

ENCORE CAPITAL GROUP INC

Form 10-Q

October 28, 2009

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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, 2009

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)

8875 Aero Drive, Suite 200

San Diego, California
(Address of principal executive offices)

48-1090909
(IRS Employer
Identification No.)

92123
(Zip code)

(877) 445 - 4581

(Registrant's telephone number, including area code)

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(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 21, 2009
Common Stock, \$0.01 par value	23,180,747 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, 2009	December 31, 2008 Adjusted
Assets		
Cash and cash equivalents	\$ 6,940	\$ 10,341
Accounts receivable, net	3,211	1,757
Investment in receivable portfolios, net	534,656	461,346
Deferred court costs	27,710	28,335
Property and equipment, net	8,698	6,290
Prepaid income tax		7,935
Forward flow asset		10,302
Other assets	4,414	5,049
Goodwill	15,985	15,985
Identifiable intangible assets, net	1,268	1,739
Total assets	\$ 602,882	\$ 549,079
Liabilities and stockholders equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 19,775	\$ 18,204
Income taxes payable	3,256	
Deferred tax liabilities, net	15,545	15,108
Deferred revenue and purchased servicing obligation	5,675	5,203
Debt	324,394	303,655
Other liabilities	2,306	3,483
Total liabilities	370,951	345,653
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, 23,159 shares and 23,053 shares issued and outstanding as of September 30, 2009, and December 31, 2008, respectively	232	231
Additional paid-in capital	101,677	98,521
Accumulated earnings	131,437	106,795
Accumulated other comprehensive loss	(1,415)	(2,121)
Total stockholders equity	231,931	203,426
Total liabilities and stockholders equity	\$ 602,882	\$ 549,079

See accompanying notes to unaudited condensed consolidated financial statements

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

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2008	
		Adjusted		Adjusted
Revenue				
Revenue from receivable portfolios, net	\$ 76,448	\$ 62,557	\$ 222,688	\$ 192,900
Servicing fees and other related revenue	3,938	3,816	12,179	11,047
Total revenue	80,386	66,373	234,867	203,947
Operating expenses				
Salaries and employee benefits (excluding stock-based compensation expense)	14,411	14,963	43,130	45,503
Stock-based compensation expense	1,261	860	3,335	3,182
Cost of legal collections	26,092	25,390	84,665	69,525
Other operating expenses	6,034	6,018	18,612	17,656
Collection agency commissions	5,795	2,996	13,483	10,808
General and administrative expenses	7,280	4,864	20,074	13,905
Depreciation and amortization	652	674	1,895	2,162
Total operating expenses	61,525	55,765	185,194	162,741
Income before other (expense) income and income taxes	18,861	10,608	49,673	41,206
Other (expense) income				
Interest expense	(3,970)	(5,140)	(12,201)	(15,171)
Gain on repurchase of convertible notes, net			3,268	707
Other income (expense)	61	(32)	(11)	341
Total other expense	(3,909)	(5,172)	(8,944)	(14,123)
Income before income taxes	14,952	5,436	40,729	27,083
Provision for income taxes	(5,948)	(2,408)	(16,087)	(11,142)
Net income	\$ 9,004	\$ 3,028	\$ 24,642	\$ 15,941
Weighted average shares outstanding:				
Basic	23,225	23,029	23,177	23,009
Diluted	24,199	23,675	23,936	23,531
Earnings per share:				
Basic	\$ 0.39	\$ 0.13	\$ 1.06	\$ 0.69
Diluted	\$ 0.37	\$ 0.13	\$ 1.03	\$ 0.68

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**ENCORE CAPITAL GROUP, INC.****Condensed Consolidated Statements of Stockholders Equity**

(Unaudited, In Thousands)

	Common Stock			Accumulated Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity	Comprehensive Income
	Shares	Par	Additional Paid-In Capital				
Balance at December 31, 2008, Adjusted	23,053	\$ 231	\$ 98,521	\$ 106,795	\$ (2,121)	\$ 203,426	
Net income				24,642		24,642	24,642
Other comprehensive income:							
Unrealized gain on cash flow hedge, net of tax					706	706	706
Exercise of stock options and issuance of share-based awards	106	1	(137)			(136)	
Stock-based compensation			3,335			3,335	
Tax provision related to stock option exercises			(42)			(42)	
Balance at September 30, 2009	23,159	\$ 232	\$ 101,677	\$ 131,437	\$ (1,415)	\$ 231,931	\$ 25,348

See accompanying notes to unaudited condensed consolidated financial statements

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ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited, In Thousands)

	Nine Months Ended September 30, 2009	
		2008 Adjusted
Operating activities:		
Net Income	\$ 24,642	\$