million. All outstanding contracts qualified for hedge accounting treatment as of June 30, 2013. The Company estimates that approximately $1.9 million of net derivative loss included in OCI will be reclassified into earnings within the next 12 months. No gains or losses were reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the three and six months ended June 30, 2013 and 2012.

The Company may periodically enter into other foreign currency exchange contracts to mitigate its risk that cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. In anticipation of the Cabot Acquisition, as discussed in Note 17, Subsequent Events, on June 7, 2013, the Company entered into a European style zero-cost collar foreign exchange contract with a notional amount of £132.1 million (approximately $206.0 million), which was equal to the anticipated purchase price for the Cabot Acquisition. The collar was set to expire on August 13, 2013, which was the anticipated date of closing of the Cabot Acquisition. The collar was used to offset the risk of changes in the foreign exchange rate relating to the purchase price for the Company s interest in Janus Holdings. The Company did not apply hedge accounting on this foreign exchange contract. Due to the early closing of the Cabot Acquisition, the foreign exchange contract was terminated on June 28, 2013 at a loss of $3.6 million, which was recorded as other expenses in the Company s condensed consolidated statements of income for the three and six months ended June 30, 2013. This foreign exchange loss was offset by a decrease in the estimated purchase price of approximately $4.3 million during the same period of time.

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

Table of Contents

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, 2013 Balance Sheet Location	June 30, 2013 Fair Value	December 31, 2012 Balance Sheet Location	December 31, 2012 Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other liabilities	$ (271)	Other liabilities	$ (645)
Foreign currency exchange contracts	Other liabilities	(4,056)	Other liabilities	(2,010)

The following tables summarize the effects of derivatives in cash flow hedging relationships in the Company s statements of comprehensive income during the periods presented *(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 June 30,			Three Months Ended June 30,			Three Months Ended June 30,	
	2013	2012		2013	2012		2013	2012
Interest rate swaps	$ 151	$ 140	Interest expense	$	$	Other (expense) income	$	$
Foreign currency exchange contracts	(2,540)	(3,120)	Salaries and employee benefits	(219)	(442)	Other (expense) income		
Foreign currency exchange contracts	(531)	(510)	General and administrative expenses	(44)	(78)	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 June 30,			Six Months Ended June 30,			Six Months Ended June 30,	
	2013	2012		2013	2012		2013	2012
Interest rate swaps	$ 374	$ (71)	Interest expense	$	$		$	$

						Other (expense) income
Foreign currency exchange contracts	(1,938)	(2,200)	Salaries and employee benefits	(268)	(557)	Other (expense) income
Foreign currency exchange contracts	(428)	(204)	General and administrative expenses	(52)	(95)	Other (expense) income

Note 7: 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 consumer 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. The Company often experiences collections beyond the 84 to 96 month collection forecast. As of June 30, 2013, 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 $147.1 million.

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 income 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.

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, 2012	$ 984,944	$ 17,366	$ 1,002,310
Revenue recognized, net	(135,072)	(5,611)	(140,683)
Net additions to 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 to existing portfolios[1]	30,458	10,784	41,242
Additions for current purchases[1], [2]	645,865		645,865
Balance at June 30, 2013	$ 1,622,451	$ 21,762	$ 1,644,213

	Accretable Yield	Estimate of Zero Basis Cash Flows	Total
Balance at December 31, 2011	$ 821,527	$ 32,676	$ 854,203
Revenue recognized, net	(119,340)	(7,065)	(126,405)
Net additions to existing portfolios[1]	131,039	3,608	134,647

Additions for current purchases[1]	119,533		119,533
Balance at March 31, 2012	$ 952,759	$ 29,219	$ 981,978
Revenue recognized, net	(131,624)	(7,107)	(138,731)
Net additions to existing portfolios[1]	77,473	13,738	91,211
Additions for current purchases[1]	178,332		178,332
Balance at June 30, 2012	$ 1,076,940	$ 35,850	$ 1,112,790

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

(2) Includes $381.2 million of portfolios acquired in connection with the AACC Merger discussed in Note 3 Business Combinations.

