

ENCORE CAPITAL GROUP INC

Form 10-Q

August 02, 2012

[Table of Contents](#)

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 June 30, 2012

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)

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

Delaware
(State or other jurisdiction of
incorporation or organization)

48-1090909
(IRS Employer
Identification No.)

3111 Camino Del Rio North, Suite 1300

San Diego, California
(Address of principal executive offices)

92108
(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 July 16, 2012
Common Stock, \$0.01 par value	24,807,861 shares

Table of Contents

ENCORE CAPITAL GROUP, INC.

INDEX TO FORM 10-Q

	Page
<u>PART I FINANCIAL INFORMATION</u>	1
<u>Item 1 Condensed Consolidated Financial Statements (Unaudited)</u>	1
<u>Condensed Consolidated Statements of Financial Condition</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income</u>	2
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4 Controls and Procedures</u>	43
<u>PART II OTHER INFORMATION</u>	44
<u>Item 1 Legal Proceedings</u>	44
<u>Item 1A Risk Factors</u>	44
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 6 Exhibits</u>	45
<u>SIGNATURES</u>	46

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, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 15,014	\$ 8,047
Accounts receivable, net	1,745	3,265
Investment in receivable portfolios, net	869,859	716,454
Deferred court costs, net	40,170	38,506
Property tax payment agreements receivable, net	139,421	
Interest receivable	4,115	
Property and equipment, net	20,161	17,796
Other assets	21,592	11,968
Goodwill	55,318	15,985
Identifiable intangible assets, net	550	462
Total assets	\$ 1,167,945	\$ 812,483
Liabilities and stockholders equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 41,149	\$ 29,628
Deferred tax liabilities, net	15,799	15,709
Debt	702,316	388,950
Other liabilities	5,040	6,661
Total liabilities	764,304	440,948
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, 24,797 shares and 24,520 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	248	245
Additional paid-in capital	128,615	123,406
Accumulated earnings	277,854	249,852
Accumulated other comprehensive loss	(3,076)	(1,968)
Total stockholders equity	403,641	371,535
Total liabilities and stockholders equity	\$ 1,167,945	\$ 812,483

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,	
	2012	2011	2012	2011
Revenues				
Revenue from receivable portfolios, net	\$ 138,731	\$ 111,093	\$ 265,136	\$ 216,419
Tax lien transfer				
Interest income	2,982		2,982	
Interest expense	(650)		(650)	
Net interest income	2,332		2,332	
Total revenues	141,063	111,093	267,468	216,419
Operating expenses				
Salaries and employee benefits (excluding stock-based compensation expense)	22,651	17,129	42,689	33,796
Stock-based compensation expense	2,539	1,810	4,805	3,575
Cost of legal collections	41,024	40,686	79,659	77,195
Other operating expenses	12,427	8,250	24,025	17,040
Collection agency commissions	4,166	3,596	8,125	7,510
General and administrative expenses	18,582	9,089	32,240	18,767
Depreciation and amortization	1,420	958	2,660	1,862
Total operating expenses	102,809	81,518	194,203	159,745
Income from operations	38,254	29,575	73,265	56,674
Other (expense) income				
Interest expense	(6,497)	(5,369)	(12,012)	(10,962)
Other income	77	35	349	160
Total other expense	(6,420)	(5,334)	(11,663)	(10,802)
Income from continuing operations before income taxes	31,834	24,241	61,602	45,872
Provision for income taxes	(12,846)	(9,475)	(24,506)	(17,824)
Income from continuing operations	18,988	14,766	37,096	28,048
(Loss) income from discontinued operations, net of tax	(2,392)	9	(9,094)	406
Net income	\$ 16,596	\$ 14,775	\$ 28,002	\$ 28,454
Weighted average shares outstanding:				
Basic	24,919	24,433	24,850	24,384
Diluted	25,825	25,610	25,822	25,594
Basic earnings (loss) per share from:				

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

Continuing operations	\$ 0.76	\$ 0.60	\$ 1.49	\$ 1.15
Discontinued operations	\$ (0.10)	\$ 0.00	\$ (0.37)	\$ 0.02
Net basic earnings per share	\$ 0.67	\$ 0.60	\$ 1.13	\$ 1.17
Diluted earnings (loss) per share from:				
Continuing operations	\$ 0.74	\$ 0.58	\$ 1.44	\$ 1.09
Discontinued operations	\$ (0.10)	\$ 0.00	\$ (0.37)	\$ 0.02
Net diluted earnings per share	\$ 0.64	\$ 0.58	\$ 1.08	\$ 1.11
Other comprehensive loss:				
Unrealized loss on derivative instruments	(2,944)	(888)	(1,822)	(52)
Income tax benefit related to unrealized gain on derivative instruments	1,154	351	714	23
Other comprehensive loss, net of tax	(1,790)	(537)	(1,108)	(29)
Comprehensive income	\$ 14,806	\$ 14,238	\$ 26,894	\$ 28,425

See accompanying notes to condensed consolidated financial statements

Table of Contents

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Stockholders Equity

(Unaudited, In Thousands)

	Common Stock	Additional Paid-In	Accumulated
--	---------------------	-------------------------------	--------------------