

ENCORE CAPITAL GROUP INC

Form 10-Q

November 02, 2006

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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 September 30, 2006

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)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>48-1090909</b> (IRS Employer Identification No.)
<b>8875 Aero Drive, Suite 200</b>	<b>92123</b>
<b>San Diego, California</b> (Address of principal executive offices)	<b>(Zip code)</b>
<b>(877) 445 - 4581</b>	

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 23, 2006
Common Stock, \$0.01 par value	22,778,311 shares

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**ENCORE CAPITAL GROUP, INC.**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****ENCORE CAPITAL GROUP, INC.****Condensed Consolidated Statements of Financial Condition**

(In Thousands, Except Par Value Amounts)

	September 30, 2006 (Unaudited)	December 31, 2005 (A)
<b>Assets</b>		
Cash and cash equivalents	\$ 16,303	\$ 7,026
Restricted cash	3,364	4,212
Accounts receivable, net	4,520	5,515
Investment in receivable portfolios, net	266,724	256,333
Property and equipment, net	4,868	5,113
Prepaid income tax	8,655	13,570
Purchased servicing asset	1,495	3,035
Forward flow asset	30,751	38,201
Other assets	19,111	16,065
Goodwill	13,735	14,148
Identifiable intangible assets, net	4,027	5,227
<b>Total assets</b>	<b>\$ 373,553</b>	<b>\$ 368,445</b>
<b>Liabilities and stockholders' equity</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 19,609	\$ 23,101
Accrued profit sharing arrangement	11,298	16,528
Deferred tax liabilities, net	11,507	7,241
Deferred revenue	1,930	3,326
Purchased servicing obligation	847	1,776
Debt	185,801	198,121
<b>Total liabilities</b>	<b>230,992</b>	<b>250,093</b>
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, 22,778 shares and 22,651 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	228	227
Additional paid-in capital	64,683	57,989
Accumulated earnings	77,306	59,925
Accumulated other comprehensive income	344	211
Total stockholders' equity	142,561	118,352
<b>Total liabilities and stockholders' equity</b>	<b>\$ 373,553</b>	<b>\$ 368,445</b>

(A) Derived from the audited consolidated financial statements as of December 31, 2005.

*See accompanying notes to condensed consolidated financial statements.*

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

(In Thousands, Except Per Share Amounts)

(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenues</b>				
Revenue from receivable portfolios, net	\$ 57,247	\$ 58,086	\$ 174,425	\$ 162,025
Servicing fees and other related revenue	3,350	1,139	12,585	1,434
<b>Total revenues</b>	<b>60,597</b>	<b>59,225</b>	<b>187,010</b>	<b>163,459</b>
<b>Operating expenses</b>				
Salaries and employee benefits	15,773	12,935	48,358	37,910
Stock-based compensation expense	1,490		4,335	
Cost of legal collections	12,545	8,975	36,767	25,962
Other operating expenses	5,308	3,736	17,409	12,528
Collection agency commissions	4,533	7,242	14,178	12,728
General and administrative expenses	4,388	4,186	11,421	9,213
Depreciation and amortization	964	558	2,892	1,486
<b>Total operating expenses</b>	<b>45,001</b>	<b>37,632</b>	<b>135,360</b>	<b>99,827</b>
<b>Income before other income (expense) and income taxes</b>	<b>15,596</b>	<b>21,593</b>	<b>51,650</b>	<b>63,632</b>
<b>Other income (expense)</b>				
Interest expense	(6,744)	(8,468)	(22,032)	(24,939)
Other income	45	2	379	610
Total other expense	(6,699)	(8,466)	(21,653)	(24,329)
<b>Income before income taxes</b>	<b>8,897</b>	<b>13,127</b>	<b>29,997</b>	<b>39,303</b>
Provision for income taxes	(3,689)	(5,348)	(12,616)	(15,975)
<b>Net income</b>	<b>\$ 5,208</b>	<b>\$ 7,779</b>	<b>\$ 17,381</b>	<b>\$ 23,328</b>
<b>Basic - earnings per share computation:</b>				
Net income available to common stockholders	\$ 5,208	\$ 7,779	\$ 17,381	\$ 23,328
Weighted average shares outstanding	22,778	22,331	22,745	22,282
<b>Earnings per share Basic</b>	<b>\$ 0.23</b>	<b>\$ 0.35</b>	<b>\$ 0.76</b>	<b>\$ 1.05</b>
<b>Diluted - earnings per share computation:</b>				
Net income available to common stockholders	\$ 5,208	\$ 7,779	\$ 17,381	\$ 23,328
Interest expense on convertible notes, net of tax		60		60

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Income available to common stockholders	\$ 5,208	\$ 7,839	\$ 17,381	\$ 23,388
Weighted average shares outstanding	22,778	22,331	22,745	22,282
Incremental shares from assumed conversion of stock options	605	1,272	644	1,266
Incremental shares from assumed conversion of convertible notes		482		162
Diluted weighted average shares outstanding	23,383	24,085	23,389	23,710
<b>Earnings per share Diluted</b>	\$ 0.22	\$ 0.33	\$ 0.74	\$ 0.99

*See accompanying notes to condensed consolidated financial statements.*

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

(Unaudited, In Thousands)

	Common Stock		Additional	Accumulated		Total	Comprehensive
	Shares	Par	Paid-In	Accumulated	Comprehensive		
			Capital	Earnings	Income	Equity	Income
<b>Balance at December 31, 2005</b>	22,651	\$ 227	\$ 57,989	\$ 59,925	\$ 211	\$ 118,352	
Net income				17,381		17,381	\$ 17,381
Other comprehensive income:							
unrealized gain on non-qualified deferred compensation plan assets					133	133	133
Exercise of stock options	127	1	145			146	
Stock-based compensation related to stock options			4,335			4,335	
Tax benefit related to stock option exercises			863			863	
Tax benefit from convertible note interest expense			1,351			1,351	
<b>Balance at September 30, 2006</b>	22,778	\$ 228	\$ 64,683	\$ 77,306	\$ 344	\$ 142,561	\$ 17,514

*See accompanying notes to condensed consolidated financial statements.*



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**ENCORE CAPITAL GROUP, INC.**

**Condensed Consolidated Statements of Cash Flows**

(Unaudited, In Thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities</b>		
Gross collections	\$ 242,583	\$ 220,159
Less:		
Amounts coll		