Table of Contents

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 investment receivables related to AACC of $381.2 million with a face value of $68.2 billion or a purchase cost of 0.6% of face value. Excluding the AACC receivables, the Company purchased receivable portfolios during the quarter with a face value of $0.7 billion for $41.9 million, or a purchase cost of 5.8% 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 sale file. The estimated future collections at acquisition for all portfolios purchased during the quarter amounted to $1.0 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. Included in this amount is the purchase of investment receivables related to AACC of $381.2 million with a face value of $68.2 billion, or a purchase cost of 0.6% of face value. Excluding the AACC purchase, the Company purchased receivable portfolios during the six months ended June 30, 2013, with a face value of $2.3 billion for $100.7 million, or a purchase cost of 4.4% 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 sale file. The estimated future collections at acquisition for all portfolios purchased during the six months ended June 30, 2013, amounted to $1.1 billion.

During the three months ended June 30, 2012, the Company purchased receivable portfolios with a face value of $6.0 billion for $231.0 million, or a purchase cost of 3.8% of face value. The estimated future collections at acquisition for these portfolios amounted to $407.4 million. During the six months ended June 30, 2012, the Company purchased receivable portfolios with a face value of $8.9 billion for $361.4 million, or a purchase cost of 4.0% of face value. The estimated future collections at acquisition for these portfolios amounted to $643.6 million.

All collections realized after the net book value of a portfolio has been fully recovered (Zero Basis Portfolios) are recorded as revenue (Zero Basis Revenue). During the three months ended June 30, 2013 and 2012, Zero Basis Revenue was approximately $4.7 million and $6.1 million, respectively. During the six months ended June 30, 2013 and 2012, Zero Basis Revenue was approximately $9.4 million and $12.2 million, respectively.

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

	Three Months Ended 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[1]	423,113			423,113
Transfer of portfolios	(6,649)	6,649		
Gross collections[2]	(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 allowances 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[3]	53.2%	0.0%	60.5%	53.3%

	Three Months Ended June 30, 2012			
	Accrual Basis Portfolios	**Cost Recovery Portfolios**	**Zero Basis Portfolios**	**Total**
Balance, beginning of period	$ 741,580	$	$	$ 741,580
Purchases of receivable portfolios[1]	230,983			230,983
Gross collections[2]	(233,437)		(7,107)	(240,544)
Put-backs and recalls	(891)			(891)

Revenue recognized	131,443		6,126	137,569
Portfolio allowances reversals, net	181		981	1,162
Balance, end of period	$ 869,859	$	$	$ 869,859
Revenue as a percentage of collections[3]	56.3%	0.0%	86.2%	57.2%

Table of Contents

	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[1]	481,884			481,884
Transfer of portfolios	(6,649)	6,649		
Gross collections[2]	(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 allowances 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[3]	52.2%	0.0%	69.9%	52.5%

	Six Months Ended June 30, 2012			
	Accrual Basis Portfolios	Cost Recovery Portfolios	Zero Basis Portfolios	Total
Balance, beginning of period	$ 716,454	$	$	$ 716,454
Purchases of receivable portfolios[1]	361,446			361,446
Gross collections[2]	(457,380)		(14,172)	(471,552)
Put-backs and recalls	(1,625)			(1,625)
Revenue recognized	252,189		12,158	264,347
(Portfolio allowances) portfolio allowance reversals, net	(1,225)		2,014	789
Balance, end of period	$ 869,859	$	$	$ 869,859
Revenue as a percentage of collections[3]	55.1%	0.0%	85.8%	56.1%

(1) Purchases of portfolio receivables for the three and six month periods ended June 30, 2013 include $381.2 million acquired in connection with the AACC Merger discussed in Note 3 Business Combinations.

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

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

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

	Valuation Allowance			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	$ 104,267	$ 109,867	$ 105,273	$ 109,494
Provision for portfolio allowances		2,116	479	3,875
Reversal of prior allowances	(3,674)	(3,278)	(5,159)	(4,664)
Balance at end of period	$ 100,593	$ 108,705	$ 100,593	$ 108,705

The Company currently utilizes various business channels for the collection of its receivables. The following table summarizes the total collections by collection channel *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Legal collections	$ 133,682	$ 114,876	$ 255,955	$ 224,448
Collection sites	116,853	111,641	243,415	221,511
Collection agencies [1]	27,853	14,043	49,188	25,629
	$ 278,388	$ 240,560	$ 548,558	$ 471,588

(1) Collections through our collection agency channel include accounts subject to bankruptcy filings collected by others.

