

ENCORE CAPITAL GROUP INC

Form 10-Q

May 08, 2018

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, 2018

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 May 1, 2018
Common Stock, \$0.01 par value	25,917,344 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>30</u>
<u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
<u>Item 4 – Controls and Procedures</u>	<u>54</u>
<u>PART II – OTHER INFORMATION</u>	<u>55</u>
<u>Item 1 – Legal Proceedings</u>	<u>55</u>
<u>Item 1A – Risk Factors</u>	<u>55</u>
<u>Item 6 – Exhibits</u>	<u>55</u>
<u>SIGNATURES</u>	<u>56</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, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$217,138	\$ 212,139
Investment in receivable portfolios, net	3,024,141	2,890,613
Deferred court costs, net	85,887	79,963
Property and equipment, net	81,008	76,276
Other assets	276,966	302,728
Goodwill	957,120	928,993
Total assets	\$4,642,260	\$4,490,712
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	\$244,948	\$ 284,774
Debt, net	3,607,101	3,446,876
Other liabilities	33,187	35,151
Total liabilities	3,885,236	3,766,801
Commitments and contingencies		
Redeemable noncontrolling interest	155,249	151,978
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, 25,912 shares and 25,801 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	259	258
Additional paid-in capital	45,906	42,646
Accumulated earnings	626,130	616,314
Accumulated other comprehensive loss	(61,463)	(77,356)
Total Encore Capital Group, Inc. stockholders' equity	610,832	581,862
Noncontrolling interest	(9,057)	(9,929)
Total equity	601,775	571,933
Total liabilities, redeemable equity and equity	\$4,642,260	\$4,490,712

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 9, "Variable Interest Entities" for additional information on the Company's VIEs.

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 104,679	\$ 88,902
Investment in receivable portfolios, net	1,423,774	1,342,300
Deferred court costs, net	30,169	26,482
Property and equipment, net	23,089	23,138
Other assets	121,499	122,263
Goodwill	750,427	724,054

Liabilities

Accounts payable and accrued liabilities	\$ 126,691	\$ 151,208
Debt, net	2,133,605	2,014,202
Other liabilities	2,103	1,494

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,	
	2018	2017
Revenues		
Revenue from receivable portfolios	\$281,009	\$249,838
Other revenues	35,968	19,971
Total revenues	316,977	269,809
Allowance reversals on receivable portfolios, net	9,811	2,132
Total revenues, adjusted by net allowances	326,788	271,941
Operating expenses		
Salaries and employee benefits	89,259	68,278
Cost of legal collections	53,855	47,957
Other operating expenses	33,748	26,360
Collection agency commissions	11,754	11,562
General and administrative expenses	39,284	33,318
Depreciation and amortization	10,436	8,625
Total operating expenses	238,336	196,100
Income from operations	88,452	75,841
Other (expense) income		
Interest expense	(57,462)	(49,198)
Other income	2,193	602
Total other expense	(55,269)	(48,596)
Income from continuing operations before income taxes	33,183	27,245
Provision for income taxes	(9,470)	(12,067)
Income from continuing operations	23,713	15,178
Loss from discontinued operations, net of tax	—	(199)
Net income	23,713	14,979