

ENCORE CAPITAL GROUP INC

Form 10-Q

May 08, 2014

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

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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 March 31, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

48-1090909

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

3111 Camino Del Rio North, Suite 1300

92108

San Diego, California

(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)

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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 April 29, 2014

Common Stock, \$0.01 par value

25,707,533 shares



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## PART I – FINANCIAL INFORMATION

## Item 1—Condensed Consolidated Financial Statements (Unaudited)

## ENCORE CAPITAL GROUP, INC.

## Condensed Consolidated Statements of Financial Condition

(In Thousands, Except Par Value Amounts)

(Unaudited)

|  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| Assets   |                   |                      |
| Cash and cash equivalents  | \$ 196,389        | \$ 126,213           |
| Investment in receivable portfolios, net   | 1,904,030         | 1,590,249            |
| Deferred court costs, net  | 42,679            | 41,219               |
| Receivables secured by property tax liens, net   | 209,455           | 212,814              |
| Property and equipment, net  | 55,879            | 55,783               |
| Other assets   | 181,697           | 154,783              |
| Goodwill   | 844,567           | 504,213              |
| Total assets <sup>(1)</sup>  | \$3,434,696       | \$2,685,274          |
| Liabilities and stockholders' equity   |                   |                      |
| Liabilities:   |                   |                      |
| Accounts payable and accrued liabilities   | \$ 124,803        | \$ 137,272           |
| Debt   | 2,612,133         | 1,850,431            |
| Other liabilities  | 99,469            | 95,100               |
| Total liabilities <sup>(1)</sup>   | 2,836,405         | 2,082,803            |
| Commitments and contingencies  |                   |                      |
| Redeemable noncontrolling interest   | 26,434            | 26,564               |
| Redeemable equity component of convertible senior notes  | 11,176            | —                    |
| 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, 25,681 shares and 25,457 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively |                   | 255                  |
| Additional paid-in capital   | 132,290           | 171,819              |
| Accumulated earnings   | 417,808           | 394,628              |
| Accumulated other comprehensive gain   | 6,932             | 5,195                |
| Total Encore Capital Group, Inc. stockholders' equity  | 557,287           | 571,897              |
| Noncontrolling interest  | 3,394             | 4,010                |
| Total stockholders' equity   | 560,681           | 575,907              |
| Total liabilities, redeemable noncontrolling interest and stockholders' equity   | \$3,434,696       | \$2,685,274          |

(1) The Company's consolidated assets as of March 31, 2014 and December 31, 2013 included \$1,857,406 and \$1,106,538, respectively, 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 \$95,109 and \$62,403 as of March 31, 2014 and December 31, 2013, respectively; investment in receivable portfolios, net, of \$954,147 and \$620,312 as of March 31, 2014 and December 31, 2013, respectively; deferred court costs, net of \$854 and zero as of March 31, 2014 and December 31, 2013, respectively; property and equipment, net, of \$15,034 and \$13,755 as of March 31, 2014 and December 31, 2013, respectively; other assets of \$78,812 and \$33,772 as of March 31, 2014 and December 31, 2013, respectively; and goodwill of \$713,450 and \$376,296 as of March 31, 2014 and December 31, 2013, respectively. The Company's consolidated liabilities as of March 31, 2014 and December 31, 2013, included

\$1,647,157 and \$895,792, respectively, of liabilities of its VIE, whose creditors have no recourse to the Company. These liabilities include accounts payable and accrued liabilities of \$53,817 and \$47,219 as of March 31, 2014 and December 31, 2013, respectively; debt of \$1,586,259 and \$846,676 as of March 31, 2014 and December 31, 2013, respectively; and other liabilities of \$7,081 and \$1,897 as of March 31, 2014 and December 31, 2013, respectively.

See further details of the assets and liabilities of the Company's VIE in Note 10, "Variable Interest Entity."

See accompanying notes to condensed consolidated financial statements

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

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2014               | 2013      |
| Revenues   |                    |           |
| Revenue from receivable portfolios, net                            | \$237,568          | \$140,683 |
| Other revenues   | 11,349             | 301       |
| Net interest income  | 4,824              | 3,602     |
| Total revenues   | 253,741            | 144,586   |
| Operating expenses   |                    |           |
| Salaries and employee benefits                                     | 58,137             | 28,832    |
| Cost of legal collections  | 49,825             | 42,258    |
| Other operating expenses   | 26,423             | 13,265    |
| Collection agency commissions                                      | 8,276              | 3,329     |
| General and administrative expenses                                | 36,694             | 16,342    |
| Depreciation and amortization                                      | 6,117              | 1,846     |
| Total operating expenses   | 185,472            | 105,872   |
| Income from operations   | 68,269             | 38,714    |
| Other (expense) income   |                    |           |
| Interest expense   | (37,962)           | (6,854)   |
| Other income   | 265                | 159       |
| Total other expense  | (37,697)           | (6,695)   |
| Income before income taxes   | 30,572             | 32,019    |
| Provision for income taxes   | (11,742)           | (12,571)  |
| Net income   | 18,830             | 19,448    |
| Net loss attributable to noncontrolling interest                   | 4,350              | —         |
| Net income attributable to Encore Capital Group, Inc. stockholders | \$23,180           | \$19,448  |
| Earnings per share attributable to Encore Capital Group, Inc.:     |                    |           |
| Basic  | \$0.90             | \$0.83    |
| Diluted  | \$0.82             | \$0.80    |
| Weighted average shares outstanding:                               |                    |           |
| Basic  | 25,749             |           |