Table of Contents

Note 8: Receivables Secured by Property Tax Liens, Net

The Company s receivables secured by property tax liens include TLTs and TLCs. Repayment of the tax liens is generally dependent on the property owner but can also come through payments from other lien holders or foreclosure on the properties. The Company evaluates the entire portfolio of tax liens for impairment. The primary factor the Company uses to evaluate each receivable is the lien to value ratio, which is typically less than 15% and rarely exceeds 25%. The Company has not experienced any losses on receivables secured by property tax liens in its portfolio. In addition, management believes, based on the fact that the tax liens that collateralize the TLTs and TLCs are in a priority position over most other liens on the properties, that it will not experience any material losses on the ultimate collection of these receivables. Therefore, no allowance has been provided for as of June 30, 2013.

The following table presents the Company s aging analysis of receivables secured by tax liens as of June 30, 2013 and December 31, 2012 *(in thousands):*

	June 30, 2013	December 31, 2012
Current	$ 123,196	$ 101,052
31-60 days past due	10,238	10,175
61-90 days past due	4,956	1,982
> 90 days past due	20,673	21,891
Tax lien transfer	159,063	135,100
Tax lien certificates	39,002	
	$ 198,065	$ 135,100

Note 9: Deferred Court Costs, Net

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 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, on a prospective basis, the Company began increasing its deferral period from three years to five years in January 2013. Collections received from these debtors are first applied against related court costs with the balance applied to the debtors account.

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

	June 30, 2013	December 31, 2012
Court costs advanced	$ 334,760	$ 279,314
Court costs recovered	(118,610)	(94,827)
Court costs reserve	(176,094)	(149,080)
	$ 40,056	$ 35,407

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,	
	2013	2012	2013	2012
Balance at beginning of period	$ (162,500)	$ (129,287)	$ (149,080)	$ (130,454)
Provision for court costs	(13,594)	(12,789)	(27,014)	(25,133)
Write-off of reserve after the deferral period		9,296		22,807
Balance at end of period	$ (176,094)	$ (132,780)	$ (176,094)	$ (132,780)

Table of Contents

Note 10: Other Assets

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

	June 30, 2013	December 31, 2012
Debt issuance costs, net of amortization	$ 24,816	$ 14,397
Prepaid income taxes	21,699	
Service fee receivable	13,896	
Prepaid expenses	12,486	6,399
Interest receivable	6,597	4,042
Identifiable intangible assets, net	3,834	487
Security deposit India building leases	2,696	1,696
Recoverable legal fees	2,223	1,521
Other	3,634	2,993
	$ 91,881	$ 31,535

Note 11: Debt

The Company is obligated under borrowings, as follows *(in thousands)*:

	June 30, 2013	December 31, 2012
Revolving credit facility	$ 446,000	$ 258,000
Term loan facility	194,875	148,125
Propel TLT facility	132,042	117,601
Propel TLC facility	36,699	
Senior secured notes	66,250	72,500
Convertible notes	265,000	115,000
Less: Debt discount	(41,233)	(14,442)
Capital lease obligations	8,026	9,252
	$ 1,107,659	$ 706,036

Revolving Credit Facility and Term Loan Facility

The Company s Amended and Restated Credit Agreement (the Credit Agreement) originally included a term loan facility tranche of $150.0 million and a revolving credit facility tranche of $425.0 million for a total commitment of $575.0 million (the Credit Facility). The maturities of both facilities are five years, expiring in November 2017, except with respect to a $50.0 million subtranche of the term loan facility, which has a three-year maturity, expiring in November 2015. The Credit Agreement includes several financial institutions and lenders and is led by an administrative agent. The Credit Agreement contained an accordion feature that allowed the Company to request an increase in the facility of up to $200.0 million by obtaining one or more commitments from existing or prospective lenders with the consent of the administrative agent. The Company exercised $20.0 million of the original $200.0 million accordion feature in December 2012, increasing the amount of the revolving credit facility from $425.0 million to $445.0 million. On May 9, 2013, the Company entered into an amendment to its Credit Facility, restating the Credit Agreement in its entirety (the Restated Credit Agreement) and increasing the aggregate loan commitment by $217.5 million, from $595.0 million to $812.5 million, and resetting the accordion feature. The $217.5 million exercise included a $168.9 million increase to the revolving credit facility tranche, increasing the aggregate revolving loan commitment to $613.9 million, and a $48.6 million term loan facility tranche, with a six-month maturity, expiring November 2013, increasing the term loan facility tranche to $198.6 million. Currently the accordion feature would allow the Company to increase the facility by an additional $162.5 million. Including the

remaining accordion feature, the maximum amount that can be borrowed under the Credit Facility is $975.0 million.

