

ENCORE CAPITAL GROUP INC

Form 10-Q

November 07, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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
(State or other jurisdiction of
incorporation or organization)

3111 Camino Del Rio North, Suite 1300

San Diego, California

48-1090909
(IRS Employer
Identification No.)

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 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 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 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

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

Class	Outstanding at October 30, 2013
Common Stock, \$0.01 par value	25,421,823 shares

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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)

	September 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents	\$ 110,156	\$ 17,510
Investment in receivable portfolios, net	1,595,642	873,119
Deferred court costs, net	39,004	35,407
Receivables secured by property tax liens, net	186,190	135,100
Property and equipment, net	50,050	23,223
Other assets	120,441	31,535
Goodwill	489,520	55,446
Total assets⁽¹⁾	\$ 2,591,003	\$ 1,171,340
Liabilities and stockholders equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 106,632	\$ 45,450
Deferred tax liabilities, net	110,453	8,236
Debt	1,806,680	706,036
Other liabilities	6,967	5,802
Total liabilities⁽¹⁾	2,030,732	765,524
Stockholders equity:		
Redeemable noncontrolling interest	12,231	
Commitments and contingencies		
Convertible preferred stock, \$.01 par value, 5,000 shares authorized, no shares issued and outstanding		
Common stock, \$.01 par value, 50,000 shares authorized, 25,412 shares and 23,191 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	254	232
Additional paid-in capital	171,548	88,029
Accumulated earnings	371,676	319,329
Accumulated other comprehensive gain (loss)	455	(1,774)

Total Encore Capital Group, Inc. stockholders equity	543,933	405,816
Noncontrolling interest	4,107	
Total stockholders equity	548,040	405,816
Total liabilities, redeemable noncontrolling interest and stockholders equity	\$ 2,591,003	\$ 1,171,340

- (1) The Company's consolidated assets as of September 30, 2013 included \$1,067,007 of assets from its variable interest entity, or VIE, that can only be used to settle obligations of the VIE. These assets include cash and cash equivalents of \$54,584; investment in receivable portfolios, net, of \$596,160; property and equipment, net, of \$14,249; other assets of \$32,102; and goodwill of \$369,912. The Company's consolidated liabilities as of September 30, 2013, included \$864,432 of liabilities of its VIE, whose creditors have no recourse to the Company. These liabilities include accounts payable and accrued liabilities of \$31,817; deferred tax liabilities of \$6,978; debt of \$825,524; and other liabilities of \$113. See further details of the assets and liabilities of the Company's VIE in Note 12, Variable Interest Entity.

See accompanying notes to condensed consolidated financial statements

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(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Revenue from receivable portfolios, net	\$ 225,387	\$ 140,682	\$ 518,094	\$ 405,818
Other revenues	5,792	426	6,473	614
Net interest income tax lien business	4,379	4,110	11,698	6,442
Total revenues	235,558	145,218	536,265	412,874
Operating expenses				
Salaries and employee benefits	52,253	25,397	114,054	72,891
Cost of legal collections	50,953	43,544	137,694	123,203
Other operating expenses	19,056	14,829	46,118	38,854
Collection agency commissions	14,158	4,227	22,717	12,352
General and administrative expenses	33,486	14,091	77,429	46,331
Depreciation and amortization	4,523	1,533	8,527	4,193
Total operating expenses	174,429	103,621	406,539	297,824
Income from operations	61,129	41,597	129,726	115,050
Other (expense) income				
Interest expense	(29,186)	(7,012)	(43,522)	(19,024)
Other (expense) income	(299)	610	(4,262)	771
Total other expense	(29,485)	(6,402)	(47,784)	(18,253)
Income from continuing operations before income taxes	31,644	35,195	81,942	96,797
Provision for income taxes	(10,272)	(13,887)	(30,110)	(38,393)
Income from continuing operations	21,372	21,308	51,832	58,404
Loss from discontinued operations, net of tax	(308)		(308)	(9,094)
Net income	21,064	21,308	51,524	49,310

Net loss attributable to noncontrolling interest		822		822	
Net income attributable to Encore Capital Group, Inc. stockholders	\$	21,886	\$	21,308	\$ 52,346 \$ 49,310
Amounts attributable to Encore Capital Group, Inc.:					
Income from continuing operations	\$	22,194	\$	21,308	\$ 52,654 \$ 58,404
Loss from discontinued operations, net of tax		(308)		(308)	(9,094)
Net income	\$	21,886	\$	21,308	\$ 52,346 \$ 49,310
Earnings (loss) per share attributable to Encore Capital Group, Inc.:					
Basic earnings (loss) per share from:					
Continuing operations	\$	0.87	\$	0.85	\$ 2.16 \$ 2.34
Discontinued operations	\$	(0.01)	\$		\$ (0.01) \$ (0.36)
Net basic earnings per share	\$	0.86	\$	0.85	\$ 2.15 \$ 1.98
Diluted earnings (loss) per share from:					
Continuing operations	\$	0.82	\$	0.82	\$ 2.06 \$ 2.25
Discontinued operations	\$	(0.01)	\$		\$ (0.01) \$ (0.35)
Net diluted earnings per share	\$	0.81	\$	0.82	\$ 2.05 \$ 1.90
Weighted average shares outstanding:					
Basic		25,535		25,071	24,323 24,930
Diluted		27,183		26,047	25,561 25,920

See accompanying notes to condensed consolidated financial statements

Table of Contents**ENCORE CAPITAL GROUP, INC.****Condensed Consolidated Statements of Comprehensive Income**

(Unaudited, In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 21,064	\$ 21,308	\$ 51,524	\$ 49,310
Other comprehensive (loss) gain, net of tax:				
Unrealized (loss) gain on derivative instruments	(768)	1,841	(1,722)	1,205
Unrealized gain (loss) on foreign currency translation	4,648		3,951	(472)
Other comprehensive gain, net of tax	3,880	1,841	2,229	733
Comprehensive income	24,944	23,149	53,753	50,043
Comprehensive gain attributable to noncontrolling interest				
Net loss	822			