

ENCORE CAPITAL GROUP INC
Form 10-Q
October 26, 2011

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, 2011

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)	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	

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

(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 19, 2011
Common Stock, \$0.01 par value	24,500,522 shares

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 Income</u>	2
<u>Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income</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>	18
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4 Controls and Procedures</u>	37
<u>PART II OTHER INFORMATION</u>	38
<u>Item 1 Legal Proceedings</u>	38
<u>Item 1A Risk Factors</u>	38
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 6 Exhibits</u>	46
<u>SIGNATURES</u>	47

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, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 10,672	\$ 10,905
Accounts receivable, net	3,703	3,331
Investment in receivable portfolios, net	649,682	644,753
Deferred court costs, net	36,126	32,158
Property and equipment, net	16,412	13,658
Prepaid income tax	3,090	1,629
Other assets	11,236	13,301
Goodwill	15,985	15,985
Identifiable intangible assets, net	534	748
Total assets	\$ 747,440	\$ 736,468
Liabilities and stockholders equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 27,924	\$ 26,539
Deferred tax liabilities, net	16,154	17,626
Debt	344,196	385,264
Other liabilities	5,245	4,342
Total liabilities	393,519	433,771
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, 24,472 shares and 24,011 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	245	240
Additional paid-in capital	122,082	113,412
Accumulated earnings	232,718	188,894
Accumulated other comprehensive (loss) income	(1,124)	151
Total stockholders equity	353,921	302,697
Total liabilities and stockholders equity	\$ 747,440	\$ 736,468

See accompanying notes to condensed consolidated financial statements

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Revenue from receivable portfolios, net	\$ 115,843	\$ 93,822	\$ 332,262	\$ 268,574
Servicing fees and other related revenue	4,720	4,145	14,434	12,962
Total revenue	120,563	97,967	346,696	281,536
Operating expenses				
Salaries and employee benefits (excluding stock-based compensation expense)	20,730	16,166	59,982	48,135
Stock-based compensation expense	2,405	1,549	5,980	4,756
Cost of legal collections	40,169	33,851	117,364	91,519
Other operating expenses	10,870	9,512	30,157	27,653
Collection agency commissions	3,264	5,389	10,774	17,098
General and administrative expenses	11,172	6,982	30,964	21,286
Depreciation and amortization	1,194	816	3,352	2,241
Total operating expenses	89,804	74,265	258,573	212,688
Income from operations	30,759	23,702	88,123	68,848
Other (expense) income				
Interest expense	(5,175)	(4,928)	(16,137)	(14,346)
Other (expense) income	(346)	148	(207)	250
Total other expense	(5,521)	(4,780)	(16,344)	(14,096)
Income before income taxes	25,238	18,922	71,779	54,752
Provision for income taxes	(9,868)	(6,632)	(27,955)	(19,871)
Net income	\$ 15,370	\$ 12,290	\$ 43,824	\$ 34,881
Weighted average shares outstanding:				
Basic	24,638	23,947	24,493	23,793
Diluted	25,604	25,154	25,636	25,012
Earnings per share:				
Basic	\$ 0.62	\$ 0.51	\$ 1.79	\$ 1.47
Diluted	\$ 0.60	\$ 0.49	\$ 1.71	\$ 1.39

See accompanying notes to condensed consolidated financial statements

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income

(Unaudited, In Thousands)

	Common Stock			Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity	Comprehensive Income (loss)
	Shares	Par	Additional Paid-In Capital				
Balance at December 31, 2010	24,011	\$ 240	\$ 113,412	\$ 188,894	\$ 151	\$ 302,697	\$
Net income				43,824		43,824	\$ 43,824
Other comprehensive gain:							
Unrealized loss on cash flow hedge, net of tax					(1,275)	(1,275)	(1,275)
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	461	5	(2,193)			(2,188)	
Stock-based compensation			5,980			5,980	
Tax benefit related to stock-based compensation			4,883			4,883	
Balance at September 30, 2011	24,472	\$ 245	\$ 122,082	\$ 232,718	\$ (1,124)	\$ 353,921	\$ 42,549

See accompanying notes to condensed consolidated financial statements