The Restated Credit Agreement also allowed for the AACC Merger, included a basket to allow for investments in unrestricted subsidiaries and increased the subordinated debt basket to $300.0 million.

On May 29, 2013, the Company entered into an amendment to the Restated Credit Agreement which, among other things, allowed the Company to consummate the Cabot Acquisition. See Note 17 Subsequent Events for more information on the Cabot Acquisition.

Table of Contents

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

A revolving loan of $613.9 million, 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, depending on the Company s cash flow leverage ratio, 250 to 300 basis points; or (2) Alternate Base Rate, plus a spread that ranges from, depending on the Company s cash flow leverage ratio, 150 to 200 basis points. 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, as in effect from time to time, (ii) the federal funds effective rate from time to time, plus 0.5% and (iii) reserved adjusted LIBOR determined on a daily basis for a one month interest period, plus 1.0%;

A $100.0 million five-year term loan, 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 $1.3 million in 2012, $5.0 million in 2013, $5.6 million in 2014, $8.1 million in 2015, $10.0 million in 2016, and $5.0 million in 2017 with the remaining principal due at the end of the term;

A $50.0 million three-year term loan, 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 $0.6 million in 2012, $2.5 million in 2013, $2.8 million in 2014, $2.8 million in 2015 with the remaining principal due at the end of the term;

A $48.6 million six-month term loan, 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 in six equal monthly installments;

A borrowing base equal to (1) the lesser of (i) (a) 55% of eligible estimated remaining collections for consumer receivables subject to bankruptcy proceedings, provided that the amount described in this clause (i)(a) may not exceed 35% of the amount described in clauses (i)(a) and (i)(b), plus (b) 30% 35% (depending on the Company s trailing 12-month cost per dollar collected) of all other eligible estimated remaining collections, initially set at 33%, 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) (x) the aggregate principal amount outstanding of the Prudential senior secured notes plus (y) the aggregate principal amount outstanding under the term loans;

The allowance of additional unsecured indebtedness not to exceed $300.0 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, subject to compliance with certain covenants and available borrowing capacity. The Company has repurchased approximately $50.0 million common stock during the fourth quarter of 2012 and in January 2013;

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;

An annual capital expenditure limit of $20.0 million;

An annual rental expense limit of $15.0 million;

An outstanding capital lease limit of $20.0 million;

An acquisition limit of $100.0 million; and

Collateralization by all assets of the Company, other than the assets of the Propel Entities or any foreign or unrestricted subsidiaries.
At June 30, 2013, the outstanding balance on the Credit Facility was $640.9 million, which bore a weighted average interest rate of 3.17% and 4.11% for the six months ended June 30, 2013 and 2012, respectively.

Propel Tax Lien Transfer Facility

The Company, through Propel, has a $160.0 million syndicated loan facility (the Propel TLT Facility). The Propel TLT Facility was used in part to fund a portion of the Propel Acquisition and to fund future growth at Propel.

The Propel TLT Facility has a three-year term 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;

- Events of default which, upon occurrence, may permit the lender to terminate the Propel TLT Facility and declare all amounts outstanding to be immediately due and payable; and

- A $40.0 million accordion feature.

The Propel TLT Facility is primarily collateralized by the TLT tax liens and requires Propel to maintain various financial covenants, including a minimum interest coverage ratio and a maximum cash flow leverage ratio.

At June 30, 2013, the outstanding balance on the Propel TLT Facility was $132.0 million and, for the six months ended June 30, 2013 and 2012, bore a weighted average interest rate of 3.53% and 3.54%, respectively.

Propel Tax Lien Certificate Facility

On May 9, 2013, the Company, through subsidiaries of Propel, entered into a $100.0 million revolving credit facility (the Propel TLC Facility). The Propel TLC Facility is used to purchase TLCs from taxing authorities.

