

ENCORE CAPITAL GROUP INC

Form 10-Q

May 10, 2016

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 March 31, 2016

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 (IRS Employer
incorporation or organization) Identification No.)

3111 Camino Del Rio North, Suite 103 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)

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.

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Class	Outstanding at May 3, 2016
Common Stock, \$0.01 par value	25,518,443 shares

Table of Contents

ENCORE CAPITAL GROUP, INC.
INDEX TO FORM 10-Q

	Page
<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1—Condensed Consolidated Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Financial Condition</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u>	<u>51</u>
<u>Item 4 – Controls and Procedures</u>	<u>51</u>
<u>PART II – OTHER INFORMATION</u>	<u>52</u>
<u>Item 1 – Legal Proceedings</u>	<u>52</u>
<u>Item 1A – Risk Factors</u>	<u>52</u>
<u>Item 6 – Exhibits</u>	<u>53</u>
<u>SIGNATURES</u>	<u>54</u>

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)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 144,613	\$ 123,993
Investment in receivable portfolios, net	2,486,978	2,440,669
Property and equipment, net	68,162	72,546
Deferred court costs, net	75,829	75,239
Other assets	157,533	148,762
Goodwill	890,504	924,847
Assets associated with discontinued operations	—	388,763
Total assets	\$ 3,823,619	\$ 4,174,819
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 238,203	\$ 290,608
Debt	2,893,434	2,944,063
Other liabilities	27,975	59,226
Liabilities associated with discontinued operations	—	232,434
Total liabilities	3,159,612	3,526,331
Commitments and contingencies		
Redeemable noncontrolling interest	39,948	38,624
Redeemable equity component of convertible senior notes	5,359	6,126
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, 25,508 shares and 25,288 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	255	253
Additional paid-in capital	109,228	110,533
Accumulated earnings	569,183	543,489
Accumulated other comprehensive loss	(68,360)	(57,822)
Total Encore Capital Group, Inc. stockholders' equity	610,306	596,453
Noncontrolling interest	8,394	7,285
Total equity	618,700	603,738
Total liabilities, redeemable equity and equity	\$ 3,823,619	\$ 4,174,819

The following table includes assets that can only be used to settle the liabilities of the Company's consolidated variable interest entities ("VIEs") and the creditors of the VIEs have no recourse to the Company. These assets and liabilities are included in the consolidated statements of financial condition above. See Note 11, "Variable Interest Entities" for additional information on the Company's VIEs.

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 62,539	\$ 50,483
Investment in receivable portfolios, net	1,217,625	1,197,513
Property and equipment, net	18,145	19,767

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Deferred court costs, net	35,782	33,296
Other assets	46,804	31,679
Goodwill	680,727	706,812
Assets associated with discontinued operations	—	92,985
Liabilities		
Accounts payable and accrued liabilities	\$ 99,010	\$ 142,375
Debt	1,739,579	1,665,009
Other liabilities	687	839
Liabilities associated with discontinued operations	—	58,923
See accompanying notes to condensed consolidated financial statements		

3

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Revenues		
Revenue from receivable portfolios, net	\$270,094	\$264,110
Other revenues	18,923	13,672
Total revenues	289,017	277,782
Operating expenses		
Salaries and employee benefits	69,642	65,552
Cost of legal collections	54,308	54,998
Other operating expenses	26,343	24,326
Collection agency commissions	10,120	10,685
General and administrative expenses	35,239	31,197
Depreciation and amortization	9,861	8,137
Total operating expenses	205,513	194,895
Income from operations	83,504	82,887
Other (expense) income		
Interest expense	(50,691)	(42,303)
Other income	7,124	2,117
Total other expense	(43,567)	(40,186)
Income before income taxes	39,937	42,701
Provision for income taxes	(10,148)	(14,614)
Income from continuing operations	29,789	28,087