The Propel TLC Facility has a four-year term 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 TLCs 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 TLCs are applied to pay interest, principal and other obligations incurred in connection with the Propel TLC Facility 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 TLCs; and

Events of default which, upon occurrence, may permit the lender to terminate the Propel TLC Facility and declare all amounts outstanding to be immediately due and payable.

The Propel TLC Facility is collateralized by the TLCs acquired under the Propel TLC Facility. At June 30, 2013, the outstanding balance on the Propel TLC Facility was $36.7 million and, for the three months ended June 30, 2013, bore a weighted average interest rate of 5.17%.

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 dollars of the Senior Secured Notes bear an annual interest rate of 7.375% and mature in 2018. Beginning in May 2013, these notes require a quarterly payment of interest plus $1.25 million of principal. Prior to May 2013, these notes required quarterly interest payments 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 amortization payments of $2.5 million. Prior to December 2012, these notes required quarterly interest payments only. As of June 30, 2013 $66.3 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, the Credit Facility, the Senior Secured Notes are also collateralized by all assets of the Company, other than the assets of the Propel Entities and any foreign and unrestricted subsidiaries. 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 or 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 and restated on May 9, 2013 in connection with the Restated Credit Agreement in order to properly align certain provisions between the two agreements.

Convertible Senior Notes

2012 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 2012 Convertible Notes). Interest on the 2012 Convertible Notes is payable semi-annually, in arrears, on May 27 and November 27 of each year, beginning on May 27, 2013. The 2012 Convertible Notes are the Company s general unsecured obligations. The 2012 Convertible Notes will be convertible into cash up to the aggregate principal amount of the 2012 Convertible Notes to be converted and the Company will pay or deliver, as the case may be, 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, in respect of the remainder, if any, of the Company s conversion obligation in excess of the aggregate principal amount of the 2012 Convertible Notes being converted. The 2012 Convertible Notes will be convertible at an initial conversion rate of 31.6832 shares of the Company s common stock per $1,000 principal amount of 2012 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. As of June 30, 2013, none of the conditions allowing holders of the 2012 Convertible Notes to convert their notes had occurred.

In accordance with authoritative guidance related to derivatives and hedging and earnings per share calculation, only the conversion spread of the 2012 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 months ended June 30, 2013 exceeded $31.56, however, the dilutive effect from the 2012 Convertible Notes was immaterial. See Note 4 Earnings per Share for additional information.

Concurrent with the pricing of the 2012 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 2012 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 2012 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 2012 Convertible Notes and is subject to anti-dilution adjustments. If, however, 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 will initially be $44.1875 per share of

the Company s common stock and is subject to certain adjustments under the terms of the Warrant Transactions. Taken together, the Convertible Note Hedge Transactions and the Warrant Transactions have the effect of increasing the effective conversion price of the 2012 Convertible Notes to $44.1875 per share.

The Convertible Note Hedge Transactions and the Warrant Transactions are separate transactions, in each case, entered into by the Company with certain counterparties, and are not part of the terms of the 2012 Convertible Notes and will not affect any holder s rights under the 2012 Convertible Notes. Holders of the 2012 Convertible Notes will not have any rights with respect to the Convertible Note Hedge Transactions or the Warrant Transactions. In accordance with authoritative guidance, as of December 31, 2012, the Company recorded the net cost of the Convertible Note Hedge Transactions and the Warrant 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 net proceeds from the sale of the 2012 Convertible Notes were approximately $111.1 million, after deducting estimated fees and expenses. The Company used approximately $11.5 million of the net proceeds to pay the cost of the Convertible Note Hedge Transactions, taking into account the proceeds to the Company of the Warrant Transactions; approximately $25.0 million of the net proceeds to repurchase shares of the Company s common stock; approximately $61.5 million of the net proceeds to repay borrowings under the Credit Agreement; and the balance of the net proceeds for general corporate purposes.

The Company determined that the fair value of the 2012 Convertible Notes at the date of issuance 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 2012 Convertible Notes issuance cost as debt issuance cost and the remaining $0.5 million as equity issuance cost.

2013 Convertible Senior Notes

On June 24, 2013, Encore sold $150.0 million in aggregate principal amount of 3.00% convertible senior notes due July 1, 2020 in a private placement transaction (the 2013 Convertible Notes). The 2013 Convertible Notes are general unsecured obligations of the Company. Interest on the 2013 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 2013 Convertible Notes will be convertible only during specified periods, if certain conditions are met. On or after January 1, 2020, the 2013 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 2013 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, 2013, none of the conditions allowing holders of the 2013 Convertible Notes to convert their notes had occurred.

As noted above, upon conversion, holders of the Company s 2013 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.

In connection with the pricing of the 2013 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 2013 Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2013 Convertible Notes. The cost of the Capped Call Transactions was approximately $15.8 million. In accordance with authoritative guidance, as of June 30, 2013, 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 2013 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 2013 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 2013 Convertible Notes and will not affect any holder s rights under the 2013 Convertible Notes. Holders of the 2013 Convertible Notes do not have any rights with respect to the Capped Call Transactions.

The net proceeds from the sale of the 2013 Convertible Notes were approximately $144.9 million, after deducting the initial purchasers discounts and commissions and the estimated offering expenses payable by the Company. The Company used approximately $15.8 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.

Table of Contents

The Company determined that the fair value of the 2013 Convertible Notes at the date of issuance was approximately $122.0 million, and designated the residual value of approximately $28.0 million as the equity component. Additionally, the Company allocated approximately $4.3 million of the $5.3 million original 2013 Convertible Notes issuance cost as debt issuance cost and the remaining $1.0 million as equity issuance cost.

On July 18, 2013, the initial purchasers exercised, in full, their option to purchase an additional $22.5 million of the 2013 Convertible Notes, which resulted in an aggregate principal amount of $172.5 million of the 2013 Convertible Notes outstanding. Refer to Note 17 Subsequent Events for more information about the additional notes.

Authoritative guidance related to debt with conversion and other options requires that, for convertible debt instruments that may be settled fully or partially in cash upon conversion, issuers 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 balances of the liability and equity components of all of the convertible notes outstanding were as follows *(in thousands)*:

	June 30, 2013	December 31, 2012
Liability component principal amount	$ 265,000	$ 115,000
Unamortized debt discount	(41,233)	(14,442)
Liability component net carrying amount	$ 223,767	$ 100,558
Equity component	$ 42,748	$ 14,702

The debt discount is being amortized into interest expense over the remaining life of the convertible notes using the effective interest rates, which are 6.0 % and 6.35% for the 2012 and 2013 Convertible Notes, respectively.

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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Interest expense stated coupon rate	$ 948	$ 1,806
Interest expense amortization of debt discount	710	1,317
Total interest expense convertible notes	$ 1,658	$ 3,123

The Company is in compliance with all covenants under its financing arrangements.

Capital Lease Obligations

The Company has capital lease obligations primarily for computer equipment. As of June 30, 2013, the Company s combined obligations for these equipment leases were approximately $8.0 million. These lease obligations require monthly or quarterly payments through May 2018 and have implicit interest rates that range from zero to approximately 7.7 %.

Note 12: Income Taxes

During the three months ended June 30, 2013, the Company recorded an income tax provision of $7.3 million, reflecting an effective rate of 39.8% of pretax income from continuing operations. The effective tax rate for the three months ended June 30, 2013 primarily consisted of a provision for federal income taxes of 32.7% (which is net of a benefit for state taxes of 2.3%), a blended provision for state taxes of 6.6%, and a provision due to permanent book and tax difference of 0.5%.

During the three months ended June 30, 2012, the Company recorded an income tax provision of $12.8 million, reflecting an effective rate of 40.4% of pretax income from continuing operations. The effective tax rate for the three months ended June 30, 2012 primarily consisted of a provision for federal income taxes of 32.7% (which is net of a benefit for state taxes of 2.3%), a blended provision for state taxes of 6.5%, and a provision due to the true-up of certain state and federal tax accounts of 1.2%.

During the six months ended June 30, 2013, the Company recorded an income tax provision of $19.8 million, reflecting an effective rate of 39.4 % of pretax income from continuing operations. The effective tax rate for the six months ended June 30, 2013 primarily consisted of a provision for federal income taxes of 32.7% (which is net of a benefit for state taxes of 2.3%), a blended provision for state taxes of 6.6% and a provision due to permanent book and tax difference of 0.1%.

Table of Contents

During the six months ended June 30, 2012, the Company recorded an income tax provision of $24.5 million, reflecting an effective rate of 39.8% of pretax income from conti